



**Takeda Pharmaceutical Company Limited and its Subsidiaries
Consolidated Financial Statements Under IFRSs
and Independent Auditor's Report**

For the year ended March 31, 2016

Takeda Pharmaceutical Company Limited

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Independent Auditor's Report

To the Board of Directors of
Takeda Pharmaceutical Company Limited:

We have audited the accompanying consolidated financial statements of Takeda Pharmaceutical Company Limited (the "Company") and its consolidated subsidiaries, which comprise the consolidated statement of operations, statement of operations and other comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the year ended March 31, 2016, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company and its consolidated subsidiaries as of March 31, 2016, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Emphasis of Matter

Without qualifying our opinion, we draw attention to the following:

1. As discussed in “35 Subsequent Events (1) Significant company split and establishment of business venture” of the notes to the consolidated financial statements, on April 1, 2016, the Company split off its off-patented and data exclusivity expired products business via an absorption-type split and the business was transferred to a wholly owned subsidiary of Teva Pharmaceutical Industries Ltd. (“Teva”). The succeeding company became a business venture of the Company and Teva.
2. As discussed in “35 Subsequent Events (2) Borrowing of large amounts of funds” of the notes to the consolidated financial statements, on April 26, 2016, the Company borrowed new funds in large amounts.

KPMG AZSA LLC

KPMG AZSA LLC

June 29, 2016

Tokyo, Japan

【Consolidated Financial Statements】
【Consolidated Statement of Operations】

(Million JPY)

	Note	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Revenue	4	1,777,824	1,807,378
Cost of sales		(520,990)	(535,405)
Gross profit		1,256,834	1,271,972
Selling, general and administrative expenses	5	(612,613)	(650,773)
Research and development expenses		(382,096)	(345,927)
Amortization and impairment losses on intangible assets associated with products	13	(176,402)	(125,140)
Other operating income	6	107,181	25,081
Other operating expenses	6	(322,158)	(44,386)
Operating profit (loss)	4	(129,254)	130,828
Finance income	7	15,357	21,645
Finance expenses	7	(32,878)	(31,931)
Share of profit (loss) of associates accounted for using the equity method		1,337	(3)
Profit (loss) before tax		(145,437)	120,539
Income tax benefit (expenses)	8	2,403	(37,059)
Net profit (loss) for the year		(143,034)	83,480
Attributable to:			
Owners of the Company		(145,775)	80,166
Non-controlling interests		2,741	3,313
Net profit (loss) for the year		(143,034)	83,480
Earnings per share (JPY)			
Basic earnings (loss) per share	9	(185.37)	102.26
Diluted earnings (loss) per share	9	(185.37)	101.71

【Consolidated Statement of Operations and Other Comprehensive Income】

(Million JPY)

	Note	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Net profit (loss) for the year		(143,034)	83,480
Other comprehensive income (loss)			
Items that will not be reclassified to profit or loss			
Remeasurements of defined benefit plans	10	(4,532)	(18,140)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	10	(47,559)	(85,772)
Net changes on revaluation of available-for-sale financial assets	10	15,040	(17,303)
Cash flow hedges	10	(774)	(1,867)
		(33,293)	(104,942)
Other comprehensive income (loss) for the year, net of tax		(37,826)	(123,082)
Total comprehensive income (loss) for the year		(180,860)	(39,602)
Attributable to:			
Owners of the Company		(186,618)	(40,334)
Non-controlling interests		5,759	732
Total comprehensive income (loss) for the year		(180,860)	(39,602)

【Consolidated Statement of Financial Position】

(Million JPY)

	Note	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
ASSETS			
NON-CURRENT ASSETS			
Property, plant and equipment	11	526,162	551,916
Goodwill	12	821,911	779,316
Intangible assets	13	939,381	743,128
Investment property	14	30,218	26,626
Investments accounted for using the equity method		10,425	10,016
Other financial assets	15	241,323	149,548
Other non-current assets		52,192	18,975
Deferred tax assets	8	154,506	170,773
Total non-current assets		2,776,120	2,450,298
CURRENT ASSETS			
Inventories	16	262,354	254,010
Trade and other receivables	17	444,681	415,379
Other financial assets	15	61,275	108,600
Income taxes recoverable		22,148	15,192
Other current assets		63,225	64,145
Cash and cash equivalents	18	652,148	451,426
Subtotal		1,505,830	1,308,752
Assets held for sale	19	14,243	65,035
Total current assets		1,520,072	1,373,787
Total assets		4,296,192	3,824,085

(Million JPY)

	Note	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
LIABILITIES AND EQUITY			
LIABILITIES			
NON-CURRENT LIABILITIES			
Bonds and loans	20	629,416	539,760
Other financial liabilities	21, 22	70,105	102,120
Net defined benefit liabilities	23	91,686	84,867
Provisions	24	47,075	34,421
Other non-current liabilities	25	78,778	71,032
Deferred tax liabilities	8	156,132	123,469
Total non-current liabilities		1,073,191	955,668
CURRENT LIABILITIES			
Bonds and loans	20	99,965	228,464
Trade and other payables	26	170,782	191,089
Other financial liabilities	21, 22	42,105	37,168
Income taxes payable		41,071	43,133
Provisions	24	418,587	115,341
Other current liabilities	25	238,469	226,899
Subtotal		1,010,978	842,094
Liabilities held for sale	19	5,846	15,119
Total current liabilities		1,016,824	857,213
Total liabilities		2,090,016	1,812,882
EQUITY			
Share capital	27	64,044	64,766
Share premium	27	59,575	68,829
Treasury shares	27	(18,203)	(35,974)
Retained earnings		1,601,326	1,523,127
Other components of equity		430,305	327,944
Equity attributable to owners of the Company		2,137,047	1,948,692
Non-controlling interests		69,129	62,511
Total equity		2,206,176	2,011,203
Total liabilities and equity		4,296,192	3,824,085

【Consolidated Statement of Changes in Equity】

Fiscal 2014 (April 1, 2014 to March 31, 2015)

(Million JPY)

	Note	Equity attributable to owners of the Company					
		Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	
						Exchange differences on translation of foreign operations	Net changes on revaluation of available-for-sale financial assets
As of April 1, 2014		63,562	39,866	(621)	1,901,307	406,151	60,771
Net profit (loss) for the year					(145,775)		
Other comprehensive income (loss)						(50,459)	14,914
Comprehensive income (loss) for the year		—	—	—	(145,775)	(50,459)	14,914
Issuances of new shares		483	483				
Acquisitions of treasury shares				(17,587)			
Disposals of treasury shares			0	2			
Dividends	27				(141,781)		
Changes in the ownership interest in subsidiaries					(7,901)		
Transfers from other components of equity					(4,524)		
Share-based payments	29		7,948	3			
Put options written on non-controlling interests	27		11,277				
Total transactions with owners		483	19,708	(17,583)	(154,206)	—	—
As of March 31, 2015		64,044	59,575	(18,203)	1,601,326	355,692	75,685

	Note	Equity attributable to owners of the Company				Non-controlling interests	Total equity
		Other components of equity			Total		
		Cash flow hedges	Remeasurements of defined benefit plans	Total			
As of April 1, 2014		(298)	—	466,624	2,470,739	69,896	2,540,635
Net profit (loss) for the year				—	(145,775)	2,741	(143,034)
Other comprehensive income (loss)		(774)	(4,524)	(40,843)	(40,843)	3,017	(37,826)
Comprehensive income (loss) for the year		(774)	(4,524)	(40,843)	(186,618)	5,759	(180,860)
Issuances of new shares				—	965		965
Acquisitions of treasury shares				—	(17,587)		(17,587)
Disposals of treasury shares				—	2		2
Dividends	27			—	(141,781)	(2,446)	(144,227)
Changes in the ownership interest in subsidiaries				—	(7,901)	(4,079)	(11,980)
Transfers from other components of equity			4,524	4,524	—		—
Share-based payments	29			—	7,951		7,951
Put options written on non-controlling interests	27			—	11,277		11,277
Total transactions with owners		—	4,524	4,524	(147,073)	(6,525)	(153,598)
As of March 31, 2015		(1,073)	—	430,305	2,137,047	69,129	2,206,176

Fiscal 2015 (April 1, 2015 to March 31, 2016)

(Million JPY)

	Note	Equity attributable to owners of the Company					
		Share capital	Share premium	Treasury shares	Retained earnings	Other components of equity	
						Exchange differences on translation of foreign operations	Net changes on revaluation of available-for-sale financial assets
As of April 1, 2015		64,044	59,575	(18,203)	1,601,326	355,692	75,685
Net profit for the year					80,166		
Other comprehensive income (loss)						(83,331)	(17,162)
Comprehensive income (loss) for the year		—	—	—	80,166	(83,331)	(17,162)
Issuances of new shares		722	722				
Acquisitions of treasury shares				(22,346)			
Disposals of treasury shares			1	3			
Dividends	27				(141,585)		
Changes in the ownership interest in subsidiaries					1,359		
Transfers from other components of equity					(18,140)		
Share-based payments	29		8,531	4,573			
Put options written on non-controlling interests	27						
Total transactions with owners		722	9,254	(17,771)	(158,366)	—	—
As of March 31, 2016		64,766	68,829	(35,974)	1,523,127	272,361	58,523

	Note	Equity attributable to owners of the Company				Non-controlling interests	Total equity
		Other components of equity			Total		
		Cash flow hedges	Remeasurements of defined benefit plans	Total			
As of April 1, 2015		(1,073)	—	430,305	2,137,047	69,129	2,206,176
Net profit for the year				—	80,166	3,313	83,480
Other comprehensive income (loss)		(1,867)	(18,140)	(120,501)	(120,501)	(2,581)	(123,082)
Comprehensive income (loss) for the year		(1,867)	(18,140)	(120,501)	(40,334)	732	(39,602)
Issuances of new shares				—	1,444		1,444
Acquisitions of treasury shares				—	(22,346)		(22,346)
Disposals of treasury shares				—	3		3
Dividends	27			—	(141,585)	(1,868)	(143,453)
Changes in the ownership interest in subsidiaries				—	1,359	(5,481)	(4,122)
Transfers from other components of equity			18,140	18,140	—		—
Share-based payments	29			—	13,104		13,104
Put options written on non-controlling interests	27			—	—		—
Total transactions with owners		—	18,140	18,140	(148,021)	(7,350)	(155,371)
As of March 31, 2016		(2,940)	—	327,944	1,948,692	62,511	2,011,203

【Consolidated Statement of Cash Flows】

(Million JPY)

	Note	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Cash flows from operating activities			
Net profit (loss) for the year		(143,034)	83,480
Depreciation, amortization and impairment losses		260,951	197,381
Loss (gain) on sales and disposal of property, plant and equipment (*)		(32,309)	1,261
Loss (gain) on sales of investment securities		(8,891)	(14,937)
Income tax expenses		(2,403)	37,059
Decrease (increase) in trade and other receivables		(32,515)	12,372
Decrease (increase) in inventories		(14,548)	(6,845)
Increase (decrease) in trade and other payables		(7,082)	17,910
Increase (decrease) in provisions		316,471	(290,650)
Other		(80,020)	22,096
Subtotal		256,619	59,128
Income taxes paid		(74,102)	(52,293)
Tax refunds and interest on tax refunds received		—	18,657
Net cash from (used in) operating activities		182,517	25,491
Cash flows from investing activities			
Interest received		2,464	2,394
Dividends received		3,689	3,557
Payments into time deposits		(3,364)	(40,000)
Proceeds from withdrawal of time deposits		81,616	40,000
Payments for acquisition of property, plant and equipment		(48,232)	(48,758)
Proceeds from sales of property, plant and equipment (*)		33,903	528
Payments for acquisition of intangible assets		(60,486)	(36,099)
Payments for acquisition of investments		(207)	(17)
Proceeds from sales and redemption of investments		83,741	16,454
Payments for acquisition of subsidiaries	30	—	(8,269)
Proceeds from sales of subsidiaries		—	1,217
Other		(1,776)	(2,217)
Net cash from (used in) investing activities		91,347	(71,208)
Cash flows from financing activities			
Net increase (decrease) in short-term loans		(8)	(5)
Proceeds from long-term loans		—	150,000
Repayments of long-term loans		(63)	(30,012)
Payments of bonds		(119,430)	(70,000)
Payments for purchase of treasury shares		(17,587)	(22,346)
Interest paid		(5,229)	(4,889)
Dividends paid		(141,637)	(141,538)
Payments for acquisition of non-controlling interests		(11,073)	(804)
Other		(5,971)	(5,244)
Net cash from (used in) financing activities		(300,998)	(124,839)
Net increase (decrease) in cash and cash equivalents		(27,134)	(170,557)
Cash and cash equivalents at the beginning of the year	18, 30	666,048	655,243
Effects of exchange rate changes on cash and cash equivalents		16,329	(33,260)
Cash and cash equivalents at the end of the year	18, 30	655,243	451,426

(*) This item includes gain or loss on or proceeds from sales of investment property and assets held for sale.

【Notes to Consolidated Financial Statements】

1 Reporting Entity

Takeda Pharmaceutical Company Limited (hereinafter referred to as the "Company") is a company incorporated in Japan.

The details of businesses and principle business activities of the Company and its subsidiaries (collectively referred to hereinafter as the "Companies") are stated in Note 4, "Operating Segments".

2 Basis of Preparation

(1) Compliance with IFRS

The Company has prepared the consolidated financial statements under International Financial Reporting Standards (hereinafter referred to as "IFRS").

(2) Approval of Financial Statements

The Company's consolidated financial statements for the year ended March 31, 2016 were approved on June 29, 2016 by Representative Director President & CEO Christophe Weber, Global Finance, Group Financial Controller Rudolf van Houten and Global Finance, Head of Corporate Finance Iwaaki Taniguchi.

(3) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis except for the financial instruments stated in Note 3, "Significant Accounting Policies".

(4) Presentation Currency

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

(5) Use of Judgments, Estimates and Assumptions

The preparation of the consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Judgments, estimates and assumptions made by management that may have a significant effect on the amounts recognized in the consolidated financial statements are as follows:

- Significant assumptions used in discounted cash flow projections for impairment tests of goodwill and intangible assets (Note 12 and 13)
- Recoverability of deferred tax assets (Note 8)
- Measurement of defined benefit obligations (Note 23)
- Accounting and measurement of provisions (Note 24)
- Evaluation of contingent consideration in business combinations (Note 33)
- Probability of an outflow of resources embodying economic benefits on contingent liabilities (Note 34)

(6) Changes in Accounting Policies

The accounting standards and interpretations applied by the Companies, effective from Fiscal 2015, are as follows.

IFRS		Description of new standards, interpretations and amendments
IAS 19	Employee Benefits	Amendment to the accounting for contributions from employees or third parties to defined benefit plans

The above standards and interpretations have not had a material impact on the consolidated financial statements.

(7) New Standards and Interpretations Not Yet Adopted

The new standards, interpretations and amendments that have been issued for the consolidated financial statements which the Companies have not yet applied as of the approval date of the consolidated financial statements are set forth in the table below. The Companies are currently assessing the possible impact the application will have on the consolidated financial statements.

