Company Registration No. 06133312

Eisai Manufacturing Limited

Report and Financial Statements

For the year ended 31 March 2019

Eisai Manufacturing Limited

Report and financial statements for the year ended 31 March 2019

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Eisai Manufacturing Limited

Report and financial statements for the year ended 31 March 2019

Officers and professional advisers

Directors

N Burgin
A Felthouse
Y Kato
S Ujiie
T Yasuno

Secretary

S Thomas

Registered Office

European Knowledge Centre
Mosquito Way
Hatfield
Herts
AL10 9SN
England

Eisai Manufacturing Limited is a private company limited by shares.

Bankers

Bank of Tokyo-Mitsubishi Ltd
Deutsche Bank

Solicitor

CMS Cameron McKenna LLP
Mitre House
160 Aldersgate
London
EC1A 4DD

Auditor

Deloitte LLP
Statutory Auditor
1 New Street Square
London
EC4A 3HQ
England

Eisai Manufacturing Limited

Strategic report

The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

Principal activities

Eisai Manufacturing Limited operates as a conventional (EMEA incl. Russia as well as Australia) and a toll manufacturing and packaging (Asia, Americas) facility for Eisai. The company is the primary supplier for several products for Europe, the Middle East, Africa, Russia, Asia, Australia and The Americas. The company also provides technical expertise in the introduction of new products, supply management and quality assurance of products produced by third party organisations, health and safety advice within the wider Eisai Demand Chain Systems organisation, product management of Lenvima and is leading the implementation of Serialisation technologies within the global manufacturing organisation, Eisai Demand Chain Systems.

Results and business review

The profit for the year is £25,913,935 (2018: profit £8,450,609). The current year result is a combination of the supply of finished packs of pharmaceutical products and toll manufacturing operations and the first full financial year of the Strategic Alliance with Merck & Co Inc. It includes income generated from clinical trial sales of £1,912,578 (2018: £803,504) and £4,183,056 of revenue from the divestment of two of the products Eisai Manufacturing Limited subcontracted for packaging which were sold by Eisai Co Ltd on 31 March 2019.

The net assets of the company as at 31 March 2019 are £100,003,140 (2018: £74,089,205).

Key performance indicators

Eisai Manufacturing Limited uses internally set budgets to monitor its performance in the areas of sales, cost of sales and overheads. In addition to this the company has KPIs for:

- Safety – ensuring a safe working environment is maintained through reporting of near miss events,
- Quality – reducing the number of deviations and therefore increasing Right First Time batches, and
- On Time Supply In Full – supplying all markets with the required stock in accordance with demand.

Business review

The overall number of packaged product stock keeping units (SKUs) supplied from Eisai Manufacturing Limited was 400 in 2018; these were sent to seventy countries.

Clinical trial manufacturing was performed on behalf of Eisai Manufacturing Limited's parent company, Eisai Co Ltd, for HAND (Lemborexant), a developmental product for insomnia and sleep fragmentation.

Eisai Co Ltd entered into a Global Strategic Oncology Collaboration for Lenvima with Merck & Co Inc, effective 7 March 2018. The IP Licence for Lenvima was assigned to Eisai Manufacturing Limited. Research and development expenses incurred by Eisai globally were recharged to Eisai Manufacturing Limited from this date. Co-promotion expenses were booked and shared with Merck.

The divestment of the two products Eisai Manufacturing Limited previously subcontracted for packaging which were sold by Eisai Co Ltd on 31 March 2019 was completed.

To maintain continuity of supply, the scale at which active pharmaceutical ingredient (API) is produced at one of our contract manufacturing organisations (CMOs) has been increased and the necessary testing and evaluations completed. This API source is now in use. Similarly, the API source for Zonegran has been changed and the testing of this new source has been completed.

In 2018 Eisai Manufacturing Limited underwent a number of routine regulatory and 3rd party audits, this included: EHS Corporate Audit and six GMP audits. All were successful with no critical observations.

All of the Eisai Manufacturing Limited packaging lines have now been upgraded to enable serialisation for the EU and where necessary other markets such as US and China. Additionally, an enterprise (electronic) system has been introduced that manages master data between Eisai factories, CMOs and Government systems. The deadlines for serialisation regulations in the US and EU have all been met and Eisai Manufacturing Limited now serialises all products as necessary.

Eisai Manufacturing Limited packaged BEAM (development product for dementia) for formal stability studies.

Eisai Manufacturing Limited

Strategic report

Business review (continued)

Lenvima in China was launched from Eisai Manufacturing Limited; this included a commercial pack and a patient access pack. The volumes for this have increased significantly since launch.

Eisai Manufacturing Limited restructured a number of operations in preparation for a Hard Brexit. This included establishing a licenced importation hub in Antwerp and a licenced testing facility in Holland. These operations are undertaken by third parties; however the licencing aspects feature on the centralised product licences. Additionally, Eisai GmbH was appointed as the MAH and MIA for centrally licenced products. This work included the appointment of a Qualified Person (QP) in Germany, updating Eisai GmbH's Quality Management System (QMS) and changing the text on all cartons and patient information leaflets.

In preparation for Brexit, Eisai Manufacturing Limited increased inventory levels in the EU wherever possible to six months. This was achieved for the majority of products except Zonegran, which was previously declining in sales following loss of exclusivity (LOE) but has since increased and recovered the original demand levels. Consequently, six months forward cover was not achieved.

Fycompa Oral Suspension was packed for launch in the final quarter of the year.