IFRS		Mandatory adoption (From the fiscal year beginning on or after)	To be adopted by the Companies	Description of new standards, interpretations and amendments
IAS 16	Property, Plant and Equipment	January 1, 2016	Fiscal year ending March 2017	Amendment to clarify the acceptable methods of depreciation
IAS 38	Intangible Assets	January 1, 2016	Fiscal year ending March 2017	Amendment to clarify the acceptable methods of amortization
IFRS 11	Joint Arrangements	January 1, 2016	Fiscal year ending March 2017	Amendment to the accounting for acquisitions of an interest in a joint operation
IFRS 10 IFRS 12 IAS 28	Consolidated Financial Statements Disclosure of Interests in Other Entities Investments in Associates and Joint Ventures	January 1, 2016	Fiscal year ending March 2017	Clarifying exceptions for applying consolidation and the equity method for investment entities
IAS 7	Statement of Cash Flows	January 1, 2017	Fiscal year ending March 2018	Additional disclosures about changes in liabilities arising from financing activities
IAS 12	Income Taxes	January 1, 2017	Fiscal year ending March 2018	Clarifying requirements on recognition of deferred tax assets for unrealized losses
IFRS 9	Financial Instruments	January 1, 2018	Fiscal year ending March 2019	Amendment to the classification, measurement and recognition of financial instruments and hedge accounting
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	Fiscal year ending March 2019	New revenue standard which supersedes IAS 18 "Revenue", IAS 11 "Construction Contracts" and a number of revenue-related interpretations
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 2020	Amendment to the accounting treatment for lease transactions
IFRS 10 IAS 28	Consolidated Financial Statements Investments in Associates and Joint Ventures	To be determined	To be determined	Amendments to the accounting treatment for sale or contribution of assets between an investor and its associate or joint venture

3 Significant Accounting Policies

(1) Basis of Consolidation

The consolidated financial statements are based on financial statements of the Company and its subsidiaries and associates.

1) Subsidiaries

Subsidiaries are entities which are controlled by the Company.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control is lost.

When the end of the reporting period of a subsidiary is different from that of the Company, the subsidiary prepares its financial statements for consolidation purpose based on the provisional accounting as of the Company's closing date.

When there are changes in ownership interest in subsidiaries and the Companies retain control over the subsidiaries, they are accounted for as equity transactions. Any difference between the adjustment to non-controlling interests and the fair value of consideration transferred or received is recognized directly in equity attributable to owners of the Company.

All intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements.

2) Associates

Associates are entities over which the Companies have significant influence, but do not have control or joint control, over the financial and operating policies.

Investments in associates are accounted for using the equity method and recognized at cost on the acquisition date.

The consolidated financial statements include some investments in associates of which the end of the reporting period is different from that of the Company. Necessary adjustments are made to account for significant transactions or events that occur due to the difference in the end of the reporting period.

Intra-group profits on transactions with associates accounted for using the equity method are eliminated against the investment to the extent of the Companies' equity interest in the associates. Intra-group losses are eliminated in the same way as Intra-group profits unless there is evidence of impairment.

3) Business combinations

Business combinations are accounted for using the acquisition method. The identifiable assets acquired and the liabilities assumed are measured at the fair values at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree less the fair value of identifiable assets acquired, net of liabilities assumed at the acquisition date. The consideration transferred for the acquisition of a subsidiary is measured as the fair value of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity interests issued by the Companies.

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

Acquisition related costs are recognized as expenses in the period they are incurred.

Changes in the Companies' ownership interests in subsidiaries arising from transactions between the Companies and non-controlling interests that do not result in the Companies losing control over a subsidiary are treated as equity transactions and, therefore, do not result in adjustments to goodwill.

(2) Foreign Currency Translation

1) Foreign currency transactions

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

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency using the spot exchange rates at the end of each reporting period, and non-monetary assets and liabilities measured at fair value that are denominated in foreign currencies are retranslated into the functional currency using the spot exchange rates at the date when the fair value was measured.

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

2) Foreign operations

The assets and liabilities of foreign operations are translated using the spot exchange rates at the end of the reporting period, while income and expenses of foreign operations presented in net profit or loss and other comprehensive income are translated using the exchange rates at the dates of the transactions or rates that approximate the exchange rates at the dates of the transactions.

Exchange differences arising from translation are recognized as other comprehensive income. In cases in which foreign operations are disposed of, the cumulative amount of exchange differences related to the foreign operations is recognized as part of the gain or loss on disposal.

(3) Revenue

1) Sale of goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- (i) The Companies have transferred to the buyer the significant risks and rewards of ownership of the goods;
- (ii) The Companies retain neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- (iii) The amount of revenue can be measured reliably;
- (iv) It is probable that the economic benefits associated with the transaction will flow to the Companies; and
- (v) The costs incurred or to be incurred in respect to the transaction can be measured reliably.

Revenue is measured at fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates, etc. allowed by the Companies.

2) Royalty and service income

Royalty and service income are recognized on an accrual basis in accordance with the substance of the relevant agreement.

(4) Income Taxes

Income taxes consist of current taxes and deferred taxes.

1) Current taxes

Current taxes are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current taxes are recognized in profit or loss, except for the taxes which arise from business combinations and are recognized either in other comprehensive income or directly in equity.

Income taxes payable and recoverable, including those from prior fiscal years, are measured at the amount that is expected to be paid to or recovered from the taxation authorities, reflecting uncertainty related to income taxes, if any. The amount is measured using the tax rates and tax laws that have been enacted or substantively enacted by the end of reporting period.

2) Deferred taxes

Deferred taxes are calculated based on the temporary differences between the carrying amounts for financial reporting purposes and the amounts used for taxation purposes at the end of the reporting period. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and unused tax losses to the extent that it is probable that future taxable profit will be available against which they can be utilized. Deferred tax liabilities are generally recognized for taxable temporary differences.

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

- The initial recognition of goodwill
- The initial recognition of assets and liabilities in transactions that are not business combinations and affect neither accounting profit nor taxable profit (loss) at the time of the transaction
- Deductible temporary differences arising from investments in subsidiaries and associates, when it is not probable that the temporary differences will reverse in the foreseeable future and that taxable profit will be available against which the temporary differences can be utilized
- Taxable temporary differences arising from investments in subsidiaries and associates when the timing of the reversal of the temporary differences is controllable and it is not probable that they will reverse in the foreseeable future

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and liabilities are for those related to income taxes levied by the same taxation authority on the same taxable entity.

(5) Earnings per Share

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

(6) Property, Plant and Equipment

Property, plant, and equipment is measured by using the cost model and is stated at cost less accumulated depreciation and accumulated impairment loss. Acquisition cost includes mainly the costs directly attributable to the acquisition and the initial estimated dismantlement, removal and restoration costs associated with the asset.

Except for assets that are not subject to depreciation, such as land and construction in progress, assets are depreciated mainly using the straight-line method over the estimated useful life of the asset. Leased assets are depreciated using the straight-line method over the shorter of the lease term or the estimated useful life, unless there is reasonable certainty that the Companies will obtain ownership by the end of the lease term. The depreciation of these assets begins when they are available for use.

The estimated useful life of major asset items is as follows:

Buildings and structures	3 to 50 years
Machinery and vehicles	2 to 20 years
Tools, furniture and fixtures	2 to 20 years

(7) Goodwill

Goodwill arising from business combinations is stated at its cost less accumulated impairment losses. Goodwill is not amortized. Goodwill is allocated to cash-generating units or groups of cash-generating units and tested for impairment annually or whenever there is any indication of impairment. Impairment losses on goodwill are recognized in the consolidated statement of operations and no subsequent reversal is made.

The method of measurement upon initial recognition is stated in Note 3 (1) 3), "Basis of Consolidation - Business combinations".

(8) Intangible Assets

Intangible assets are measured by using the cost model and are stated at cost less accumulated amortization and accumulated impairment losses.

1) Intangible assets acquired separately

Intangible assets acquired separately are measured at cost upon initial recognition.

2) Intangible assets acquired in business combinations

Intangible assets acquired in business combinations are measured at fair value at the acquisition date.

3) Internally generated intangible assets (development phase)

An intangible asset arising from development (or from the development phase of an internal project) is recognized only if the Companies can demonstrate the factors set forth below. Other expenditures are recognized as an expense as they are incurred.

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

An intangible asset associated with a product is amortized over the estimated useful life within 20 years using the straight-line method, and software is amortized using the straight-line method over three to seven years from the date when it is available for use.

Amortization of intangible assets is included in "Cost of sales", "Selling, general and administrative expenses", "Research and development expenses" and "Amortization and impairment losses on intangible assets associated with products" in the consolidated statement of operations.

"Amortization and impairment losses on intangible assets associated with products" is separately stated in the consolidated statement of operations because an intangible asset associated with a product has various comprehensive rights such as a license related to a product under development and a sales right and is difficult to separate by function.

(9) Investment Property

Investment property is property held for the purpose of earning rental income, capital appreciation or both. The measurement of investment property is performed in the same manner as that for property, plant and equipment.

(10) Leases

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

1) As lessee

At the commencement of the lease term, the Companies recognize finance leases as assets and liabilities in the consolidated statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

Lease payments for operating leases are recognized as expenses on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern of the user's benefit.

2) As lessor

Lease income from operating leases is recognized in income on a straight-line basis over the lease term, unless another systematic basis is more representative of the time pattern in which use benefit derived from the leased asset is diminished.

(11) Impairment of Non-financial Assets

The Companies assess the carrying amounts of non-financial assets at the end of the reporting period, excluding inventories, deferred tax assets, assets held for sale and assets arising from employee benefits, to determine whether there is any indication of impairment. If any such indication exists, or in cases in which an impairment test is required to be performed each year, the recoverable amount of the asset is estimated. In cases in which the recoverable amount cannot be estimated for each asset, they are estimated at the cash-generating unit level.

The recoverable amount of an asset or a cash-generating unit is determined at the higher of its fair value less cost of disposal or its value in use. In determining the value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects the time value of money and the risks specific to the asset. If the carrying amount of the asset or cash-generating unit exceeds the recoverable amount, impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.

An asset or a cash-generating unit other than goodwill for which impairment losses was recognized in prior years is assessed at the end of the reporting period to determine whether there is any indication that the impairment loss recognized in prior periods may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the lower of the estimated recoverable amount or the carrying amount that would have been determined if no impairment loss had been recognized in prior years. The reversal of impairment loss is immediately recognized in profit or loss.

(12) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined mainly by using the weighted-average cost formula. The cost of inventories includes purchase costs, costs of conversion and other costs incurred in bringing the inventories to the present location and condition. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(13) Cash and Cash Equivalents

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

(14) Assets Held for Sale

An asset or asset group for which the cash flows are expected to arise principally from sale rather than continuing use is classified as an asset held for sale when it is highly probable that the asset or asset group will be sold within one year, the asset or asset group is available for immediate sale in its present condition, and the management of the Companies are committed to the sale. In such cases, the asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

(15) Post-Employment Benefit

The Companies sponsor lump-sum payments on retirement, pensions and other plans such as post-retirement medical care as post-employment benefit plans. They are classified into defined benefit plans and defined contribution plans.

1) Defined benefit plans

The Companies use the projected unit credit method to determine the present value, the related current service cost and the past service cost by each defined benefit obligation. The discount rate is determined by reference to market yields on high quality corporate bonds at the end of the reporting period. The net defined benefit liabilities (assets) in the consolidated statement of financial position are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. Remeasurements of net defined benefit plans are recognized in full as other comprehensive income and then transferred to retained earnings in the period in which they are recognized.

2) Defined contribution plans

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

(16) Provisions

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

(17) Financial Instruments

1) Financial assets

(i) Initial recognition and measurement

Financial assets are recognized in the consolidated statement of financial position when the Companies become a party to the contractual provisions of the instruments. At the initial recognition, the financial assets are classified based on the nature and purpose in accordance with the following:

(a) Financial assets at fair value through profit or loss

Either held-for-trading financial assets or financial assets designated as financial assets at fair value through profit or loss

(b) Loans and receivables

Non-derivative financial assets with fixed or determinable payments that are not quoted in an active market

(c) Available-for-sale financial assets

Non-derivative financial assets and either designated as available-for-sale financial assets or not classified as (a) financial assets at fair value through profit or loss, or (b) loans and receivables

Financial assets except for financial assets at fair value through profit or loss are initially measured at fair value plus transaction costs that are directly attributable to the acquisition.

(ii) Subsequent measurement

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are measured at fair value, and any gains or losses arising on remeasurement are recognized in profit or loss.

(b) Loans and receivables

Loans and receivables are measured at amortized cost using the effective interest method less any impairment loss. Interest income is recognized principally by applying the effective interest rate, unless the recognition of interest is immaterial as in the case of short-term receivables.

(c) Available-for-sale financial assets

Available-for-sale financial assets are measured at fair value as of the end of the reporting period, and the gains and losses arising from changes in fair value are recognized in other comprehensive income.

Exchange differences on monetary assets are recognized in profit or loss.

Dividends on available-for-sale financial assets (equity instruments) are recognized in profit or loss in the reporting period when the Companies' right to receive the dividends is established.

(iii) Impairment

Financial assets other than financial assets at fair value through profit or loss are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that one or more events occurred after the initial recognition of the financial asset and it is reasonably anticipated to have had a negative impact on the estimated future cash flows of the asset.

For available-for-sale financial assets, a significant or prolonged decline in the fair value below its cost is considered to be objective evidence of impairment. Even when there is no objective evidence of impairment individually, certain categories of financial assets such as trade receivables are collectively assessed for impairment.

For financial assets measured at amortized cost, the impairment loss is the difference between the carrying amount of the asset and the present value of the estimated future cash flows discounted at the original effective interest rate on the asset. In a subsequent period, if the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss.

When an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss that was previously accumulated in accumulated other comprehensive income (loss) is reclassified to profit or loss in the same period. In respect to available-for-sale equity investments, impairment loss previously recognized in profit or loss is not reversed through profit or loss. In respect to available-for-sale debt instruments, if the amount of the fair value increases in a subsequent period and the increase can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss.

(iv) Derecognition

The Companies derecognize a financial asset only when the contractual right to receive the cash flows from the asset expires or when the Companies transfer the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset, the difference between the carrying amount and the consideration received or receivable is recognized in profit or loss, and the cumulative gain or loss that was previously accumulated in accumulated other comprehensive income (loss) is reclassified to profit or loss.

2) Financial liabilities

(i) Initial recognition and measurement

Financial liabilities are recognized in the consolidated statement of financial position when the Companies become a party to the contractual provisions of the instruments. Upon initial recognition, the financial liabilities are classified as follows:

(a) Financial liabilities at fair value through profit or loss

Financial liabilities designated as financial liabilities at fair value through profit or loss

(b) Other financial liabilities, including bonds and loans

Financial liabilities other than (a) Financial liabilities at fair value through profit or loss

Financial liabilities except for financial liabilities at fair value through profit or loss are initially measured at fair value less transaction costs that are directly attributable to the issuance.

(ii) Subsequent measurement

(a) Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss are measured at fair value, and any gains or losses arising on remeasurement are recognized in profit or loss.

(b) Other financial liabilities, including bonds and loans

Other financial liabilities are measured at amortized cost mainly using the effective interest method.

(iii) Derecognition

The Companies derecognize a financial liability only when the obligation specified in the contract is discharged, cancelled or expires. On derecognition of a financial liability, the difference between the carrying amount and the consideration paid or payable is recognized in profit or loss.

3) Derivatives

The Companies hedge the risks arising mainly from their exposure to fluctuations in foreign currency exchange rates and interest rates by using derivative financial instruments such as foreign exchange forward contracts, interest rate swaps and currency swaps. The Companies do not enter into derivative transactions for trading or speculative purposes. Derivatives not qualifying for hedge accounting are classified as financial assets at fair value through profit or loss or financial liabilities at fair value through profit or loss and accounted based on this classification.

4) Hedge accounting

The Companies designate certain derivatives as cash flow hedges and adopt hedge accounting for such derivatives. The Companies document the relationship between hedging instruments and hedged items based on the strategy for undertaking hedge transactions at the inception of the transaction. The Companies also assess whether the derivatives used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items both at the hedge inception and on an ongoing basis.

The effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges is recognized in other comprehensive income. The gain or loss relating to the material ineffective portion is recognized immediately in profit or loss.

The cumulative gain or loss that was previously recognized in other comprehensive income is reclassified to profit or loss in the same period when the cash flows of the hedged items are recognized in profit or loss and in the same line item in the consolidated statement of operations.

Hedge accounting is discontinued when the Companies revoke the designation, when the hedging instrument expires or is sold, terminated or exercised or when the hedge no longer qualifies for hedge accounting.

(18) Government Grants

Government grants are recognized when there is reasonable assurance that the Companies will comply with the conditions attached to them and receive the grants. Government grants for the purchasing of property, plant and equipment are recognized as deferred income and then recognized as income on a systematic basis over the useful lives of the related assets. Government grants for expenses incurred are recognized as income on a systematic basis over the periods in which the Companies recognize as expenses the related costs for which the grants are intended to compensate.

(19) Share-based Payments

The Companies implement share-based payment programs and make equity and cash-settled share-based payments.

1) Equity-settled share-based payments

The Companies measure the services acquired and the corresponding increase in equity at the fair value of the equity instruments granted and recognize the amount as an expense over the vesting period and the corresponding amount as an increase in equity.

2) Cash-settled share-based payments

The Companies measure the services received and the liability incurred at the fair value of the liability and recognize the amount as an expense over the vesting period and the corresponding amount as an increase in liability. The Companies remeasure the fair value of the liability at the end of each reporting period and at the date of settlement and recognize any changes in fair value in profit or loss.

(20) Capital

1) Ordinary shares

Proceeds from the issuance of ordinary shares by the Company are included in share capital and share premium.

2) Treasury shares

When the Companies acquire treasury shares, the consideration paid is recognized as a deduction from equity. When the Companies sell the treasury shares, the difference between the carrying amount and the consideration received is recognized in share premium.

4 Operating Segments

(1) Reportable Segments

The Companies manage the business by product/service type. The Company or its subsidiaries serving as the headquarters of each business creates comprehensive product/service strategies for the Japanese and overseas markets and implement such business activities in accordance with the strategies.

The Companies categorize Ethical Drugs, Consumer Healthcare and Other as its three reportable segments. Financial data is available separately for each of these segments and the financial results for all reportable segments are periodically reviewed by the Company's Board of Directors in order to make decisions on the proper allocation of business resources and to evaluate the business performance of the respective segments. The Ethical Drugs segment includes the manufacture and sale of ethical drugs. The Consumer Healthcare segment includes the manufacture and sale of OTC drugs and quasi-drugs. The Other segment includes the manufacture and sale of reagents, clinical diagnostics, chemical products and other businesses.

Fiscal 2014 (April 1, 2014 to March 31, 2015)

	Reportable Segments			Total	Consolidated financial statements
	Ethical Drugs	Consumer Healthcare	Other		
Revenue (Note)	1,614,509	73,579	89,736	1,777,824	1,777,824
Operating profit (loss)	(178,884)	17,189	32,441	(129,254)	(129,254)
				Finance income	15,357
				Finance expenses	(32,878)
				Share of profit of associates accounted for using the equity method	1,337
				Profit (Loss) before tax	(145,437)

Other material items of income and expenses

	Reportable Segments			Total	Consolidated financial statements
	Ethical Drugs	Consumer Healthcare	Other		
Depreciation and amortization	186,468	497	5,549	192,515	192,515
Impairment losses	68,437	—	—	68,437	68,437

Fiscal 2015 (April 1, 2015 to March 31, 2016)

	Reportable Segments			Total	Consolidated financial statements
	Ethical Drugs	Consumer Healthcare	Other		
Revenue (Note)	1,648,671	80,094	78,613	1,807,378	1,807,378
Operating profit	102,845	18,904	9,079	130,828	130,828
				Finance income	21,645
				Finance expenses	(31,931)
				Share of profit (loss) of associates accounted for using the equity method	(3)
				Profit before tax	120,539

Other material items of income and expenses

	Reportable Segments			Total	Consolidated financial statements
	Ethical Drugs	Consumer Healthcare	Other		
Depreciation and amortization	176,514	567	5,098	182,179	182,179
Impairment losses	14,437	—	765	15,202	15,202

(Note) Details of revenue are as follows:

	Fiscal 2014	Fiscal 2015
	(April 1, 2014 to March 31, 2015)	(April 1, 2015 to March 31, 2016)
Sales of goods	1,690,296	1,750,910
Royalty and service revenue	87,528	56,468
Total	1,777,824	1,807,378

(2) Geographic Information

1) External revenue

Fiscal 2014 (April 1, 2014 to March 31, 2015)

(Million JPY)

Japan	United States	Europe and Canada	Russia/ CIS	Latin America	Asia	Others	Total
712,813	426,129	325,285	81,321	85,374	111,412	35,489	1,777,824

Fiscal 2015 (April 1, 2015 to March 31, 2016)

(Million JPY)

Japan	United States	Europe and Canada	Russia/ CIS	Latin America	Asia	Others	Total
688,090	514,420	309,270	61,821	68,392	125,961	39,424	1,807,378

(Note 1) Revenue is attributable to countries or regions based on the customer location.

(Note 2) "Others" region includes Middle East, Oceania and Africa.

2) Non-current assets

(Million JPY)

	Japan	United States	Europe and others	Total
As of March 31, 2015	502,621	710,907	1,107,310	2,320,839
As of March 31, 2016	486,132	658,941	958,022	2,103,094

(Note) Financial instruments, deferred tax assets and net defined benefit assets are excluded.

Goodwill and intangible assets related to the acquisition of Nycomed, which are impracticable to allocate to each country, are included in "Europe and others".

The amount was 950,294 million JPY and 799,558 million JPY as of March 31, 2015 and 2016, respectively.

(3) Information on Major Customers

Revenue from a single external customer exceeded 10% of the consolidated revenue and the details are as follows:

(Million JPY)

	Reportable Segments	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Medipal Holdings Corporation and the Group	Ethical Drugs and Consumer Healthcare	259,673	258,661

5 Selling, General and Administrative Expenses

The major items in "Selling, general and administrative expenses" for each year are as follows:

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Advertising and sales promotion expenses	113,212	121,055
Salaries	139,998	143,058
Bonuses	42,964	50,289
Post-employment benefit costs	15,834	17,492

6 Other Operating Income and Expenses

(1) Other Operating Income

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Government grants	3,149	3,735
Rental income	3,900	3,446
Gain on sales of property, plant and equipment, intangible assets and investment property	32,815	54
Royalty income on transfers of operations	6,504	4,915
Fair value remeasurements on contingent considerations (Note)	51,324	5,636
Others	9,489	7,293
Total	107,181	25,081

(Note) 53,841 million JPY of the reversal of contingent consideration related to the acquisition of URL Pharma, Inc. was included for the year ended March 31, 2015.

Contingent consideration is an obligation of the acquirer to transfer additional assets or equity interests to the former owners of an acquiree as part of the exchange for control of the acquiree if specified future events occur or conditions are met, and is remeasured to fair value at each fiscal year end until the contingency is resolved.

(2) Other Operating Expenses

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Expenses directly attributable to rental income	2,241	4,968
Donations and contributions	1,489	2,442
Restructuring expenses (Note 1)		
Severance expenses	12,035	7,692
Consultancy expenses	6,233	7,571
Other expenses	12,907	10,497
Loss on ACTOS litigation (Note 2)	274,056	—
Others	13,195	11,216
Total	322,158	44,386

(Note 1) Restructuring expenses are from reorganization, such as the consolidation of a number of sites and functions (including the potential merger and liquidation of subsidiaries) and the reduction of the workforce to build an efficient operating model.

(Note 2) The Company and its subsidiaries in the U.S. ("Takeda") have reached the agreement expected to resolve the vast majority of ACTOS product liability lawsuits pending in the U.S. against Takeda. Accordingly, Takeda recognized the provision of \$2.7 billion (324.1 billion JPY) for covering the settlement, for costs associated with court cases against plaintiffs who do not participate in the settlement, and for other related expenses. Takeda also recognized the insurance receivable of 50.0 billion JPY as Other financial assets which is anticipated to be covered by product liability insurance.

The net amount was booked as Other operating expense for the year ended March 31, 2015.

7 Finance Income and Expenses

(1) Finance Income

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Interest income	2,313	2,316
Dividends income	3,263	3,329
Gain on sales of available-for-sale financial assets	8,891	15,051
Others	890	948
Total	15,357	21,645

(2) Finance Expenses

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Interest expenses	5,796	5,271
Fair value remeasurements on contingent consideration	16,213	7,605
Impairment losses on available-for-sale financial assets	1,653	2,332
Losses on valuation of derivatives	2,731	5,139
Foreign currency exchange losses (Note)	1,143	8,896
Others	5,341	2,687
Total	32,878	31,931

(Note) Foreign currency exchange losses for the year ended March 31, 2016 include 5,787 million JPY of losses due to the change of the exchange rate from CENCOEX rate to DICOM rate pertaining to trade payables denominated in US dollars in the Venezuelan entity.

8 Income Taxes

(1) Deferred Taxes

1) Deferred tax assets and liabilities reported in the consolidated statement of financial position

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Deferred tax assets	154,506	170,773
Deferred tax liabilities	156,132	123,469
Net total	(1,626)	47,304

2) The major items and changes in deferred tax assets and liabilities

(Million JPY)

	As of April 1, 2014	Recognized in profit or loss	Recognized in other comprehensive income	Acquisitions through business combinations	Others	As of March 31, 2015
Research and development expenses	129,844	(52,537)	—	—	—	77,307
Inventories	28,099	3,369	—	—	(1,144)	30,324
Property, plant and equipment	(47,864)	(1,149)	—	—	1,927	(47,086)
Intangible assets	(286,776)	38,933	—	—	20,181	(227,663)
Available-for-sale financial assets	(32,841)	288	(1,213)	—	544	(33,222)
Accrued expenses and provisions	59,848	106,249	—	—	(508)	165,589
Post-employment benefit plans	(3,160)	3,461	966	—	1,417	2,684
Deferred income	9,157	(3,120)	—	—	(12)	6,026
Unused tax losses	16,677	2,634	—	—	(2)	19,309
Tax credits	46,052	(40,125)	—	—	(94)	5,833
Undistributed profits of overseas subsidiaries and associates	(13,023)	2,234	—	—	—	(10,789)
Others	21,817	(10,032)	427	—	(2,149)	10,063
Total	(72,170)	50,205	179	—	20,160	(1,626)

(Million JPY)

	As of April 1, 2015	Recognized in profit or loss	Recognized in other comprehensive income	Acquisitions through business combinations	Others	As of March 31, 2016
Research and development expenses	77,307	(16,471)	—	—	—	60,836
Inventories	30,324	1,128	—	—	(1,887)	29,565
Property, plant and equipment	(47,086)	5,688	—	—	(192)	(41,590)
Intangible assets	(227,663)	19,301	—	(1,313)	36,224	(173,450)
Available-for-sale financial assets	(33,222)	—	8,806	—	(819)	(25,235)
Accrued expenses and provisions	165,589	(65,935)	—	—	(14,160)	85,493
Post-employment benefit plans	2,684	1,227	9,765	—	(1,790)	11,885
Deferred income	6,026	12,216	—	—	262	18,504
Unused tax losses	19,309	26,828	—	—	1,407	47,543
Tax credits	5,833	18,207	—	—	1,949	25,989
Undistributed profits of overseas subsidiaries and associates	(10,789)	10,639	—	—	—	(150)
Others	10,063	(4,617)	856	—	1,612	7,914
Total	(1,626)	8,211	19,427	(1,313)	22,605	47,304

The Companies consider the probability that a portion of or all of the future deductible temporary differences or unused tax losses can be utilized against future taxable profits on recognition of deferred tax assets. In assessing the recoverability of deferred tax assets, the Companies consider the scheduled reversal of deferred tax liabilities, projected future taxable profits and tax planning strategies. Based on the level of historical taxable profits and projected future taxable profits during the periods in which the temporary differences become deductible, the Companies determined that it is probable that the tax benefits can be utilized.

3) The unused tax losses, deductible temporary differences and unused tax credits for which deferred tax assets were not recognized

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Unused tax losses (Note)	113,262	94,279
Deductible temporary differences	2,629	6
Unused tax credits (Note)	6,481	12,330

No deferred tax asset is recognized in respect to these differences if the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries and associates for which deferred tax assets were not recognized were 235,540 million JPY and 228,314 million JPY as of March 31, 2015 and 2016, respectively.

(Note) Expiry schedule of the unused tax losses and unused tax credits for which deferred tax assets were not recognized

(Million JPY)

Unused tax losses	Fiscal 2014	Fiscal 2015
	(As of March 31, 2015)	(As of March 31, 2016)
1st year	908	783
2nd year	447	—
3rd year	465	168
4th year	593	156
5th year	240	200
After 5th year	110,608	92,972
Total	113,262	94,279

(Million JPY)

Unused tax credits	Fiscal 2014	Fiscal 2015
	(As of March 31, 2015)	(As of March 31, 2016)
Less than 5 years	1,695	3,241
5 years or more	4,786	9,089
No expiration	—	—
Total	6,481	12,330

4) Taxable temporary differences for which deferred tax liabilities were not recognized

No deferred tax liability is recognized in respect to these differences if the Company is in a position to control the timing of the reversal of the temporary differences and it is probable that such differences will not reverse in the foreseeable future. The aggregate amounts of temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities were not recognized were 191,218 million JPY and 201,918 million JPY as of March 31, 2015 and 2016, respectively.

(2) Income Tax Expenses

The major components of Income tax expenses for each fiscal year are as follows:

(Million JPY)

	Fiscal 2014	Fiscal 2015
	(April 1, 2014 to March 31, 2015)	(April 1, 2015 to March 31, 2016)
Current tax expenses	47,802	45,270
Deferred tax expenses	(50,205)	(8,211)
Total	(2,403)	37,059

Current tax expenses include the benefits arising from previously unused tax losses, tax credits and temporary differences of prior periods. These effects decreased current tax expenses by 21 million JPY and 614 million JPY for the years ended March 31, 2015 and 2016, respectively.

Deferred tax expenses include the benefits arising from previously unused tax losses, tax credits and temporary differences of prior periods. These effects decreased deferred tax expenses by 2,737 million JPY and 26,378 million JPY for the years ended March 31, 2015 and 2016, respectively.

Adjustments from the statutory tax rate to the effective tax rate are set forth below. The effective tax rate represents the ratio of income taxes to profit before tax.