Future prospects

<u>Strategic / Mid Term Plan Development</u>

Eisai Manufacturing Limited will continue to be the company's 'Packaging Centre of Excellence' and continues to invest in serialisation technology to support the global efforts of meeting the evolving legislation and prevent counterfeit products in the market.

Packaging of the existing product portfolio Aricept, Zonegran, Fycompa (tablets and oral suspension), Inovelon (tablets and oral suspension), Pariet, Lenvima and Halaven will continue, as will manufacturing and global supply (excluding Japan) of Fycompa, Aricept for the EU, Zonegran for the EU and US. Further to the products already commercially available, Eisai Manufacturing Limited is the nominated site for additional transfers and new product introductions as follows:

- Lemborexant (HAND): Process Validation and the commencement of commercial supply will start in FY2019.
- Aricept bulk supply to the United States of America: This project will be completed in 2019 enabling Eisai Manufacturing Limited to supply Aricept to the US and manufacture this legacy product in smaller volumes.
- China: Eisai Manufacturing Limited will commence supply of Halaven to China in the third quarter of FY2019 and Fycompa tablets by the end of FY2019.

A new packaging line has been ordered to support growing demand. This will be delivered in the first quarter of FY2020.

Principal risks and uncertainties

Eisai Manufacturing Limited is exposed to the risk of failing a regulatory inspection. To mitigate this, the company follows Good Manufacturing Practice (GMP) and has in place a compliance assurance programme, product review and complaints and corrective actions process operated by its European Quality function.

The patent expiry of Zonegran was anticipated to reduce the volumes being manufactured. At this time the product is maintaining original volumes with some markets in growth.

The expansion of serialisation legislation to other markets is a risk. In particular Russia is proposing a format that is not compatible with our existing lines and has an implementation date that is unrealistic. The whole of industry faces this problem and Russia is reviewing their legislation, therefore no work is currently underway. However, the deadline for implementation remains January 2020.

Brexit and the uncertainty around it represent the greatest risk to Eisai Manufacturing Limited. Eisai Manufacturing Limited's plans are established but the turbulence associated with a hard Brexit, even if it is planned, is not to be underestimated.

Strategic report

Principal risks and uncertainties (continued)

Packaging capacity and equipment upgrades: the volumes that Eisai Manufacturing Limited is experiencing are greater than planned due to the successful growth of strategic brands. A new packaging line has been ordered and legacy upgrades planned for Lines 1 and 2. This work will be implemented in 2020 and until complete the factory is constrained, reducing flexibility.

Financial risk management

The Company uses derivative financial instruments to manage its exposure to foreign exchange rate risk by creating offsetting positions through the use of foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 27 of the financial statements.

The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items being hedged. These instruments are designated as fair value through profit or loss (FVTPL). Therefore, unrealised gains and losses resulting from marking these contracts to market are charged to the income statement as an operating expense. The Company does not hold or issue derivative financial instruments for investment or speculative purposes.

Information in relation to other areas of financial risk management is detailed in note 27.

Events after the balance sheet date

There are no events after the balance sheet date and up to the date the financial statements are authorised for issue.

Approved by the Board of Directors
and signed on behalf of the Board on 4 December 2019

A. Felthouse
Director

Eisai Manufacturing Limited

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 March 2019.

In accordance with the Companies Act 2006, the directors have chosen to set out information about the following items in the strategic report section of these financial statements on pages 2, 3 and 4:

- Indication of future developments
- Use of financial instruments

Going concern

The company is able to source funding from the Eisai Group cash pooling system and has adequate resources to continue in operational existence for the foreseeable future. The Group's investment in Eisai Manufacturing Limited's expansion confirms the long-term strategy of the company. The financial statements have therefore been prepared on the going concern basis.

Further details regarding the adoption of the going concern basis can be found in the Significant accounting policies in the notes to the financial statements.

Environment

The company recognises the importance of its environmental responsibilities, monitors its impact on the environment and designs and implements policies to reduce any damage that might be caused by the company's activities. Initiatives designed to minimise the company's impact on the environment include recycling of waste paper and obsolete office equipment, reducing energy consumption and encouraging the purchase of environment-friendly office supplies whenever possible. The company also conducts periodic waste water testing to confirm that chemical discharge is below the agreed limit.

Employees

Details of the number of employees and related costs can be found in note 8 to the financial statements.

The company participates in the group's policies and practices to keep employees informed on matters relevant to them as employees through regular meetings and newsletters. Employees are consulted regularly on a wide range of matters affecting their interests.

Dividends

The directors do not recommend the payment of a dividend (2018: £nil).

Directors

The directors who served during the year up to the date of the report (except as noted) are as follows:

N Burgin
A Felthouse
Y Kato
S Ujiie
T Yasuno

Auditor

Each director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Eisai Manufacturing Limited

Directors' report (continued)

Auditor (continued)

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in the absence of an Annual General Meeting.

Approved by the Board of Directors
and signed on behalf of the Board

A Felthouse
Director

4 December 2019

Eisai Manufacturing Limited

Directors' responsibilities statement

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditor's report to the members of Eisai Manufacturing Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Eisai Manufacturing Ltd (the 'Company'):

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the statement of comprehensive income;
- the statement of financial position;
- the statement of changes in equity;
- the statement of cash flows;
- the statement of accounting policies: and
- the related notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

The directors are responsible for the other information. The other information comprises the information included in the strategic report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in respect of these matters.