(Unit: %)

	Fiscal 2014	Fiscal 2015
	(April 1, 2014 to March 31, 2015)	(April 1, 2015 to March 31, 2016)
Statutory tax rate	35.6	33.0
Non-deductible expenses for tax purposes	(4.9)	3.4
Changes in unrecognized deferred tax assets	(28.8)	(13.4)
Tax credits	13.6	(22.2)
Differences in applicable tax rates of subsidiaries	(7.0)	9.7
Changes in tax effects of undistributed profit of overseas subsidiaries	(2.0)	(5.7)
Effect of changes in applicable tax rates	(7.9)	7.2
Tax contingencies	(4.0)	15.3
Others	7.1	3.4
Effective tax rate	1.7	30.7

“The Act for Partial Amendment of the Income Tax Act, etc.”(Act No. 10 of 2014) was proclaimed on March 31, 2014. By this promulgation, the special corporate tax for reconstruction was not imposed from the fiscal year started April 1, 2014. As a result, the statutory tax rate of the Company and the domestic subsidiaries for the year ended March 31, 2015 has been changed from 38.0% to 35.6%.

“The Act for Partial Amendment of the Income Tax Act, etc.”(Act No. 9 of 2015) and “The Act for Partial Amendment of the Local Tax Act, etc.”(Act No. 2 of 2015) were proclaimed on March 31, 2015. By this promulgation, the statutory tax rate of the Company and the domestic subsidiaries for the year ended March 31, 2016 has been changed from 35.6% to 33.0%.

According to the enactment of “The Act for Partial Amendment of the Income Tax Act, etc.”(Act No. 15 of 2016) and “The Act for Partial Amendment of the Local Tax Act, etc.”(Act No. 13 of 2016) on March 29, 2016, the statutory tax rate which the Company and the domestic subsidiaries used for calculation of deferred tax assets and deferred tax liabilities (limited to those which are expected to be realized on and after April 1, 2016) has been changed from 32.2% in the previous fiscal year to 30.8% for those which are expected to be recovered or paid from April 1, 2016 to March 31, 2018 and to 30.6% for those which are expected to be recovered or paid on and after April 1, 2018.

As a result of this change, deferred tax assets (after offsetting deferred tax liabilities), changes in fair value of cash flow hedges that are recognized in the consolidated statement of operations and other comprehensive income and remeasurements of defined benefit plans decreased by 7,535 million JPY, 94 million JPY and 751 million JPY, respectively, while deferred tax expenses and net changes on revaluation of available-for-sale financial assets increased by 8,211 million JPY and 1,521 million JPY, respectively.

9 Earnings Per Share

The basis for calculating basic and diluted earnings per share (attributable to ordinary shareholders) for the years ended March 31, 2015 and March 31, 2016 is as follows:

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Net profit for the year attributable to ordinary shareholders of the Company		
Net profit (loss) attributable to owners of the Company (Million JPY)	(145,775)	80,166
Net profit not attributable to ordinary shareholders of the Company (Million JPY)	—	—
Net profit (loss) used for calculation of earnings per share (Million JPY)	(145,775)	80,166
Weighted average number of shares during the year (thousands of shares) [basic]	786,391	783,933
Dilutive effect (thousands of shares)	—	4,235
Weighted average number of shares during the year (thousands of shares) [diluted]	786,391	788,168
Earnings (loss) per share		
Basic (JPY)	(185.37)	102.26
Diluted (JPY)	(185.37)	101.71

The number of shares that do not have dilutive effects and were not included in the calculation of diluted earnings per share were 7,820 thousand shares and 0 share as of March 31, 2015 and 2016, respectively.

10 Other Comprehensive Income

Amounts arising during the year, reclassification adjustments to profit or loss and tax effects for each component of other comprehensive income are as follows:

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Exchange differences on translation of foreign operations (Note 1)		
Amounts arising during the year	(47,559)	(85,600)
Reclassification adjustments to profit or loss	—	(171)
Before tax effects	(47,559)	(85,772)
Tax effects	—	—
Exchange differences on translation of foreign operations	(47,559)	(85,772)
Net changes on revaluation of available-for-sale financial assets (Note 2)		
Amounts arising during the year	25,123	(11,073)
Reclassification adjustments to profit or loss	(8,869)	(15,036)
Before tax effects	16,253	(26,109)
Tax effects	(1,213)	8,806
Net changes on revaluation of available-for-sale financial assets	15,040	(17,303)
Cash flow hedges (Note 3)		
Amounts arising during the year	55,912	(79,255)
Reclassification adjustments to profit or loss	(57,113)	76,533
Before tax effects	(1,201)	(2,722)
Tax effects	427	856
Cash flow hedges	(774)	(1,867)
Remeasurements of defined benefit plans (Note 4)		
Amounts arising during the year	(5,499)	(27,905)
Tax effects	966	9,765
Remeasurements of defined benefit plans	(4,532)	(18,140)
Total other comprehensive income	(37,826)	(123,082)

(Note 1) Exchange differences on translation of foreign operations consist of differences on foreign currency translation for financial statements of foreign operations to the presentation currency.

(Note 2) Net changes on revaluation of available-for-sale financial assets represent the changes in fair value on available-for-sale financial assets at the end of each reporting period.

(Note 3) Cash flow hedges represent the effective portion of changes in the fair value of derivatives designated and qualifying as cash flow hedges.

(Note 4) Remeasurements of defined benefit plans consist of (1) actuarial gains and losses resulting from increases or decreases in the present value of the defined benefit obligation because of changes in actuarial assumptions and experience adjustments and (2) the return on plan assets, excluding the amounts included in net interest on the net defined benefit liability (asset).

11 Property, Plant and Equipment

(1) The Changes in Acquisition Cost, Accumulated Depreciation and Accumulated Impairment Losses and the Carrying Amount by Category

1) Acquisition cost

(Million JPY)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2014	513,215	423,895	124,907	82,739	22,926	1,167,683
Additions	6,745	13,522	6,952	1,379	25,060	53,659
Transfers	6,274	10,197	2,680	233	(19,416)	(33)
Disposals	(12,139)	(13,137)	(3,241)	(32)	—	(28,548)
Reclassification to assets held for sale	(7,108)	(17,905)	(1,434)	(1,213)	(70)	(27,731)
Foreign currency translation differences	(698)	(4,891)	620	(511)	(261)	(5,740)
Others	352	17,435	178	(239)	58	17,785
As of March 31, 2015	506,642	429,117	130,663	82,355	28,298	1,177,076
Additions	41,607	8,864	6,000	550	36,973	93,993
Acquisitions through business combinations	51	21	8	—	—	80
Transfers	9,107	5,291	4,894	(348)	(19,897)	(953)
Disposals	(3,126)	(10,212)	(6,109)	(131)	(300)	(19,878)
Reclassification to assets held for sale	119	(2,644)	(1,780)	(101)	—	(4,406)
Deconsolidation of Venezuelan entity	—	—	(2,471)	—	—	(2,471)
Foreign currency translation differences	(7,882)	(7,190)	(1,962)	(727)	(1,272)	(19,033)
Others	521	110	61	9	(1,269)	(568)
As of March 31, 2016	547,039	423,357	129,303	81,607	42,533	1,223,839

2) Accumulated depreciation and accumulated impairment losses

(Million JPY)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2014	(217,327)	(307,152)	(99,482)	(1,469)	—	(625,430)
Depreciation expenses	(20,727)	(26,821)	(11,150)	—	—	(58,698)
Impairment loss	(400)	(548)	(4)	(4)	—	(956)
Transfers	10	—	—	—	—	10
Disposals	10,756	12,686	2,789	—	—	26,231
Reclassification to assets held for sale	6,052	16,530	1,278	156	—	24,016
Foreign currency translation differences	(746)	2,498	(188)	28	—	1,593
Others	243	(17,375)	(685)	138	—	(17,678)
As of March 31, 2015	(222,139)	(320,182)	(107,442)	(1,150)	—	(650,913)
Depreciation expenses	(19,678)	(23,226)	(10,022)	—	—	(52,926)
Impairment loss	(1,351)	(841)	(21)	(170)	—	(2,384)
Transfers	355	—	8	—	—	362
Disposals	2,568	9,908	5,922	—	—	18,398
Reclassification to assets held for sale	(178)	1,857	1,780	—	—	3,459
Deconsolidation of Venezuelan entity	—	—	1,881	—	—	1,881
Foreign currency translation differences	3,365	4,850	1,820	20	—	10,056
Others	(637)	1,658	(1,240)	362	—	143
As of March 31, 2016	(237,696)	(325,977)	(107,312)	(938)	—	(671,923)

3) Carrying amount

(Million JPY)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
As of April 1, 2014	295,888	116,743	25,425	81,270	22,926	542,253
As of March 31, 2015	284,503	108,935	23,222	81,205	28,298	526,162
As of March 31, 2016	309,343	97,380	21,991	80,669	42,533	551,916

(2) Assets Held Under Finance Leases

The carrying amounts of assets held under finance leases included in property, plant and equipment are as follows:

	(Million JPY)	
	Buildings and structures	Machinery and vehicles
As of April 1, 2014	10,517	3,280
As of March 31, 2015	12,476	4,443
As of March 31, 2016	48,564	3,948

(3) Impairment Loss

Impairment losses were recognized in the consolidated statement of operations for the year ended March 31, 2015. Of the total impairment loss of 956 million JPY, 777 million JPY was included in "Cost of sales", 124 million JPY was included in "Selling, general and administrative expenses" and 55 million JPY was included in "Research and development expenses", respectively. The assets for which impairment losses were recognized were "Land", "Buildings and structures" and "Machinery and vehicles" in the Ethical Drugs segment, and the recoverable amount of the major assets was 1,409 million JPY. The carrying amounts of these assets were reduced to the recoverable amounts due to the significant decline in expected profitability. Those recoverable amounts were measured at the fair value less costs of disposal by using values such as expected sales amounts. This fair value is classified as Level 3 in the fair value hierarchy.

The definition of the fair value hierarchy is stated in Note 28, "Financial Instruments".

Impairment losses were recognized in the consolidated statement of operations for the year ended March 31, 2016. Of the total impairment losses of 2,384 million JPY, 65 million JPY was included in "Cost of sales", 434 million JPY was included in "Selling, general and administrative expenses", 68 million JPY was included in "Research and development expenses" and 1,818 million JPY was included in "Other operating expenses" (Restructuring expenses), respectively. The assets for which impairment losses were recognized were "Land", "Buildings and structures" and "Machinery and vehicles" in the Ethical Drugs segment, and the recoverable amount of the major assets was 0 million JPY. The carrying amounts of these assets were reduced to the recoverable amounts due to the significant decline in expected profitability. Those recoverable amounts were measured at the fair value less costs of disposal by using values such as expected sales amounts. This fair value is classified as Level 3 in the fair value hierarchy.

The definition of the fair value hierarchy is stated in Note 28, "Financial Instruments".

(4) Pledged Assets

The carrying amount of property, plant and equipment pledged as collateral for a bank loan was 2,129 million JPY as of March 31, 2015, and no amount as of March 31, 2016.

(5) Commitments

The amount of contractual commitments for the acquisition of property, plant and equipment was 27,983 million JPY and 27,141 million JPY as of March 31, 2015 and 2016, respectively.

12 Goodwill

(1) The Changes in Acquisition Cost and Accumulated Impairment Loss and the Carrying Amount

1) Acquisition cost

	(Million JPY)	
	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Balance at the beginning of the fiscal year	814,671	821,911
Acquisitions through business combinations	—	2,913
Reclassification to assets held for sale	—	(10,979)
Foreign currency translation differences	7,240	(34,529)
Balance at the end of the fiscal year	821,911	779,316

2) Accumulated impairment losses

	(Million JPY)	
	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Balance at the beginning of the fiscal year	—	—
Impairment losses	—	—
Foreign currency translation differences	—	—
Balance at the end of the fiscal year	—	—

3) Carrying amount

	(Million JPY)
As of April 1, 2014	814,671
As of March 31, 2015	821,911
As of March 31, 2016	779,316

(2) Impairment Testing for Goodwill

The carrying amounts of significant goodwill allocated to the following cash-generating unit groups for each fiscal year are as follows:

(Million JPY)

Cash-generating unit group (Note)	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Ethical drugs	821,911	779,316
- overseas sales excluding U.S. sales	438,084	418,248

(Note) "Ethical drugs" consists of a number of cash-generating units (groups of units) in addition to the groups presented in the above table.

Impairment loss for goodwill is recognized if the recoverable amount of goodwill is less than the carrying amount. When recognized, the carrying amount is reduced to the recoverable amount. The recoverable amount is measured at its value in use. As a result of impairment testing for the years ended March 31, 2015 and 2016, the Companies did not recognize any impairment loss for goodwill because the recoverable amount of each cash-generating unit group exceeded the carrying amount.

The value in use is calculated by discounting the estimated future cash flows based on a three-year projection approved by management and an applied growth rate. The applied growth rate was determined by considering the long-term average growth rate of the market or country to which the cash-generating unit group belongs (Fiscal 2014: 1.9%-2.7%, Fiscal 2015: 1.6%-2.6%).

The discount rates (post-tax) were calculated based on the weighted average cost of capital in the markets or countries to which each cash-generating unit group belongs (Fiscal 2014: 5.0%-8.1%, Fiscal 2015: 5.8%-13.5%).

The value in use substantially exceeds the relevant carrying amount in all cash-generating groups, and management considers that it is not likely that a significant impairment loss would be recognized even if the growth rate and discount rate used in the calculation fluctuated within a reasonable range.

13 Intangible Assets

(1) The Changes in Acquisition Cost, Accumulated Amortization and Accumulated Impairment Loss and the Carrying Amount by Category

1) Acquisition cost

(Million JPY)

	Software	Intangible assets associated with products	Others	Total
As of April 1, 2014	51,598	1,778,951	27,037	1,857,586
Additions	7,212	25,606	15,076	47,894
Disposals	(6,994)	(36,097)	(24)	(43,116)
Foreign currency translation differences	4,992	8,684	1,837	15,513
As of March 31, 2015	56,808	1,777,143	43,926	1,877,877
Additions	9,023	19,154	3,619	31,796
Acquisitions through business combinations	—	11,045	—	11,045
Disposals	(1,471)	(23,980)	(670)	(26,121)
Reclassification to assets held for sale	—	(156,808)	(872)	(157,681)
Foreign currency translation differences	(2,217)	(90,535)	(1,355)	(94,107)
As of March 31, 2016	62,143	1,536,019	44,648	1,642,810

2) Accumulated amortization and accumulated impairment losses

(Million JPY)

	Software	Intangible assets associated with products	Others	Total
As of April 1, 2014	(34,188)	(673,688)	(14,113)	(721,989)
Amortization	(7,439)	(123,221)	(2,229)	(132,889)
Impairment losses	—	(67,481)	—	(67,481)
Reversal of impairment losses	—	4,028	—	4,028
Disposals	5,807	33,767	24	39,599
Foreign currency translation differences	(3,546)	(53,747)	(2,471)	(59,764)
As of March 31, 2015	(39,366)	(880,341)	(18,789)	(938,496)
Amortization	(6,185)	(118,749)	(3,380)	(128,314)
Impairment losses	—	(18,555)	—	(18,555)
Reversal of impairment losses	—	8,553	—	8,553
Disposals	1,018	23,758	500	25,277
Reclassification to assets held for sale	—	104,163	—	104,163
Foreign currency translation differences	1,662	42,525	3,504	47,691
As of March 31, 2016	(42,871)	(838,646)	(18,164)	(899,682)

3) Carrying amount

(Million JPY)

	Software	Intangible assets associated with products	Others	Total
As of April 1, 2014	17,411	1,105,263	12,924	1,135,597
As of March 31, 2015	17,442	896,802	25,138	939,381
As of March 31, 2016	19,272	697,373	26,484	743,128

There were no material internally generated intangible assets at the end of each reporting period.

(2) Significant Intangible Assets

Intangible assets associated with products such as *Pantoprazole* acquired through the acquisition of Nycomed were recognized in the consolidated statement of financial position. The carrying amount was 671,309 million JPY, 512,212 million JPY and 381,310 million JPY as of April 1, 2014, March 31, 2015 and March 31, 2016, respectively. Also, intangible assets associated with products such as *Velcade* acquired through the acquisition of Millennium were recognized in the consolidated statement of financial position. The carrying amount was 169,101 million JPY, 141,833 million JPY and 84,885 million JPY as of April 1, 2014, March 31, 2015 and March 31, 2016, respectively.

The remaining amortization period is 6-11 years as of March 31, 2016 for the assets acquired through the acquisition of Nycomed and two years for the assets acquired through the acquisition of Millennium.

(3) Impairment Loss

The impairment losses that the Companies recognized for the year ended March 31, 2015 were 67,481 million JPY.

The amounts recognized in the consolidated statement of operations as "Amortization and impairment losses on intangible assets associated with products" were 53,181 million JPY due to a significant decline in expected profitability, and the recoverable amounts were 119,006 million JPY. Also, the amounts recognized as "Research and development expenses" were 14,300 million JPY due to a decision to discontinue development activities and significant decline in expected profitability, and the recoverable amounts were 1,103 million JPY. The losses were recognized in the Ethical Drugs segment. In addition, the Companies recognized the reversal of impairment losses as "Other operating income" due to the revaluation of product impaired in prior periods, and the amount was 4,028 million JPY.

The impairment losses that the Companies recognized for the year ended March 31, 2016 were 18,555 million JPY.

The amounts recognized in the consolidated statement of operations as "Amortization and impairment losses on intangible assets associated with products" were 14,944 million JPY due to a significant decline in expected profitability, and the recoverable amounts were 22,274 million JPY. Also, the amounts recognized as "Research and development expenses" were 3,611 million JPY due to a decision to discontinue development activities and significant decline in expected profitability, and the recoverable amounts were 0 million JPY. The losses were recognized in the Ethical Drugs segment. In addition, the Companies recognized the reversal of impairment losses as "Amortization and impairment losses on intangible assets associated with products" due to the revaluation of product impaired in prior periods, and the amount was 8,553 million JPY. The recoverable amount was 72,884 million JPY and the reversal of losses were recognized in the Ethical Drugs segment.

Impairment losses were calculated by deducting the recoverable amount from the carrying amount. The recoverable amount was measured based mainly on the value in use, and the discount rates used for the calculation (post-tax) were from 7.0% to 15.0% and from 7.7% to 14.5% for the years ended March 31, 2015 and 2016, respectively. A part of the recoverable amount was measured at the fair value less cost of disposal (the amount that was expected to be received by selling the assets). This fair value is classified as Level 3 in the fair value hierarchy. The definition of the fair value hierarchy is stated in Note 28, "Financial Instruments".

(4) Commitments

Undiscounted commitments for the acquisition of intangible assets were 221,001 million JPY and 301,822 million JPY as of March 31, 2015 and 2016, respectively. These commitments mainly include development milestone payments in relation to pipelines under development and expected maximum commercial milestone payments in relation to launched products. As for the pipelines under development, the possibility of launch is uncertain and the related commercial payments were not included in the commitments.

14 Investment Property

(1) Acquisition Cost

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Balance at the beginning of the fiscal year	70,507	67,360
Additions	3	5
Disposals	(2,851)	(524)
Transfers	33	953
Reclassification to assets held for sale	(344)	(23,024)
Others	13	(6)
Balance at the end of the fiscal year	67,360	44,765

(2) Accumulated Depreciation and Accumulated Impairment Loss

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Balance at the beginning of the fiscal year	(38,424)	(37,142)
Depreciation expenses	(927)	(939)
Disposals	2,054	478
Transfers	(10)	(362)
Reclassification to assets held for sale	166	22,641
Impairment loss	—	(2,816)
Others	—	1
Balance at the end of the fiscal year	(37,142)	(18,139)

(3) Carrying Amount and Fair Value

(Million JPY)

	Carrying amount	Fair value
As of April 1, 2014	32,083	53,508
As of March 31, 2015	30,218	41,027
As of March 31, 2016	26,626	40,043

The fair value of material investment properties is based on valuations by independent valuers who hold recognized and relevant professional qualifications in the respective location of investment properties. The valuations, which conform to the standards of the location, are based on market evidence of transaction prices for similar properties. The fair value of other immaterial investment properties is based on calculations conducted by the Companies mainly according to posted land prices or measurement standards used for tax purposes. The fair value of investment property is classified as Level 3 in the fair value hierarchy. The definition of the fair value hierarchy is stated in Note 28, "Financial Instruments".

(4) Impairment Loss

No impairment loss was recognized for the year ended March 31, 2015. The Companies recognized impairment losses of 2,816 million JPY in "Other operating expenses" in the consolidated statement of operations for the year ended March 31, 2016, due to a significant decline in expected profitability. Of the impairment losses, 2,051 million JPY was recognized in the Ethical drugs segment and 765 million JPY was recognized in the Other segment. A part of the recoverable amount was measured at the fair value less cost of disposal (the amount that was expected to be received by selling the assets) and the amount was 562 million JPY. This fair value is classified as Level 3 in the fair value hierarchy. The definition of the fair value hierarchy is stated in Note 28, "Financial Instruments".

15 Other Financial Assets

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Derivative assets	67,665	53,740
Available-for-sale financial assets	159,736	132,121
Time deposits	1,354	1,218
Others	73,843	71,070
Total	302,598	258,148
Non-current	241,323	149,548
Current	61,275	108,600

16 Inventories

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Finished products and merchandise	122,199	117,225
Work-in-process	68,281	62,863
Raw materials and supplies	71,874	73,922
Total	262,354	254,010

The amount of inventory write-offs recognized as expenses was 11,555 million JPY and 10,936 million JPY for the years ended March 31, 2015 and 2016, respectively.

17 Trade and Other Receivables

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Trade receivables	404,080	385,611
Other receivables	43,835	38,889
Allowance for doubtful receivables	(3,234)	(9,121)
Total	444,681	415,379

18 Cash and Cash Equivalents

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Cash and deposits	461,006	437,916
Short-term investments	191,141	13,510
Total	652,148	451,426

19 Assets and Disposal Groups Held for Sale

(1) Assets Held for Sale

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Land	237	202
Buildings and structures	597	646
Machinery and vehicles	—	787
Total	834	1,634

The assets held for sale as of March 31, 2015 were reclassified from land and buildings based on management's decision to sell certain assets in Germany and Japan related to the Ethical Drug segment. The decision to sell the assets in Germany was made in connection with the restructuring in Europe. The assets in Japan were unused real estate.

The assets held for sale as of March 31, 2016 were also reclassified from land, buildings and machinery based on management's decision to sell certain assets mainly in Mexico and Japan. The decision to sell the assets in Mexico was related to the Ethical Drugs segment. The assets in Japan were unused real estate related to the Ethical Drugs segment and Other segment.

The fair value of assets is based on valuations by independent valuers who hold recognized and relevant professional qualifications in the respective location of assets held for sale. The valuations, which conform to the standards of the location, are based on market evidence of transaction prices for similar assets. The fair value of assets held for sale is classified as Level 3 in the fair value hierarchy. The definition of the fair value hierarchy is stated in Note 28, "Financial Instruments".

(2) Disposal Groups Held for Sale

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Trade and other receivables	3,958	—
Property, plant and equipment	3,527	—
Goodwill	—	10,751
Intangible assets	—	52,477
Cash and cash equivalents	3,096	—
Inventories	1,218	173
Other financial assets	978	—
Others	631	—
Total assets	13,408	63,400
Loans	2,480	—
Trade and other payables	1,928	—
Deferred tax liabilities	—	14,767
Provisions	481	114
Others	957	238
Total liabilities	5,846	15,119

The disposal groups held for sale as of March 31, 2015 consisted of a group of assets and liabilities of Mizusawa Industrial Chemicals, Ltd. and its subsidiaries ("Mizusawa Group") which was related to the Other segment and reclassified as held for sale based on management's decision to sell all of the Company's shares in Mizusawa Industrial Chemicals, Ltd.

The assets and liabilities of the Mizusawa Group were measured at book value as the fair value less costs to sell exceeded the carrying amount.

The disposal groups held for sale as of March 31, 2016 consisted of a group of assets and liabilities related to the sale of the respiratory portfolio to AstraZeneca which was related to the Ethical Drugs segment and reclassified as held for sale.

20 Bonds and Loans

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)	Average interest rate (%) (Note 1)	Due
Bonds (excluding current portion of bonds) (Note 2)	419,416	179,760	0.6	March 2018 - July 2020
Current portion of bonds (Note 2)	69,965	228,464	1.3	—
Long-term loans (excluding current portion of long-term loans)	210,000	360,000	0.5	March 2018 - March 2026
Current portion of long-term loans	30,000	—	—	—
Total	729,380	768,224	—	—
Non-current	629,416	539,760	—	—
Current	99,965	228,464	—	—

(Note 1) "Average interest rate" represents the weighted average rate on the balance as of March 31, 2016, except for that of loans to which the Company applies hedge accounting through the use of interest rate swaps.

The interest rate fixed by the interest rate swaps are used for such loans.

(Note 2) A summary of the terms of bonds is as follows:

(Million JPY)

Company name	Name of bond	Date of issuance	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)	Interest rate (%)	Collateral	Date of maturity
Takeda Pharmaceutical Company Limited	11th Unsecured straight bonds	March 22, 2012	69,965	—	0.4	—	March 22, 2016
Takeda Pharmaceutical Company Limited	12th Unsecured straight bonds	March 22, 2012	59,943	59,972	0.4	—	March 22, 2017
Takeda Pharmaceutical Company Limited	13th Unsecured straight bonds	March 22, 2012	59,920	59,947	0.5	—	March 22, 2018
Takeda Pharmaceutical Company Limited (*)	U.S. dollar unsecured senior notes (Due in 2017)	July 17, 2012	179,788 [US\$1.5 billion]	168,492 [US\$1.5 billion]	1.6	—	March 17, 2017
Takeda Pharmaceutical Company Limited	14th Unsecured straight bonds	July 19, 2013	59,892	59,917	0.5	—	July 19, 2019
Takeda Pharmaceutical Company Limited	15th Unsecured straight bonds	July 19, 2013	59,873	59,897	0.7	—	July 17, 2020
Total	—	—	489,380	408,224	—	—	—

(*) The U.S. dollar unsecured senior notes were issued in overseas markets and are presented in [U.S. dollar amounts].

The amount for the redemption of and interest on these foreign currency notes was fixed in JPY based on currency swaps at the time of issuance.

21 Other Financial Liabilities

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Derivative liabilities	8,607	8,298
Finance lease obligations	19,446	53,984
Contingent consideration arising from business combinations	71,158	64,182
Others	13,000	12,825
Total	112,210	139,288
Non-current	70,105	102,120
Current	42,105	37,168

22 Leases

(1) Finance Lease Obligations

(Million JPY)

	Minimum lease payments		Present value of minimum lease payments	
	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Within one year	4,078	5,822	3,287	3,361
Between one and five years	15,081	20,022	13,240	11,680
More than five years	3,253	71,457	2,918	38,943
Total	22,412	97,301	19,446	53,984
Less: Future financial charges	2,966	43,317		
Present value of minimum lease payments	19,446	53,984		
Non-current	16,158	50,623		
Current	3,287	3,361		

The weighted average interest rates of the non-current and current finance lease obligations as of March 31, 2016 were 6.0% and 3.8%, respectively.

(2) Operating Lease Obligations

Lease payments recognized as expenses were 11,880 million JPY and 11,648 million JPY for the years ended March 31, 2015 and 2016, respectively.

The schedule of future minimum lease payments under non-cancellable operating leases as of each fiscal year end is as follows:

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Within one year	9,370	9,179
Between one and five years	20,996	20,025
More than five years	5,853	7,124
Total	36,219	36,327

23 Employee Benefits

(1) Defined Benefit Plans

The benefits under defined benefit plans are provided based on years of service, compensation at the time of retirement and other factors. Contributions to the defined benefit plans are based on a number of factors including the tax deductibility of contributions, funding status of plan assets, actuarial calculations and other considerations.

Some of the subsidiaries in Europe changed a portion of their existing defined benefit plans into defined contribution plans. By this transition, settlement gains and losses were recognized in the consolidated statement of operations for the year ended March 31, 2016.

The amounts recognized in the consolidated statement of operations and the consolidated statement of financial position are as follows:

Consolidated statement of operations

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Defined benefit costs	10,928	10,704

Consolidated statement of financial position

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Present value of defined benefit obligations	325,859	331,092
Fair value of plan assets	283,377	262,977
Net defined benefit liabilities (Note)	91,686	84,981
Net defined benefit assets (Note)	49,203	16,866
Net amount of liabilities and assets recognized in the consolidated statement of financial position	42,483	68,115

(Note) Net defined benefit assets were included in "Other non-current assets" on the consolidated statement of financial position, except for 177 million JPY included in "Assets held for sale" in Fiscal 2014. Net defined benefit liabilities included 114 million JPY in "Liabilities held for sale" in Fiscal 2015.

1) Defined benefit obligations

(i) Changes in present value

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Balance at the beginning of the fiscal year	309,312	325,859
Current service costs	9,497	9,753
Interest expenses	5,040	3,781
Remeasurements of defined benefit plans		
Actuarial gains and losses arising from changes in demographic assumptions	(1,064)	(2,519)
Actuarial gains and losses arising from changes in financial assumptions	23,369	15,083
Experience adjustments	1,695	7,667
Past service costs	94	(55)
Settlement	—	(6,296)
Benefits paid	(16,770)	(15,895)
Effect of business combinations and disposals	—	(3,193)
Foreign currency translation differences	(5,313)	(3,093)
Balance at the end of the fiscal year	325,859	331,092

The remaining weighted average duration of the defined benefit obligations were 14.4 years and 15.4 years as of March 31, 2015 and 2016, respectively.

(ii) Significant actuarial assumptions used to determine the present value

		Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Discount rate	Japan	1.0%	0.4%
	Overseas	1.7%	1.7%

(iii) Sensitivity analysis

A 0.5% change in significant actuarial assumptions would affect the present value of defined benefit obligations by the amounts shown below:

			(Million JPY)	
			Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Discount rate	Japan	Increase by 0.5%	(14,205)	(16,125)
		Decrease by 0.5%	16,026	18,264
	Overseas	Increase by 0.5%	(8,026)	(6,411)
		Decrease by 0.5%	8,905	8,486

In this analysis, the other variables are assumed to be fixed.