Independent auditor's report to the members of Eisai Manufacturing Limited (continued)

Responsibilities of directors

As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Thompson

Kevin Thompson
For and on behalf of Deloitte LLP
Statutory Auditor
London, England
4 December 2019

Eisai Manufacturing Limited

Statement of comprehensive income
Year ended 31 March 2019

	Notes	2019 £	2018 £
Revenue	5	249,079,459	169,722,586
Cost of sales		(199,812,558)	(135,784,034)
Gross profit		49,266,901	33,938,552
Research and development income net of costs		-	33,964
Administrative expenses		(25,248,802)	(25,431,979)
Operating profit	6	24,018,099	8,540,537
Loss on disposal of property, plant and equipment		(23,592)	(1,808)
Finance income	9	8,046,371	343,800
Finance expense	9	(22,449)	(19,196)
Profit before taxation		32,018,429	8,863,333
Taxation	10	(6,104,494)	(412,724)
Profit for the financial year		25,913,935	8,450,609

All amounts derive from continuing activities. There are no other items of income and expense for the current and preceding financial year other than those as stated in the statement of comprehensive income.

Eisai Manufacturing Limited

Statement of financial position
Year ended 31 March 2019

	Notes	2019 £	2018 £
Non-current assets			
Intangible assets	11	155,971	162,586
Property, plant and equipment	12	22,773,513	24,003,608
		22,929,484	24,166,194
Current assets			
Inventories	13	23,427,851	31,328,085
Trade and other receivables	14	246,371,753	70,574,978
Derivative financial instruments	15	220,895	76,240
Cash and cash equivalents	16	275,463,009	327,491,970
Current tax receivable		-	531,501
		545,483,508	430,002,774
Assets held for sale	17	-	66,020
Total assets		568,412,992	454,234,988
Non-current liabilities			
Other payables	18	-	(263,475,700)
Deferred tax liability	19	(1,336,061)	(1,369,743)
Provisions	20	(8,127,798)	(8,131,692)
		(9,463,859)	(272,977,135)
Current liabilities			
Trade and other payables	21	(454,641,705)	(102,610,479)
Short-term borrowings	22	(133,031)	(4,558,169)
Derivative financial instruments	15	(423,158)	-
Current tax payable		(3,748,099)	-
		(458,945,993)	(107,168,648)
Total liabilities		(468,409,852)	(380,145,783)
Net assets		100,003,140	74,089,205
Equity			
Share capital	23	38,806,700	38,806,700
Retained earnings		61,196,440	35,282,505
Total equity		100,003,140	74,089,205

The financial statements of Eisai Manufacturing Limited (registered number 06133312) were approved by the Board of Directors and authorised for issue on 4 December 2019.

Signed on behalf of the Board of Directors

A Felthouse
Director

Eisai Manufacturing Limited

Statement of changes in equity
Year ended 31 March 2019

	Share capital £	Retained earnings £	Total equity £
Balance at 1 April 2017	38,806,700	26,831,896	65,638,596
Total comprehensive income			
Profit for the year	-	8,450,609	8,450,609
Balance at 31 March 2018	38,806,700	35,282,505	74,089,205
Total comprehensive income			
Profit for the year	-	25,913,935	25,913,935
Balance at 31 March 2019	38,806,700	61,196,440	100,003,140

Eisai Manufacturing Limited

Statement of cash flows
Year ended 31 March 2019

	Notes	2019 £	2018 £
Net cash (used in)/from operating activities	24	(54,014,509)	325,220,978
Investing activities:			
Interest received	9	8,046,371	343,800
Proceeds from sale of property, plant and equipment		59,058	65,000
Purchases of property, plant and equipment	12	(1,672,294)	(1,475,479)
Net cash used in investing activities		6,433,135	(1,066,679)
Financing activities:			
(Decrease)/Increase in short-term borrowing (intercompany current account)		(4,425,138)	845,310
Interest paid	9	(22,449)	(19,196)
Net cash (used in)/from financing activities		(4,447,587)	826,114
Net (decrease)/increase in cash and cash equivalents		(52,028,961)	324,980,413
Cash and cash equivalents at the beginning of the year		327,491,970	2,511,557
Cash and cash equivalents at the end of the year	16	275,463,009	327,491,970

Eisai Manufacturing Limited

Notes to the financial statements
Year ended 31 March 2019

1. General information

Eisai Manufacturing Limited is a company limited by shares incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on page 1.

These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the company operates. All values and are rounded to the nearest pound.

2. Adoption of new and revised Standards

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

IFRS 16	*Leases*
Annual Improvements to IFRS Standards 2015-2017 Cycle	*Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs*

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the company in future periods.

New and amended Standards that are effective for the current year

Impact of initial application of IFRS 9 *Financial Instruments*

In the current year, the company has applied IFRS 9 Financial Instruments (as revised in July 2014) and the related consequential amendments to other IFRS Standards that are effective for an annual period that begins on or after 1 January 2018.

IFRS 9 introduced new requirements for:

- The classification and measurement of financial assets and financial liabilities,
- Impairment of financial assets, and
- General hedge accounting.

Details of these new requirements as well as their impact on the company's financial statements are described below.

Classification and measurement of financial assets

The date of initial application (i.e. the date on which the company has assessed its existing financial assets and financial liabilities in terms of the requirements of IFRS 9) is 1 April 2018. All recognised financial assets that are within the scope of IFRS 9 are required to be measured subsequently at amortised cost or fair value on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

The Company has reviewed and assessed the Company's existing financial assets as at 1 April 2018 based on the facts and circumstances that existed at that date and concluded that the initial application of IFRS 9 has had no impact on the Company's financial position, profit or loss, other comprehensive income or total comprehensive income as regards their classification and measurement.