2) Plan assets

The pension funds are independent of the Companies and funded only by contributions from the Companies. The Companies' investment policies are designed to secure the necessary returns in the long-term within acceptable risk levels to ensure payments of pension benefits to eligible participants, including future participants. The acceptable risk level in the return rate on the plan assets is derived from a detailed study considering the mid- to long-term trends and the changes in income such as contributions and payments. Based on policies and studies, after consideration of issues such as the expected rate of return and risks, the Companies formulate a basic asset mix which aims at an optimal portfolio on a long-term basis with the selection of appropriate investment assets.

(i) Changes in fair value

			(Million JPY)	
			Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Balance at the beginning of the fiscal year			268,617	283,377
Interest income on plan assets			3,703	2,775
Remeasurements of defined benefit plans				
Return on plan assets, excluding amounts included in interest income on plan assets			18,501	(7,863)
Contributions by the employer			6,011	6,392
Settlement			—	(5,374)
Benefits paid			(13,607)	(12,534)
Effect of business combinations and disposals			—	(3,318)
Foreign currency translation differences			152	(478)
Balance at the end of the fiscal year			283,377	262,977

The employer expects to contribute 5,643 million JPY to the defined benefit plans for the year ending March 31, 2017.

(ii) Breakdown of fair value by asset class

					(Million JPY)	
		Fiscal 2014 (As of March 31, 2015)		Fiscal 2015 (As of March 31, 2016)		
		With quoted prices in active markets	No quoted prices in active markets	With quoted prices in active markets	No quoted prices in active markets	
Equities		37,915	61,265	31,262	53,317	
Bonds		27,931	54,999	20,594	59,213	
Others		12,617	88,651	12,226	86,365	
Total plan assets		78,462	204,915	64,082	198,894	

(2) Defined Contribution Plans

The amount of defined contribution costs was 18,288 million JPY and 19,608 million JPY for the years ended March 31, 2015 and 2016, respectively. The above amounts include contributions to publicly provided plans.

(3) Other Employee Benefits Expenses

Major employee benefits expenses other than retirement benefits for each fiscal year are as follows:

			(Million JPY)	
			Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Salary			233,798	241,335
Bonuses			64,519	76,713
Others			75,523	72,148

The above table does not include severance expenses. Severance expenses are included in "Other operating expenses" (Refer to Note 6, "Other Operating Income and Expenses").

24 Provisions

The breakdown and changes in "Provisions" for each fiscal year are as follows:

(Million JPY)

	Asset retirement obligations (Note 1)	Provision for SMON compensation (Note 2)	Provision for ACTOS compensation (Note 3)	Provision for restructuring (Note 4)	Provision for sales (Note 5)	Others	Total
As of April 1, 2015	4,962	1,606	324,056	12,521	79,146	43,370	465,662
Increases	324	—	—	9,296	258,542	20,147	288,309
Decreases (utilized)	(448)	(105)	(289,106)	(10,181)	(233,441)	(19,950)	(553,231)
Decreases (reversed)	(23)	—	—	(1,515)	(19,573)	(4,943)	(26,054)
Increases (decreases) by changes in scope of consolidation	—	—	—	—	—	(1,197)	(1,197)
Foreign currency translation differences	2	—	(15,684)	93	(6,023)	(2,116)	(23,727)
As of March 31, 2016	4,816	1,501	19,266	10,215	78,652	35,311	149,762

(Note 1) Asset retirement obligations are related to expenses for removing asbestos used in buildings and manufacturing plants in Japan under the "Ordinance on Prevention of Asbestos Hazards" and expenses for the disposal of PCB waste in certain equipment in Japan under the "Act on Special Measures Concerning Promotion of Proper Treatment of PCB Wastes". Most of these expenses are expected to be paid out after more than one year, but the timing will be affected by future business plans.

(Note 2) Provision for SMON compensation is stated at an amount calculated in accordance with the Memorandum Regarding Settlements and the settlements entered into with the Nationwide Liaison Council of SMON Patients' Associations, etc., in September 1979 in order to prepare for the future costs of health care and nursing care with regard to the subjects of the settlements applicable to the Company at the end of the fiscal year.

(Note 3) Provision for ACTOS compensation is stated at an amount estimated by the future settlement and other related losses regarding ACTOS product liability lawsuits in the U.S. in order to prepare for the future payments and losses.

(Note 4) Provision for restructuring is related to the reorganization officially announced in January 2012, including a consolidation of a number of sites and functions and the reduction of the workforce mainly in Europe and the U.S. Provision for restructuring is recognized when the Companies have a detailed formal plan for the restructuring and have raised a valid expectation in those affected people that the Companies will carry out the restructuring. The timing of payments will be affected by future business plans.

(Note 5) Provision for sales is related mainly to sales rebates and sales returns for products and merchandises and includes sales linked rebates such as government health programs in the U.S. These are expected to be paid out mainly within one year.

25 Other Liabilities

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Accrued expenses (Note 1)	206,443	200,151
Deferred income and revenue (Note 2)	64,624	66,283
Others	46,179	31,497
Total	317,247	297,930
Non-current	78,778	71,032
Current	238,469	226,899

(Note 1) Accrued expenses include liabilities related to employee benefits including accrued bonuses. The amount of the liabilities was 121,643 million JPY and 112,103 million JPY as of March 31, 2015 and 2016, respectively.

(Note 2) Deferred income and revenue includes government grants for the purchase of property, plant and equipment. The amount of the grants was 28,640 million JPY and 26,497 million JPY as of March 31, 2015 and 2016, respectively. The major item in government grants was for the Company's investment in the development and production of new influenza vaccines. The grant is recognized as income on a systematic basis over the same accounting period in which depreciation expense for the related facility is recognized.

26 Trade and Other Payables

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Trade payables	124,365	135,206
Other payables	46,417	55,884
Total	170,782	191,089

27 Equity and Other Equity Items

(1) The Number of Authorized Shares and Outstanding Shares

(Thousands of shares)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Authorized shares	3,500,000	3,500,000
Outstanding shares		
At the beginning of the fiscal year	789,681	789,924
Exercise of share options	243	361
At the end of the fiscal year	789,924	790,284

(Note) The shares issued by the Company are ordinary shares with no par value that have no restrictions on any rights.

The number of treasury shares included in the above "Outstanding shares" was 213 thousand shares, 4,032 thousand shares and 6,745 thousand shares as of April 1, 2014, March 31, 2015 and 2016, respectively.

The number of treasury shares as of March 31, 2016 includes 6,516 thousand shares held by the Employee Stock Ownership Plan ("ESOP") Trust and the Board Incentive Plan ("BIP") Trust.

The ESOP and BIP Trust acquired 3,698 thousand shares and sold 994 thousand shares during the year ended March 31, 2016.

(2) Dividends Paid

Resolution	Total dividends (Million JPY)	Dividends per share (JPY)	Basis date	Effective date
Fiscal 2014 (April 1, 2014 to March 31, 2015)				
Annual Shareholders Meeting (June 27, 2014)	71,060	90.00	March 31, 2014	June 30, 2014
Board of Directors (October 30, 2014)	71,064	90.00	September 30, 2014	December 1, 2014
Fiscal 2015 (April 1, 2015 to March 31, 2016)				
Annual Shareholders Meeting (June 26, 2015)	71,081	90.00	March 31, 2015	June 29, 2015
Board of Directors (October 30, 2015)	71,101	90.00	September 30, 2015	December 1, 2015

Dividends declared for which the effective date falls in the following fiscal year are set forth below:

Resolution	Total dividends (Million JPY)	Dividends per share (JPY)	Basis date	Effective date
Annual Shareholders Meeting (June 29, 2016)	71,112	90.00	March 31, 2016	June 30, 2016

(3) Put Options Written on Non-controlling Interests

The put options written on non-controlling interests by an overseas subsidiary are measured at present value and recognized as a financial liability, while the same amount is deducted from share premium. The amount was 11,312 million JPY as of April 1 2014. Since all the options were exercised, there were no options remaining as of March 31, 2015 and 2016, respectively.

The fair value of put options is based on valuations by independent valuers and classified as Level 3 in the fair value hierarchy. Changes in the fair value are recognized in share premium. The definition of the fair value hierarchy is stated in Note 28, "Financial Instruments".

28 Financial Instruments

(1) Capital Management

The fundamental principles of the Companies' capital risk management are to build and maintain a steady financial base for the purpose of maintaining soundness and efficiency of operations and achieving sustainable growth. According to these principles, the Companies conduct capital investment and profit distribution such as dividends and repayment of loans based on steady operating cash flows through the development and sale of competitive products.

(2) Financial Risk Management

1) Risk management policy

The Companies promote risk management to reduce the financial risks arising from business operations. The Companies strive to prevent the occurrence of the underlying causes of risk and to reduce the impact of risks that materialize. The Companies use derivative financial instruments only to hedge the risks described below based on the Companies' policy for which the extent of use of derivative financial instruments and standards for selecting correspondent financial institutions are determined.

2) Details of financial instruments and the related risks

(i) Financial assets

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Cash and cash equivalents	652,148	451,426
Financial assets at fair value through profit or loss (derivatives)	4,852	4,006
Derivative transactions to which hedge accounting is applied	62,814	49,733
Loans and receivables	519,877	487,733
Available-for-sale financial assets	159,736	132,121

(ii) Financial liabilities

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Financial liabilities at fair value through profit or loss (derivatives)	5,618	3,929
Financial liabilities at fair value through profit or loss (contingent considerations arising from business combinations)	71,158	64,182
Derivative transactions to which hedge accounting is applied	2,989	4,369
Other financial liabilities, including bonds and loans	932,183	1,026,122

Financial instruments held by the Companies are exposed to various risks such as customer credit risk, liquidity risk and market risks caused by changes in the market environment such as fluctuations in the price of foreign currency, interest rates and market prices.

(3) Credit Risk

1) Credit risk management

Trade and other receivables are exposed to customer credit risk. The Company monitors the status of overdue balances, reviews outstanding balances for each customer and regularly examines the credibility of major customers in accordance with the Company's policies for credit management to facilitate the early evaluation and the reduction of potential credit risks.

Cash reserves of the subsidiaries are concentrated mostly with the Company and regional treasury centers located in the United States and Europe through the group cash pooling system. These cash reserves are invested exclusively in highly rated short-term bank deposits and bonds of highly rated issuers, etc., within the investment limits determined by taking into consideration investment ratings and terms under the Companies' policies for fund management and, therefore, have limited credit risk. Cash reserves other than those subject to the group cash pooling system are managed by each consolidated subsidiary in accordance with the Company's management policies.

For derivatives, the Companies enter into trading contracts only with highly rated financial agencies in order to minimize counterparty risk. If necessary, the Companies obtain rights to collateral or guarantees on the receivables.

The maximum exposure to credit risk without taking into account of any collateral held at the end of the reporting period is represented by the carrying amount of the financial instrument which is exposed to credit risk on the consolidated statement of financial position.

2) Age of financial assets that are past due

(Million JPY)

	Total	Amount past due				
		Within 30 days	Over 30 days but within 60 days	Over 60 days but within 90 days	Over 90 days but within one year	Over one year
As of March 31, 2015	15,006	5,190	3,037	1,163	3,373	2,243
As of March 31, 2016	11,332	4,517	2,147	1,329	2,685	655

The amounts in the above table are net of allowances for doubtful receivables.

3) Allowance for doubtful receivables

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Balance at the beginning of the fiscal year	4,548	3,278
Increases	1,366	8,060
Decreases (utilized)	(411)	(1,192)
Decreases (reversed)	(1,927)	(733)
Foreign currency translation differences	(298)	(160)
Deconsolidation of Venezuelan entity	—	(88)
Balance at the end of the fiscal year	3,278	9,165

(4) Liquidity Risk

1) Liquidity risk management

The Corporate Finance Department at the corporate headquarters manages liquidity risk and establishes an adequate management framework for liquidity risk to secure stable short-, mid- and long-term funds and sufficient liquidity for operations. The Companies manage liquidity risk by continuously monitoring forecasted cash flows, actual cash flows and the balance of available-for-sale financial assets.

2) Financial liabilities by maturity

(Million JPY)

	Carrying amount	Contract amount	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	More than five years
As of March 31, 2015								
Bonds and loans								
Bonds	489,380	490,108	70,000	240,108	60,000	—	60,000	60,000
Loans	240,000	240,000	30,000	—	80,000	—	60,000	70,000
Derivative liabilities	8,607	8,596	6,571	697	677	402	209	40
As of March 31, 2016								
Bonds and loans								
Bonds	408,224	408,639	228,639	60,000	—	60,000	60,000	—
Loans	360,000	360,000	—	80,000	—	60,000	70,000	150,000
Derivative liabilities	8,298	8,285	4,725	1,701	986	671	201	—

For bonds denominated in a foreign currency, the Company uses currency swaps and applies hedge accounting. The contract amount of foreign currency bonds was 180,108 million JPY (1,500 million U.S. dollars) and 168,639 million JPY (1,500 million U.S. dollars) as of March 31, 2015 and 2016, respectively.

(5) Market Risk

Major market risks to which the Companies are exposed are 1) foreign currency risk, 2) interest rate risk and 3) price fluctuation risk. The Companies use derivatives, such as forward exchange contracts, for the purpose of hedging.

The Corporate Finance Department at the corporate headquarters enters into derivative hedging contracts according to the Company's policies which determine the authority for entering into such transactions and the transaction limits.

The Corporate Business Center, which is independent of the Corporate Finance Department, books derivative trades and directly confirms the transaction balances with counterparties. The European regional treasury center manages these transactions in accordance with the Company's management policies.

1) Foreign currency risk

(i) Foreign currency risk management

As a general rule, the Company and the European regional treasury center manage foreign currency risks. Accordingly, the subsidiaries do not bear the risks of fluctuations in exchange rates. Foreign currency risks are hedged by applying forward exchange contracts to the expected net positions of trade receivables and payables, etc., in each foreign currency on a monthly basis.

(ii) Forward exchange contracts, currency swaps and currency options

The Companies use forward exchange contracts, currency swaps and currency options for individually significant foreign currency transactions.

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)		
	Contract amount	Over one year	Fair value
Forward exchange contracts			
Selling			
USD	19,212	—	372
EUR	30,667	—	945
TWD	6,096	—	(325)
THB	2,007	—	(94)
INR	878	—	(18)
KRW	1,383	—	(107)
Buying			
USD	12,041	—	1,795
EUR	119,786	4,246	(4,260)
GBP	7,576	—	(177)
SGD	3,193	—	63
Currency swaps			
Buying			
USD	185,962	183,035	62,291
Currency options			
Buying (put option)			
EUR	32,520	—	1,040

The above swaps are related to bonds denominated in foreign currency to which the Company applies hedge accounting.

(Million JPY)

	Fiscal 2015 (As of March 31, 2016)		
	Contract amount	Over one year	Fair value
Forward exchange contracts			
Selling			
EUR	41,356	—	68
CNY	17,394	—	120
TWD	2,921	—	81
THB	2,140	—	34
KRW	566	—	37
Buying			
EUR	148,424	—	1,886
USD	23,087	—	(1,417)
GBP	7,848	—	(838)
SGD	2,409	—	(111)
Currency swaps			
Buying			
USD	171,379	—	49,733
Currency options			
Buying (put option)			
RUB	4,115	1,235	219

The above swaps are related to bonds denominated in foreign currency to which the Company applies hedge accounting.