Impairment of financial assets

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires the company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition of the financial assets. In other words, it is no longer necessary for a credit event. IFRS 9 requires the company to measure the loss allowance for a financial instrument at an amount equal to the lifetime expected credit losses (ECL) if the credit risk on that financial instrument has increased significantly since initial recognition, or if the financial instrument is a purchased or originated credit-impaired financial asset

2. Financial reporting standards applicable to the company for future financial periods (continued)

Impact of initial application of IFRS 9 *Financial Instruments* (continued)

The result of the assessment is as follows:

Loans to related parties – the loan is assessed to have a low credit risk.

Trade and other receivables – the company applies the simplified approach and assesses lifetime ECL for these assets. These assets are viewed as safe, and the pharmaceutical industry does not suffer from significant bad debt. The application of this standard does not change the impact of credit losses on the company.

Cash and bank balances – all bank balances are assessed to have low credit risk at each reporting date as they are held with reputable international banking institutions.

Classification and measurement of financial liabilities

The application of IFRS 9 has had nil impact on the classification and measurement of the company's financial liabilities.

Disclosure in relation to the initial application of IFRS 9

The application of IFRS 9 has had no impact on the classification and measurement of financial assets and financial liabilities. The application of IFRS 9 has no impact on the cash flows of the company.

Impact of initial application of IFRS 15 *Revenue from Contracts with Customers*

In the current year, the company has applied IFRS 15 Revenue form Contracts with Customers (as amended in April 2016) which is effective for an annual period that begins on or after 1 January 2018. IFRS 15 introduced a 5-step approach to revenue recognition. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios.

IFRS 15 uses the terms 'contract asset' and 'contract liability' to describe what might more commonly be known as 'accrued revenue' and 'deferred revenue', however the Standard does not prohibit an entity from using alternative descriptions in the statement of financial position. The previous agent vs principal guidance contained in IAS 18 has been revisited in light of the revised guidance under IFRS 15 in assessing whether it acts as an agent or as a principal in its major contractual arrangements. As a result of this assessment, the company concluded that for the Global Strategic Oncology Collaboration for Lenvima with Merck & Co Inc., it is appropriate to move from principal to agency accounting.

This means that all transactions in relation to the collaboration have been netted to a single line within Revenue as Commission (see note 5). These transactions include sales revenue and royalty income from both the ultimate parent undertaking and other group undertakings, offset by cost of sales and administrative expenses specifically in relation to these transactions. Administrative expenses include co-promotion expenses shared with Merck and research and development expenses incurred by Eisai globally which have been recharged to Eisai Manufacturing Limited.

The company's accounting policy for its revenue streams is disclosed in note 3 below.

Impact of initial application of IFRS 16 *Leases*

IFRS 16 has not yet been applied but is applicable for annual reporting periods commencing 1 January 2019 and Eisai Manufacturing Limited will first apply IFRS 16 from 1 April 2019. IFRS 16 will have an impact on the reported assets, liabilities, income statement and cash flows of the company. A review of the leased and rented assets was undertaken to identify the leases assets. Training was provided to the key stakeholders to ensure the requirements were fully understood. The project was started in July 2017 to ensure the entity was prepared for the date of adoption on 1 April 2019.

IFRS 16 changes how the entity accounts for leases previously classified as operating leases under IAS17, which were off balance sheet.

2. Financial reporting standards applicable to the company for future financial periods (continued)

Impact of initial application of IFRS 16 *Leases* (continued)

Applying IFRS 16, for all leases (except as noted below), the entity:

a) Recognises right-of-use assets and interest on lease liabilities in the statement of comprehensive income, and:
b) Recognises depreciation of right-of-use assets and interest on lease liabilities in the statement of comprehensive income, and
c) Separates the total amount of cash paid into a principal portion (presented within financing activities) and interest (presented within operating activities) in the statement of comprehensive income.

Under IFRS 16, right-of-use assets are tested for impairment in accordance with IAS 30 *Impairment of Assets*. This replaces the previous requirement to recognise a provision for onerous lease contracts.

For short term leases (leases term of 12 months or less) and leases of low-value assets, the entity has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within administrative expenses in the statement of comprehensive income.

The entity will be applying the standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application in accordance with paragraphs IFRS 16 C7-C13. Therefore, the entity will not restate comparative information. Note 30 illustrates the financial impact of the transition to IFRS 16.

3. Significant accounting policies

Basis of accounting

The financial statements have been prepared under International Financial Reporting Standards (IFRSs) as adopted by the EU and therefore the financial statements comply with Article 4 of the EU IAS Regulation. The appropriate provisions of the Companies Act have also been complied with. The particular accounting policies adopted are described below. They have all been applied consistently throughout the current and preceding period.

The financial statements have been prepared under the historical cost convention, except for the revaluation of certain financial instruments that are measured at fair value at the end of each reporting period, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

The principal accounting policies adopted are set out below.

Going concern basis

The directors' assessment of current economic conditions is that they will have no significant adverse impact on the pharmaceutical industry and performance of the company in particular. The company's core manufacturing and packaging business continues to make profit and generate positive cash. The company has large receivable balances with group companies at the year end and there is no concern regarding their recoverability. The Strategic Alliance entered into with Merck, effective 7 March 2018, is a long-term commitment. Under the agreement an upfront payment of $450 million was received as reimbursement for research and development expenses. There is a potential that the unused portion of the sum received may need to be paid back to Merck should the collaboration agreement cease, hence only the used amounts of the upfront payment received are released from the statement of financial position to the statement of comprehensive income. The financial statements have been prepared on the going concern basis after careful consideration of the forecasts prepared by management, facilities available to the company and the wider group and the support available from the group in the form of a transfer pricing policy that guarantees a certain level of profit.

3. Significant accounting policies (continued)

Going concern basis (continued)

As a member of the Eisai Group cash pooling system the company has access to the necessary funding such that the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future and therefore continue to adopt the going concern basis in preparing the financial statements.

Revenue recognition

Revenue represents amounts receivable for goods and services provided in the normal course of business, net of VAT. The company recognises revenue from the following major sources:

- Sale of goods
- Rendering of services, and
- Commission.

The company recognises revenue when it transfers control of a product or service to a customer.

Sale of goods

The company sells finished packs of pharmaceutical products primarily to fellow group subsidiaries in Europe, the Middle East, Africa, Russia, Asia, Australia and the Americas. The transfer of control of goods, with the exception of sales to Russia, is at the point when the goods are loaded onto a vehicle at Eisai Manufacturing Limited's warehouse.

For sales to the fellow group subsidiary in Russia, property title for the products (as well as risks of loss or damage) transfers when the goods are delivered at the airport in the Russia Federation or at any other specified territory of the Russian Federation indicated in the relevant purchase order.

Rendering of services

The company provides a service of toll manufacturing and packaging. Revenue is recognised when control of the goods is transferred to the customer, which is at the point when the goods are loaded onto a vehicle at the warehouse or when the vehicle leaves the warehouse.

Commission

Commission is recognised when the related services are provided.

Taxation

The tax credit or charge represents the sum of the tax currently receivable or payable and deferred tax. The tax currently receivable or payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The company's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the statement of financial position date.

Deferred tax is the amount of income tax payable or receivable in future periods relating to differences between the carrying amount of an asset or liability and the amount at which it is valued for tax purposes. A deferred tax liability is recorded in respect of all taxable temporary differences that exist at statement of financial position date; a deferred tax asset is recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

3. Significant accounting policies (continued)

Taxation (continued)

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Intangible assets

Intangible assets are stated at cost and amortised in equal annual instalments over a period of 3 to 5 years, which is the duration of their estimated useful economic life. Amortisation is included within cost of sales and administrative expenses in the statement of comprehensive income.

Property, plant and equipment

Property, plant and equipment is stated at cost less accumulated depreciation and impairment. Depreciation is provided on a straight-line basis over the useful life of the assets as follows:

Buildings and fit out costs	10 to 50 years
Furniture and equipment	5 to 15 years
Computer hardware	3 to 15 years

Construction in progress is not depreciated. When the assets are available for use as management intended, they are moved from Construction in progress to the relevant fixed asset category and depreciated accordingly.

Impairment of tangible and intangible assets

At each statement of financial position date, the company reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any).

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3. Significant accounting policies (continued)

Inventories

Inventories are valued at the lower of cost and net realisable value. Cost is based on standard costing and relates to the cost of the materials and components and cost of providing the toll manufacturing service. Net realisable value represents the estimated selling price less all estimated costs of completion. For manufactured materials, routing labour and machine hours are multiplied by work centre rates which are calculated during the business planning procedure using a cost allocation process. These are added to the bill of materials total. This total value is then divided by the costing lot size to produce a standard cost.

Foreign exchange

Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the statement of financial position date are translated at the rates ruling at that date. These translation differences are dealt with in the statement of comprehensive income.

Financial instruments

The company uses derivative financial instruments to manage its exposure to foreign exchange rate risk by creating offsetting positions through the use of foreign exchange forward contracts. Further details of derivative financial instruments are disclosed in note 27 of the financial statements.

The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items being hedged. These instruments are designated as fair value through profit or loss (FVTPL). Therefore, unrealised gains and losses resulting from marking these contracts to market are charged to the income statement as an operating expense. The company does not hold or issue derivative financial instruments for investment or speculative purposes.

Trade and other receivables

Trade and other receivables are not interest-bearing and are stated at their nominal value, reduced by appropriate allowances for estimated irrecoverable amounts.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each statement of financial position date. The company always recognises lifetime ECL for trade and other receivables. The expected credit losses on these financial assets are estimated using objective evidence of impairment for a portfolio of receivables could include the company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio, as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits that are subject to an insignificant risk of changes in value.

Trade and other payables

Trade and other payables are non interest-bearing and are stated at their fair value.

3. **Significant accounting policies (continued)**

Financial liabilities

Financial liabilities are measured subsequently at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortised cost of a financial liability.

Provisions for liabilities and charges

A provision is recognised in the statement of financial position when the company has a present, legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. The provisions are presented at a discount where the affect is material.

Retirement benefit costs

The company operates a money purchase scheme, for eligible employees. Contributions to the scheme are funded jointly by the company and its employees. These funds are invested with insurance companies. Company contributions are charged against the profits of the period in which they become payable. Differences between contributions payable in the year and contributions actually paid are shown as either accruals or prepayments in the statement of financial position.

Leases

IFRS 16 *Leases* will be applied from 1 April 2019. The entity will be applying the standard retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application in accordance with paragraphs IFRS 16 C7-C13. Therefore, the entity will not restate comparative information. Therefore IAS 17 *Leases* has been applied for these financial statements and operating lease rentals are charged to income in equal annual amounts over the lease term.

The entity assesses whether the contract is or contains a lease, at inception of the contract. The lease liability is initially measured at the present value of the lease payments, discounted by using the incremental borrowing rate. This is determined to be the Group credit spread adjusted for the entity specific risk-free rate.