(iii) Foreign exchange sensitivity analysis

The Companies are exposed mainly to foreign currency risks of the U.S. dollar and Euro. A depreciation of the yen by 5% against the U.S. dollar and Euro would impact profit or loss by 8,528 million JPY and 9,346 million JPY as of March 31, 2015 and 2016, respectively. These amounts do not include the effects of foreign currency translation on financial instruments in the functional currency or on assets, liabilities, revenue and expenses of foreign operations. The other variable factors are assumed to be fixed.

2) Interest rate risk

(i) Interest rate risk management

The Companies use interest rate swaps that fix the amount of interest payments from certain loans with floating interest rates to manage interest rate risks.

(ii) Interest rate swaps

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)		
	Notional amount	Over one year	Fair value
Interest rate swaps	200,000	170,000	(2,989)

The above swaps are related to loans to which hedge accounting is applied.

(Million JPY)

	Fiscal 2015 (As of March 31, 2016)		
	Notional amount	Over one year	Fair value
Interest rate swaps	170,000	170,000	(4,369)

The above swaps are related to loans to which hedge accounting is applied.

3) Price fluctuation risk

(i) Price fluctuation risk management

For equity instruments, the Companies manage the risk of price fluctuations in the instruments by regularly reviewing share prices and financial positions of the issuers. If the issuer is a company with a business relationship, the Companies continually assess the need for such investments by taking into consideration the business relationship with these companies.

For certain cash-settled share-based payments which are exposed to the movement in the Company's share price, the Company manages the exposure through the use of share forward contracts.

(ii) Share forward contracts

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)		
	Contract amount	Over one year	Fair value
Share forward (net settlement)	3,164	—	523

The above derivatives are related to cash-settled share-based payments to which hedge accounting is applied.

The "Contract amount" is computed by multiplying the number of shares by the forward contract unit price.

(Million JPY)

	Fiscal 2015 (As of March 31, 2016)		
	Contract amount	Over one year	Fair value
Share forward (net settlement)	—	—	—

(iii) Market price sensitivity analysis

The analysis shows that if the market price for the underlying equity instruments, the equity securities held by the Companies and investments in trusts which hold equity securities on behalf of the Companies had increased by 10%, the hypothetical impact on other comprehensive income (before tax effect) would have been 15,717 million JPY and 12,967 million JPY as of March 31, 2015 and 2016, respectively. Other variable factors are assumed to be fixed.

(6) Fair Value of Financial Instruments

1) Fair value measurements

(i) Financial assets and liabilities at fair value through profit or loss

The fair value of derivatives to which hedge accounting was not applied is measured at quotes obtained from financial institutions. The fair value measurement of contingent considerations arising from business combinations is stated in Note 33, "Business Combinations".

(ii) Loans and receivables

Loans and receivables are settled in a short period. Therefore, their carrying amounts approximate their fair values.

(iii) Available-for-sale financial assets

The fair value of available-for-sale financial assets is measured at quoted prices or quotes obtained from financial institutions.

(iv) Derivative transactions to which hedge accounting is applied

The fair value of derivatives to which hedge accounting is applied is measured in the same manner as "(i) Financial assets and liabilities at fair value through profit or loss".

(v) Other financial liabilities

The fair value of bonds is measured at quotes obtained from financial institutions, and the fair value of loans is measured as the present value of future cash flows discounted using the applicable effective interest rate on the loans, taking into consideration the credit risk by each group classified in a specified period.

Put options written on non-controlling interests are stated in Note 27, "Equity and Other Equity Items".

Other current items are settled in a short period, and the coupon rates of other non-current items reflect market interest rates.

Therefore, the carrying amounts of these liabilities approximate their fair values.

2) Fair value hierarchy

Level 1: Fair value measured at quoted prices in active markets

Level 2: Fair value that is calculated using an observable price other than that categorized in Level 1 directly or indirectly

Level 3: Fair value that is calculated based on valuation techniques which include input that is not based on observable market data

3) Fair value of financial instruments

The carrying amount and fair value of financial instruments at the reporting date are set forth in the table below.

Financial instruments measured at fair value and whose fair value approximates the carrying amount are excluded from the table below.

Available-for-sale financial assets for which it was difficult to reliably measure the fair value are excluded from the table. The carrying amounts of such assets were 2,562 million JPY and 2,291 million JPY as of March 31, 2015 and 2016, respectively.

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)		Fiscal 2015 (As of March 31, 2016)	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds (Note)	489,380	493,776	408,224	412,149
Long-term loans (Note)	240,000	240,656	360,000	360,563

(Note) The amounts to be paid within a year are included.

The fair value of bonds and long-term loans are classified as Level 2 in the fair value hierarchy.

4) Fair value measurement recognized in the consolidated statement of financial position

(Million JPY)

As of March 31, 2015	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at fair value through profit or loss (derivatives)	—	4,852	—	4,852
Derivative transactions to which hedge accounting is applied	—	62,814	—	62,814
Available-for-sale financial assets	157,168	6	—	157,174
Total	157,168	67,672	—	224,840
Liabilities:				
Financial liabilities at fair value through profit or loss (derivatives)	—	5,618	—	5,618
Derivative transactions to which hedge accounting is applied	—	2,989	—	2,989
Total	—	8,607	—	8,607

(Million JPY)

As of March 31, 2016	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets at fair value through profit or loss (derivatives)	—	4,006	—	4,006
Derivative transactions to which hedge accounting is applied	—	49,733	—	49,733
Available-for-sale financial assets	129,665	164	—	129,829
Total	129,665	53,904	—	183,569
Liabilities:				
Financial liabilities at fair value through profit or loss (derivatives)	—	3,929	—	3,929
Derivative transactions to which hedge accounting is applied	—	4,369	—	4,369
Total	—	8,298	—	8,298

(Note) There were no transfers among Level 1, Level 2 and Level 3 during each reporting period.

Contingent considerations arising from business combinations are not included in the above table and are stated in Note 33, "Business Combinations".

29 Share-based Payments

The Companies adopt share-based payment programs to improve medium- to long-term business results and thereby enhance corporate value.

(1) Equity-settled Share-based Payments (Share Option Plans)

The share based awards do not have vesting conditions for them to be exercised.

Share options granted to a person who retires due to the expiration of his or her term of office, mandatory retirement or for other justifiable reasons are exercisable immediately following the date of retirement even if it is earlier than the vesting date.

As for directors, the holder of the options must be a director of the Company in order to exercise the options. However, this shall not apply in cases in which the holder retires due to the expiration of their term of office or for other justifiable reasons.

As for corporate officers and senior management, the holder of the options must be a director or an employee holding another similar position within the Companies in order to exercise the options. This shall not apply in cases in which the holder retires due to the expiration of their term of office, mandatory retirement or for other justifiable reasons.

The expenses for share options recognized in the consolidated statement of operations for the years ended March 31, 2015 and 2016 were 631 million JPY and 333 million JPY, respectively.

From the year ended March 31, 2015, no more share options are to be granted.

1) Share options to which IFRS 2 is applied

(i) Share options outstanding as of the grant dates are as follows:

	Number of persons	Number of options (shares)	Date of grant	Expiry date
(1) FY 2009	5 Directors	66,900	July 10, 2009	July 10, 2019
(2) FY 2010	5 Directors	64,600	July 10, 2010	July 10, 2020
(3) 1st series for FY2011	4 Directors	59,200	July 15, 2011	July 15, 2021
(4) 2nd series for FY2011	113 Corporate officers and senior management	1,564,400	July 15, 2011	July 15, 2031
(5) 1st series for FY2012	4 Directors	62,600	July 17, 2012	July 17, 2022
(6) 2nd series for FY2012	118 Corporate officers and senior management	1,973,800	August 27, 2012	July 17, 2032
(7) 1st series for FY2013	4 Directors	45,900	July 19, 2013	July 19, 2023
(8) 2nd series for FY2013	134 Corporate officers and senior management	1,133,100	January 10, 2014	July 19, 2033

(ii) Changes in the number of share options and each weighted average exercise price are as follows:

	Fiscal 2014 (April 1, 2014 to March 31, 2015)				Fiscal 2015 (April 1, 2015 to March 31, 2016)			
	Directors		Corporate officers and senior management		Directors		Corporate officers and senior management	
	Number of options (shares)	Weighted average exercise price (JPY)	Number of options (shares)	Weighted average exercise price (JPY)	Number of options (shares)	Weighted average exercise price (JPY)	Number of options (shares)	Weighted average exercise price (JPY)
Balance at the beginning of the fiscal year	213,500	1	4,638,400	4,025	179,000	1	4,429,900	4,040
Granted	—	—	—	—	—	—	—	—
Forfeited/expired before vesting	—	—	—	—	—	—	—	—
Exercised	(34,500)	1	(208,500)	3,707	(29,300)	1	(324,200)	3,716
Forfeited/expired after vesting	—	—	—	—	—	—	—	—
Balance at the end of the fiscal year	179,000	1	4,429,900	4,040	149,700	1	4,105,700	4,066
Exercisable balance at the end of the fiscal year	70,500	1	1,359,200	3,705	103,800	1	2,972,600	3,717

(iii) Share options exercised during the period

Fiscal 2014 (April 1, 2014 to March 31, 2015)	Exercised number of options (shares)	Average share price at the date of exercise (JPY)
FY2010	34,500	4,696
2nd series for FY2011	190,400	5,422
2nd series for FY2012	18,100	6,450
Total	243,000	

Fiscal 2015 (April 1, 2015 to March 31, 2016)	Exercised number of options (shares)	Average share price at the date of exercise (JPY)
FY2009	7,300	5,374
1st series for FY2011	22,000	5,844
2nd series for FY2011	150,900	6,035
2nd series for FY2012	173,300	5,825
Total	353,500	

The weighted average exercise price and weighted average remaining contractual life of the share options outstanding at the end of the fiscal year were 3,883 JPY and 17 years, and 3,923 JPY and 16 years as of March 31, 2015 and 2016, respectively.

2) Share options to which IFRS 2 is not applied

(Granted after November 7, 2002 but vested before the first-time adoption of IFRS (April 1, 2012)).

(i) Share options outstanding as of the grant dates are as follows:

	Number of persons	Number of options (shares)	Date of grant	Expiry date
(1) FY2008	7 Directors	62,400	July 11, 2008	July 11, 2018

(ii) Changes in the number of share options and each weighted average exercise price are as follows:

	Fiscal 2014 (April 1, 2014 to March 31, 2015)		Fiscal 2015 (April 1, 2015 to March 31, 2016)	
	Number of options (shares)	Weighted average exercise price (JPY)	Number of options (shares)	Weighted average exercise price (JPY)
Balance at the beginning of the fiscal year	9,600	1	9,600	1
Granted	—	—	—	—
Forfeited/expired before vesting	—	—	—	—
Exercised	—	—	(7,000)	1
Forfeited/expired after vesting	—	—	—	—
Balance at the end of the fiscal year	9,600	1	2,600	1
Exercisable balance at the end of the fiscal year	9,600	1	2,600	1

(iii) Share options exercised during the period

Fiscal 2015 (April 1, 2015 to March 31, 2016)	Exercised number of options (shares)	Average share price at the date of exercise (JPY)
FY2008	7,000	6,040
Total	7,000	

The weighted average exercise price and weighted average remaining contractual life of the share options outstanding at the end of the period were one JPY and three years, and one JPY and two years as of March 31, 2015 and 2016, respectively.

(2) Equity-settled Share-based Payments (Stock Grant Plans)

The Company has adopted stock grant plans for the directors of the Company and the Companies' senior management. The expenses for the stock grant plans recognized in the consolidated statement of operations were 7,240 million JPY and 12,845 million JPY for the year ended March 31, 2015 and 2016, respectively.

As for the directors, the Company has adopted the Board Incentive Plan (BIP). The BIP is an incentive plan for directors which is structured with reference to Performance Share Plans and Restricted Share Plans in the U.S., wherein the Company's shares that are acquired by the BIP Trust are granted to directors based on their achievement of certain performance indicators among other criteria (beneficiaries may receive cash by converting the Company's shares under the BIP Trust into cash according to the provisions of the trust agreement).

As for the Companies' senior management, the Company has adopted the Employee Stock Ownership Plan (ESOP). The ESOP is an incentive plan for employees which is structured with reference to ESOP programs in the U.S., wherein the Company's shares acquired by the ESOP Trust are granted to employees based on positions and achievement of certain performance indicators among other criteria (beneficiaries may receive cash by converting the Company's shares under the ESOP Trust into cash according to the provisions of the trust agreement).

Vesting conditions are basically subject to continued service from grant date to vesting date.

As for the directors and certain members of the Companies' senior management, the rights of a half of granted points (1 point = 1 share) vest by a third every year over a period of three years from the date of grant. The other 50% of the rights vest after three years from the date of grant. As for the Companies' senior management other than the above, the rights vest by a third every year over a period of three years.

The fair value of the points for BIP which were granted in Fiscal 2014 was 4,600 JPY (vesting period: June, 2015), 4,420 JPY (vesting period: June, 2016), 4,240 JPY (vesting period: June, 2017). The fair value of the points for ESOP which were granted in Fiscal 2014 was 4,542 JPY (vesting period: June, 2015), 4,362 JPY (vesting period: June, 2016), 4,183 JPY (vesting period: June, 2017). The weighted average fair value of the BIP and ESOP Trust was 4,353 JPY and 4,361 JPY, respectively.

The fair value of the points which were granted in Fiscal 2014 were measured based on the fair value calculation using Monte Carlo simulations.

The assumptions used in the Monte Carlo simulations are as follows:

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	
	ESOP	BIP
Weighted average share price (JPY)	4,722	4,780
Expected volatility (%) (Note)	17.31	17.65
Contractual life (year)	1.0-3.0	0.9-2.9
Expected dividend rate (%)	3.81	3.77
Risk-free interest rate (%)	0.09	0.09

(Note) Expected volatility is calculated by considering historical volatility of the Company's share price over a period commensurate with the contractual life.

The fair value and weighted average fair value of points for ESOP and BIP which were granted in Fiscal 2015 was 5,870 JPY. The grant date fair value was calculated using the Company's share price on the grant date as they were approximately the same.

	Fiscal 2014 (April 1, 2014 to March 31, 2015)		Fiscal 2015 (April 1, 2015 to March 31, 2016)	
	ESOP (Number of point)	BIP (Number of point)	ESOP (Number of point)	BIP (Number of point)
Balance at the beginning of the fiscal year	—	—	3,003,020	235,019
Granted	3,157,758	235,019	3,312,561	144,688
Forfeited/expired before vesting	(154,738)	—	(484,417)	(49,489)
Exercised	—	—	(1,021,722)	(49,064)
Balance at the end of the fiscal year	3,003,020	235,019	4,809,422	281,154
Exercisable balance at the end of the fiscal year	—	—	—	—

The weighted average remaining contractual life of the granted points outstanding for the BIP and ESOP trust was two years and one year as of March 31, 2015, and one year and one year as of March 31, 2016.

(3) Cash-settled Share-based Payments

Some overseas subsidiaries have adopted two types of cash-settled share-based payment plans to specified employees based mainly on the Company's share price. The expenses for the cash-settled share-based payments recognized in the consolidated statement of operations were 12,479 million JPY and 1,536 million JPY for the years ended March 31, 2015 and 2016, respectively. The carrying amount of the cash-settled share-based payments liabilities recognized in the consolidated statement of financial position was 27,037 million JPY and 11,041 million JPY as of March 31, 2015 and 2016, respectively.

1) Phantom stock appreciation rights (PSARs)

PSARs are settled by cash at the difference between the share price at the grant date and the date of exercise. The rights vest by a third every year over a period of three years from the end of the fiscal year in which the rights were granted. The exercise period is 10 years from the end of the fiscal year in which the rights were granted.

	Fiscal 2014 (April 1, 2014 to March 31, 2015)		Fiscal 2015 (April 1, 2015 to March 31, 2016)	
	Number of rights	Weighted average exercise price (JPY)	Number of rights	Weighted average exercise price (JPY)
Balance at the beginning of the fiscal year	14,881,602	4,600	12,344,335	5,373
Granted	—	—	—	—
Forfeited/expired before vesting	(258,198)	4,938	(103,329)	5,402
Exercised	(2,091,445)	4,834	(1,974,786)	5,385
Forfeited/expired after vesting	(187,624)	5,037	(9,065)	5,964
Balance at the end of the fiscal year	12,344,335	5,373	10,257,155	5,063
Exercisable balance at the end of the fiscal year	11,441,092	5,401	10,218,385	5,064

2) Restricted stock units (RSUs)

RSUs are settled by cash at the share price on the vesting date along with dividend payments during the period from the grant date to the vesting date. The rights vest by a third every year over a period of three years from the end of the fiscal year in which the rights were granted. RSUs do not have exercise prices because the pay-out amounts are the share prices on the vesting date multiplied by the number of rights vested.

	Fiscal 2014 (April 1, 2014 to March 31, 2015)		Fiscal 2015 (April 1, 2015 to March 31, 2016)	
	Number of rights	Weighted average exercise price (JPY)	Number of rights	Weighted average exercise price (JPY)
Balance at the beginning of the fiscal year	4,652,660	—	2,484,391	—
Granted	421,016	—	378,123	—
Forfeited/expired before vesting	(351,874)	—	(145,667)	—
Exercised	(2,237,411)	—	(1,496,613)	—
Balance at the end of the fiscal year	2,484,391	—	1,220,234	—
Exercisable balance at the end of the fiscal year	1,384,028	—	658,212	—

(Note) The Company has applied hedge accounting to a portion of the RSUs payments through the use of share forward contracts as the hedging instrument.

The total intrinsic value of vested cash-settled share-based payments was 20,884 million JPY and 4,644 million JPY as of March 31, 2015 and 2016, respectively.

30 Cash Flow Information

(1) Payments for acquisition of subsidiaries

1) Fiscal 2014 (April 1, 2014 to March 31, 2015)

There were no acquisitions of subsidiaries during the year ended March 31, 2015.

2) Fiscal 2015 (April 1, 2015 to March 31, 2016)

The increase in major items of identifiable assets acquired and liabilities assumed due to the acquisition of subsidiaries' shares such as those of NEUTEC TOPLAM KALITE YONETIMI SANAYI TICARET ANONIM SIRKETI of Turkey, and the related consideration and payments for the acquisition are as follows:

	(Million JPY)
	Amount
Non-current assets	14,741
Current assets (except for cash and cash equivalents)	646
Non-current liabilities	(1,341)
Current liabilities	(4,284)
Total consideration	14,042
Contingent consideration included in total consideration	1,493
Cash and cash equivalents included in assets acquired	4,280
Payments for acquisition of subsidiaries	8,269

(2) Cash and cash equivalents

The reconciliation between cash and cash equivalents in the consolidated statement of cash flows and in the consolidated statement of financial position is as follows:

	(Million JPY)	
	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Cash and cash equivalents in the consolidated statement of financial position	652,148	451,426
Cash and cash equivalents included in assets held for sale	3,096	—
Cash and cash equivalents on consolidated statement of cash flows	655,243	451,426

31 Subsidiaries and Associates

The breakdown of the Company's major subsidiaries and associates as of March 31, 2016 is as follows:

(Consolidated Subsidiaries (including Partnership))

Operating segment	Company name	Country	Voting share capital held (%)
Ethical Drugs	Takeda Pharmaceuticals International, Inc.	U.S.A.	100.0
	Takeda Pharmaceuticals U.S.A., Inc.	U.S.A.	100.0
	Millennium Pharmaceuticals, Inc.	U.S.A.	100.0
	Takeda California, Inc.	U.S.A.	100.0
	Takeda Vaccines, Inc.	U.S.A.	100.0
	Takeda Development Center Americas, Inc.	U.S.A.	100.0
	Takeda Ventures, Inc.	U.S.A.	100.0
	Takeda Europe Holdings B.V.	Netherlands	100.0
	Takeda A/S	Denmark	100.0
	Takeda Pharmaceuticals International AG	Switzerland	100.0
	Takeda Pharmaceuticals Europe Limited	United Kingdom	100.0
	Takeda GmbH	Germany	100.0
	Takeda Pharma Vertrieb GmbH & Co. KG	Germany	100.0
	Takeda Italia S.p.A.	Italy	100.0
	Takeda Austria GmbH	Austria	100.0
	Takeda Pharma Ges.m.b.H	Austria	100.0
	Takeda France S.A.S.	France	100.0
	Takeda Pharma A/S	Denmark	100.0
	Takeda AS	Norway	100.0
	Takeda Belgium SCA/CVA	Belgium	100.0
	Takeda Christiaens SCA/CVA	Belgium	100.0
	Takeda UK Limited	United Kingdom	100.0
	Takeda Oy	Finland	100.0
	Takeda Pharma AG	Switzerland	100.0
	Takeda Farmaceutica Espana S.A.	Spain	100.0
	Takeda Netherland B.V.	Netherlands	100.0
	Takeda Pharma AB	Sweden	100.0
	Takeda Pharma Sp. z o.o.	Poland	100.0
	Takeda Hellas S.A.	Greece	100.0
	Takeda Ireland Limited	Ireland	100.0
Takeda Cambridge Limited	United Kingdom	100.0	
Takeda Development Centre Europe Ltd.	United Kingdom	100.0	

	Takeda Canada Inc.	Canada	100.0
	Takeda Pharmaceuticals Limited Liability Company	Russia	100.0
	Takeda Ukraine LLC	Ukraine	100.0
	Takeda Kazakhstan LLP	Kazakhstan	100.0
	Takeda Distribuidora Ltda.	Brazil	100.0
	Multilab Indústria e Comércio de Produtos Farmacêuticos Ltda.	Brazil	100.0
	Takeda Pharma Ltda.	Brazil	100.0
	Takeda Mexico, S.A. de C.V.	Mexico	100.0
	Takeda Pharma, S.A.	Argentina	100.0
	Takeda (China) Holdings Co., Ltd.	China	100.0
	Takeda Pharmaceuticals (Asia Pacific) Pte. Ltd.	Singapore	100.0
	Guangdong Techpool Bio-Pharma Co., Ltd.	China	51.3
	Takeda Pharmaceutical (China) Company Limited	China	100.0
	Tianjin Takeda Pharmaceuticals Co., Ltd.	China	100.0
	Takeda Pharmaceuticals Korea Co., Ltd.	Korea	100.0
	Takeda (Thailand), Ltd.	Thailand	52.0
	Takeda Pharmaceuticals Taiwan, Ltd.	Taiwan	100.0
	P.T. Takeda Indonesia	Indonesia	70.0
	Takeda Healthcare Philippines Inc.	Philippines	100.0
	Takeda Development Center Asia, Pte. Ltd.	Singapore	100.0
	Takeda Vaccines Pte. Ltd.	Singapore	100.0
	Takeda (Pty.) Ltd.	South Africa	100.0
	Takeda Pharmaceuticals Australia Pty. Ltd.	Australia	100.0
	Nihon Pharmaceutical Co., Ltd.	Japan	87.5
Consumer Healthcare	Takeda Healthcare Products Co., Ltd.	Japan	100.0
Others	Wako Pure Chemical Industries, Ltd.	Japan	71.8
Other	77 subsidiaries		

(Associates accounted for using the equity method)

Operating segment	Company name	Country	Voting share capital held (%)
Consumer Healthcare	Amato Pharmaceutical Products, Ltd.	Japan	30.0
Other	14 affiliates		

(Note) In the year ended March 31, 2016, the Company deconsolidated its subsidiary, Takeda S.R.L, an entity which has operations in Venezuela.

The Venezuelan exchange control regulations have resulted in an other-than-temporary lack of exchangeability between the Venezuelan Bolivar and US dollar. This has restricted the Venezuelan entity's ability to pay dividends and obligations denominated in US dollar. Due to the Company's inability to effectively control the operations of the entity, the Company deconsolidated the subsidiary. As a result, 6,323 million JPY of Allowance for doubtful accounts was booked in Selling, general and administrative expenses and 3,494 million JPY of Gain on deconsolidation was booked in Other operating income in the consolidated statement of operations for the year ended March 31, 2016.

32 Related Party Transactions

The compensation for directors and audit & supervisory board members for the years ended March 31, 2015 and 2016 is as follows:

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Basic compensation and bonuses	1,436	1,456
Share-based payments	1,081	896
Retirement benefits	807	31
Total	3,324	2,383

33 Business Combinations

Contingent consideration

The fair value of contingent consideration arising from business combinations is mainly the estimated royalty payment based on future performance of the Colcrys business with consideration for the time value.

The royalty based on future performance of the Colcrys business has no upper limit on the payment and the estimated payment is calculated based on future performance.

The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy and changes in the fair value based on the time value are recognized in "Finance expenses", and the other changes are recognized in "Other operating income" or "Other operating expenses" in the consolidated statement of operations. The definition of the fair value hierarchy is stated in Note 28, "Financial Instruments".

(1) Changes in the Fair Value of Contingent Considerations

(Million JPY)

	Fiscal 2014 (April 1, 2014 to March 31, 2015)	Fiscal 2015 (April 1, 2015 to March 31, 2016)
Balance at the beginning of the fiscal year	93,377	71,158
Additions arising from business combinations		
URL Pharma. Inc.	—	—
Others	—	1,493
Changes in the fair value during the period		
URL Pharma. Inc.	(37,992)	2,663
Others	2,881	(892)
Settled during the period		
URL Pharma. Inc.	—	(1,279)
Others	(2,469)	(1,308)
Reclassification to other payables	—	(2,990)
Foreign currency translation differences	15,869	(4,286)
Others	(509)	(378)
Balance at the end of the fiscal year	71,158	64,182

(2) Payment Schedule

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Within one year	24,182	20,853
Between one and three years	24,711	33,055
Between three and five years	19,337	19,535
More than five years	55,431	6,344

(3) Sensitivity Analysis

The effect on the fair value of contingent consideration from changes in major assumptions is as follows:

(Million JPY)

	Fiscal 2014 (As of March 31, 2015)	Fiscal 2015 (As of March 31, 2016)
Revenue derived from the Colcrys business	Increase by 5%	2,431
	Decrease by 5%	(2,431)
Discount rate	Increase by 0.5%	(1,024)
	Decrease by 0.5%	1,058

34 Contingent Liabilities

Guarantees

The amount of contingent liabilities was 550 million JPY and 457 million JPY as of March 31, 2015 and 2016, respectively. These are all related to transactions with financial institutions and are not recognized as financial liabilities in the consolidated statement of financial position because the possibility of loss from contingent liabilities was remote.

35 Subsequent Events

(1) Significant company split and establishment of business venture

On April 1, 2016, the Company split off its off-patented and data exclusivity expired products business ("long listed products business") via an absorption-type split and the business was transferred to Taisho Pharm. Ind., Ltd. ("Taisho"), a Japanese wholly owned subsidiary of Teva Pharmaceutical Industries Ltd. headquartered in Israel ("Teva"). According to this business transfer, Taisho became a business venture of the Company and Teva and the company name of Taisho changed to Teva Takeda Yakuhin Ltd. ("Teva Takeda Yakuhin")

This is a triangular absorption-type company split among Teva Pharma Japan Inc. ("Teva Pharma"), a Japanese wholly owned subsidiary of Teva, and Teva Takeda Yakuhin, as well as the Company. In this absorption-type company split, the Company is the splitting company and Teva Takeda Yakuhin is the succeeding company. The Company's long listed products business was transferred to Teva Takeda Yakuhin, and Teva Takeda Yakuhin allocated shares of Teva Pharma, which is its parent company, to the Company as consideration for the company split. Teva Takeda Yakuhin, which succeeded the Company's long listed products business and also continues its generics business, and Teva Pharma, which continues its generics business, will jointly engage in the new business.

Teva holds 51% of Teva Pharma's shares through Teva Holdings KK, which is also the Japanese subsidiary of Teva, and the Company holds 49% of Teva Pharma's shares. Teva Pharma will change its name to Teva Takeda Pharma Ltd. after October, 2016.

1) Purpose of company split and the establishment of business venture

The Company's leading brand reputation and strong distribution presence in Japan combined with Teva's global expertise in supply chain, operational networks, commercial deployment, and R&D and scientific insight, brings forward a new, collaborative business model in line with government objectives that will ultimately serve millions of patients.

2) Outline of company split

(i) Name of succeeding company	Teva Takeda Yakuhin Ltd.
(ii) Content of business to be split off	Off-patented and data exclusivity expired products of ethical drugs business
(iii) Business result	Revenue recognized in the consolidated statement of operations for the year ended March 31, 2016: 81,679 million JPY
(iv) Book value of assets and liabilities to be split off	Assets: 3,759 million JPY Liabilities: Not applicable
(v) Effective date of the company split	April 1, 2016
(vi) Transfer price	205,517 million JPY

3) Outline of business venture

(i) Company name	Teva Takeda Yakuhin Ltd.
(ii) Location	Koka-City, Shiga Prefecture
(iii) Representative	Representative Director: Ichiro Kikushige
(iv) Scope of business	Development, manufacturing, sales and marketing of pharmaceutical products
(v) Capital	3,170 million JPY
(vi) Date of establishment	April 1, 2016
(vii) Number of shares issued	12 shares
(viii) Major shareholders and ratio of shares held	Teva Pharma Japan Inc. 100% Name to be changed to Teva Takeda Pharma Ltd. in or after October, 2016

4) Outline of accounting treatment

The Company records the effect from the company split in accordance with IAS28, "Investments in Associates and Joint Ventures". The Company will recognize 102,896 million JPY in Other operating income on the consolidated statement of operations for the year ending March 31, 2017. The amount of "Investments accounted for using the equity method", including goodwill, would be recorded at 106,656 million JPY in the consolidated statement of financial position. However, the accounting is currently incomplete and the amounts might be adjusted later.

(2) Borrowing of large amounts of funds

1) Use of funds	Operating capital
2) Name of lender bank	A syndicated loan jointly financed by several lenders and arranged by Sumitomo Mitsui Banking Corporation and the Bank of Tokyo-Mitsubishi UFJ, Ltd.
3) Total amounts of loan	200,000 million JPY
4) Loan interest	Basic interest rate + spread (fixed rate)
5) Date of borrowing	April 26, 2016
6) Date of maturity	April 26, 2023 and April 27, 2026
7) Pledged asset and guarantee	Not applicable