Lease payments included in the measurement of the lease liability comprise fixed lease payments, less any lease incentives. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The right-of-use assets comprise initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses. The right-of-use assets are depreciated over the shorter period of the lease term and useful life of the underlying asset. As permitted by IFRS 16, the entity has separated non-lease components and accounted for these directly in the entity's statement of comprehensive income.

For Eisai Manufacturing Limited, IFRS 16 has not had a material impact on the car leases and is quantified in note 30.

4. Critical accounting judgements and accounting estimates

In the application of the company's accounting policies, which are described in note 3, the directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

No judgements or estimates have been made that have a significant effect on the amounts recognised in these financial statements.

5. Revenue

The company derives its revenue from contracts with customers for the transfer of goods and services at a point in time in the revenue streams detailed below:

	2019	2018
	£	£
Geographical market		
United Kingdom	28,572,372	25,942,839
Rest of the world	220,507,087	143,779,747
	249,079,459	169,722,586

	2019	2018
	£	£
Category		
Sale of goods	237,597,340	166,047,032
Rendering of services	5,196,468	3,675,554
Commission	6,285,651	-
	249,079,459	169,722,586

The previous agent vs principal guidance contained in IAS 18 has been revisited in light of the revised guidance under IFRS 15 in assessing whether Eisai Manufacturing Limited acts as an agent or as a principal in its major contractual arrangements. As a result of this assessment, the Company concluded that for the Global Strategic Oncology Collaboration for Lenvima with Merck & Co Inc., it is appropriate to move from principal to agency accounting and the commission value above represents this change.

This means that all transactions in relation to the collaboration have been netted to a single line within Revenue as Commission. These transactions include sales revenue and royalty income from both the ultimate parent undertaking and other group undertakings, offset by cost of sales and administrative expenses specifically in relation to these transactions. Administrative expenses include co-promotion expenses shared with Merck and research and development expenses incurred by Eisai globally which have been recharged to Eisai Manufacturing Limited.

This commission is based on estimated numbers which are subsequently adjusted to reflect the actual costs. As such the numbers will appear either as a positive or a negative.

6. Operating profit

Operating profit for the year has been arrived at after charging/ (crediting):

	2019 £	2018 £
Net foreign exchange (gain)/loss	(90,879)	232,527
Depreciation - property plant and equipment (note 12)	2,782,333	2,737,187
Amortisation - intangible fixed assets (note 11)	48,718	42,453
Staff costs (note 8)	5,900,856	5,468,545
Cost of inventories recognised as an expense	199,812,558	135,784,034
Impairment of property, plant and equipment	-	39,688
Operating leases – vehicles	12,683	11,109

7. Auditor's remuneration

	2019 £	2018 £
Fees payable to the company's auditor for the audit of the company's annual accounts	36,040	44,885

8. Staff costs

The average monthly number of employees (including directors) was:

	2019 No.	2018 No.
Administration	21	20
Manufacturing	84	85
Total	105	105

	2019 £	2018 £
Wages and salaries	4,558,323	4,227,267
Social security costs	729,876	656,364
Pension costs	612,657	584,914
	5,900,856	5,468,545

Details of directors' remuneration are disclosed in note 29.

9. Finance income

	2019	2018
	£	£
Bank deposit interest	7,846,469	338,275
Interest receivable on borrowings from group undertaking	199,875	5,525
Other income	27	-
Finance income	8,046,371	343,800

Finance expense

	2019	2018
	£	£
Bank deposit interest	1,342	273
Interest payable on borrowings from group undertaking	21,105	18,915
Other expense	2	8
Finance expense	22,449	19,196

10. Taxation

	2019 £	2018 £
Current tax – UK corporation tax		
Current year charge	(6,159,215)	(416,485)
Prior year credit	21,039	13,593
	(6,138,176)	(402,892)
Deferred tax – current year credit	69,861	83,471
Deferred tax – prior year charge	(36,179)	(84,622)
Deferred tax – charge due to rate change	-	(8,681)
	33,682	(9,832)
Total tax charge for the year	(6,104,494)	(412,724)

The standard rate of tax for the year, based on the UK standard rate of corporation tax is 19% (2018: 19%). The actual tax charge/credit for the current and previous year differs from the tax charge/credit at the standard rate for the reasons set out in the following reconciliation:

	2019 £	2018 £
Profit before tax	32,018,429	8,863,333
Tax at the UK corporation tax rate of 19% (2018: 19%)	(6,083,502)	(1,684,033)
Factors affecting tax charge for the year:		
Tax effect of expenses that are not deductible in determining taxable profit	(125,584)	(181,533)
Tax effect of losses claimed from Eisai Europe Ltd and Eisai Ltd for nil consideration	119,732	1,532,552
Prior period adjustments	(15,140)	(71,029)
Change in tax rates	-	(8,681)
Total tax charge for the year	(6,104,494)	(412,724)

11. Intangible assets

	Software
	£
Cost	
At 1 April 2018	448,497
Transfers from CIP to intangible fixed assets (note 12)	42,842
Adjustment to value of asset	(739)
At 31 March 2019	490,600
Accumulated amortisation	
At 1 April 2018	285,911
Charge for the year	48,718
At 31 March 2019	334,629
Carrying amount	
At 31 March 2019	155,971
At 31 March 2018	162,586

	Software
	£
Cost	
At 1 April 2017	421,390
Transfers from CIP to intangible fixed assets (note 12)	27,107
At 31 March 2018	448,497
Accumulated amortisation	
At 1 April 2017	243,458
Charge for the year	42,453
At 31 March 2018	285,911
Carrying amount	
At 31 March 2018	162,586
At 31 March 2017	177,932

12. Property, plant and equipment

	Building and fit out costs £	Furniture and equipment £	Computer hardware £	Construction in progress £	Total £
Cost					
At 1 April 2018	24,313,259	16,942,386	431,523	624,957	42,312,125
Additions	-	-	-	1,672,294	1,672,294
Disposals	-	(181,769)	-	-	(181,769)
Transfers (note 11)	64,150	584,047	106,640	(797,679)	(42,842)
Reclassification of CIP as an expense	-	-	-	(9,391)	(9,391)
Adjustment to value of asset	-	(4,098)	(47,095)	-	(51,193)
At 31 March 2019	24,377,409	17,340,566	491,068	1,490,181	43,699,224
Accumulated depreciation					
At 1 April 2018	8,009,738	10,216,189	82,590	-	18,308,517
Charge for the year	901,655	1,788,417	92,261	-	2,782,333
Disposals	-	(165,139)	-	-	(165,139)
At 31 March 2019	8,911,393	11,839,467	174,851	-	20,925,711
Carrying amount					
At 31 March 2019	15,466,016	5,501,099	316,217	1,490,181	22,773,513
At 31 March 2018	16,303,521	6,726,197	348,933	624,957	24,003,608

	Building and fit out costs £	Furniture and equipment £	Computer hardware £	Construction in progress £	Total £
Cost					
At 1 April 2017	24,248,350	16,468,726	34,877	934,070	41,686,023
Additions	-	-	-	1,475,479	1,475,479
Disposals	-	(820,410)	-	-	(820,410)
Transfers (note 11)	64,909	1,294,070	396,646	(1,782,732)	(27,107)
Reclassification of CIP as an expense	-	-	-	(1,860)	(1,860)
At 31 March 2018	24,313,259	16,942,386	431,523	624,957	42,312,125
Accumulated depreciation					
At 1 April 2017	7,059,786	9,124,561	34,877	-	16,219,224
Charge for the year	949,952	1,739,522	47,713	-	2,737,187
Disposals	-	(647,894)	-	-	(647,894)
At 31 March 2018	8,009,738	10,216,189	82,590	-	18,308,517
Carrying amount					
At 31 March 2018	16,303,521	6,726,197	348,933	624,957	24,003,608
At 31 March 2017	17,188,564	7,344,165	-	934,070	25,466,799

13. Inventories

	2019	2018
	£	£
Finished goods	4,217,802	10,460,457
Semi-finished goods	10,965,023	17,591,027
Raw materials and supplies	8,245,026	3,276,601
	23,427,851	31,328,085

There is no material difference between book value of the inventories and their net realisable value.

14. Trade and other receivables

	2019	2018
	£	£
Current		
Trade receivables – net of impairment losses	3,263,367	46,453
Amounts owed by group undertakings	239,227,544	68,154,676
Other receivables	85,028	499,257
Prepayments and accrued income	855,610	154,399
VAT receivable	2,940,204	1,720,193
	246,371,753	70,574,978

The directors consider that the carrying amount of trade and other receivables is equal to their fair value.

Transactions between the company and other group undertakings have payment terms of 45 days for non-stock items and 60 days for stock for all parties within the group headed by Eisai Co Limited (note 29).

15. Derivative financial instruments

	2019	2018
	£	£
Derivative financial assets		
Derivatives that are carried at fair value:		
Foreign currency forward contracts	220,895	76,240
Derivative financial liabilities		
Derivatives that are carried at fair value:		
Foreign currency forward contracts	423,158	-

Further details are provided in note 27.

16. Cash and cash equivalents

	2019	2018
	£	£
Cash and cash equivalents	275,463,009	327,491,970

Cash and cash equivalents comprise cash, short-term bank deposits and money market funds with an original maturity of three months or less. The carrying amount of these assets, which are categorised in note 27, is approximately equal to their fair value.

17. Assets held for sale

	2019	2018
	£	£
Property, plant and equipment	-	66,020

In the prior year, parts of the packaging lines were presented as assets held for sale as these were removed from the lines and replaced with assets which enabled the serialisation of finished packs. The assets held for sale were being actively marketed by a specialist broker at a price reflective of their fair value and were available for immediate collection by the prospective purchaser. The assets held for sale were sold within three months of the comparative year-end.

An impairment loss of £39,688 was recognised within cost of sales in the statement of comprehensive income in the comparative year to ensure that the assets were measured at the lower of their carrying value and fair value less costs to sell at the time of the reclassification.

18. Other payables

	2019	2018
	£	£
Non-current		
Deposit received	-	263,475,700

The deposit was payment received in consideration for the development activities to be carried out by Eisai under the Strategic Collaboration Agreement between MSD Oncology Holdings Limited and Eisai Manufacturing Limited effective date 7th March 2018. It has been offset against allowable research and development in accounting periods beyond one year.

19. Deferred tax

The movements on deferred tax are as follows:

	2019	2018
	£	£
At start of year	1,369,743	1,359,911
(Credited) / Charged to statement of comprehensive income	(33,682)	9,832
At end of year	1,336,061	1,369,743

Deferred tax is provided as follows:

	2019	2018
	£	£
Capital allowances in excess of depreciation	1,336,061	1,369,743

The Company's deferred tax balances are measured using the corporation tax rates that have been enacted or substantively enacted at the balance sheet date (19% from 1 April 2017 and 17% from 1 April 2020), based on the periods in which the temporary differences are forecast to reverse.

Eisai Manufacturing Limited

Notes to the financial statements
Year ended 31 March 2019

20. Provisions

	£
At 1 April 2017	-
Increase in the year	8,131,692
At 31 March 2018	8,131,692
Increase in the year	11,784,856
Utilised in the year	(11,788,750)
At 31 March 2019	8,127,798

The provision relates to a bonus payable on inventory shipped to a fellow group undertaking. The sales values realised on shipment have been reduced by the bonus which will become payable once the product is sold by the affiliate. The majority of this provision is expected to be utilised within twelve months of the year-end.

21. Trade and other payables

	2019 £	2018 £
Current		
Amounts owed to group undertakings	159,432,177	42,594,769
Other payables	239,489,683	57,335,040
Other taxation and social security	558,930	121,843
Accruals	55,160,915	2,558,827
	454,641,705	102,610,479

The directors consider that the carrying amount of trade and other payables is equal to their fair value.

Transactions between the company and other group undertakings have payment terms of 45 days for non-stock items and 60 days for stock for all parties within the group headed by Eisai Co Limited (note 29).

22. Borrowings

	2019 £	2018 £
Current		
Amounts owed to group undertakings	133,031	4,558,169

Interest is charged at SONIA (Sterling Overnight Index Average/ EONIA (Euro Overnight Index Average + /- 6 basis points).

23. Share capital

	2019 £	2018 £
Authorised		
388,067 Ordinary shares of £100 each	38,806,700	38,806,700
Called up, allotted and fully paid		
388,067 Ordinary shares of £100 each	38,806,700	38,806,700

24. Notes to the cash flow statement

	2019 £	2018 £
Profit for the year before tax	32,018,429	8,863,333
Adjustments for:		
Finance income	(8,046,371)	(343,800)
Finance expense	22,449	19,196
Depreciation of property, plant and equipment	2,782,333	2,737,187
Amortisation of intangible assets	48,718	42,453
Impairment of property, plant and equipment	-	39,688
Adjustment to value of intangible assets	739	-
Adjustment to value of property, plant and equipment	51,193	-
Loss on disposal of property, plant and equipment	23,592	1,808
Other transfer of property, plant and equipment	9,391	1,860
Operating cash flows before movements in working capital	(5,107,956)	2,498,392
Decrease in inventories	7,900,234	6,469,634
Increase in receivables	(175,409,929)	(6,593,015)
Increase in payables	88,443,289	316,545,990
Cash (used in)/generated by operations	(79,066,406)	316,422,609
Income taxes paid	(1,858,576)	(2,563,356)
Net cash (used in)/generated by operating activities	(54,014,509)	325,220,978

25. Operating lease commitments

The total value of future non-cancellable operating lease rentals is payable as follows:

	2019 £	2018 £
Payments due within:		
One year	5,525	12,683
Two to five years	-	5,525
	5,525	18,208

Operating lease payments represent rentals payable for company cars. The company car leases are negotiated for an average term of three years. There is no option in the terms of the lease to extend after this period. The table above shows the total lease commitments for the company.

In relation to the application of IFRS 16 *Leases*, the entity is adopting the new standard from 1 April 2019 retrospectively in accordance with *C7-C13*. Therefore, the comparative information will not be restated.

Eisai Manufacturing Limited

Notes to the financial statements
Year ended 31 March 2019

26. Retirement benefit scheme

The company operates a defined contribution pension scheme for eligible employees and a salary sacrifice scheme which allows employees to contribute to their pension funds from their pre-tax income. Contributions are collected on a monthly basis and adjustments for new entrants or leavers from the Scheme are calculated at the end of the fiscal year. The total pension cost charged for the year in these financial statements amounted to £612,657 (2018: £584,914). Outstanding contributions amounted to £182 at the year-end (2018: £205).

27. Financial instruments

The company's financial instruments comprise trade and other receivables, trade and other payables and cash and cash equivalents. The company's financial assets and liabilities are summarised below:

Categories of financial instruments

	2019 £	2018 £
Current financial assets		
Trade receivables	3,263,367	46,453
Amounts owed by group undertakings	239,227,544	68,154,676
Other receivables	3,025,232	2,219,450
Cash and cash equivalents:		
Bank account	18,931,310	6,632,284
Savings account	24,240	25,003,808
Time deposit	115,108,355	167,532,847
Money market fund	141,399,104	128,323,031
	275,463,009	327,491,970
Current financial assets measured at amortised cost	520,979,152	397,912,549
Current financial assets		
Derivative financial instruments	220,895	76,240
Current financial assets measured at fair value through profit or loss	220,895	76,240
Current assets not meeting the definition of a financial instrument		
Inventories	23,427,851	31,328,085
Prepayments and accrued income	855,610	154,399
Current tax receivable	-	531,501
Total current assets	545,483,508	430,002,774
Non-current financial liabilities		
Other payables	-	(263,475,700)
Non-current financial liabilities measured at amortised cost	-	(263,475,700)
Non-current liabilities not meeting the definition of a financial instrument		
Deferred tax liability	(1,336,061)	(1,369,743)
Provisions	(8,127,798)	(8,131,692)
Total non-current liabilities	(9,463,859)	(272,977,135)

27. Financial instruments (continued)

	2019 £	2018 £
Current financial liabilities		
Amounts owed to group undertakings	(159,432,177)	(42,594,769)
Other payables	(240,048,613)	(57,456,883)
Short term borrowings – intercompany current account	(133,031)	(4,558,169)
Current financial liabilities measured at amortised cost	(399,613,821)	(104,609,821)
Current financial liabilities		
Derivative financial instruments	(423,158)	-
Current financial liabilities measured at fair value through profit or loss	(423,158)	-
Current liabilities not meeting the definition of a financial instrument		
Accruals	(55,160,915)	(2,558,827)
Current tax payable	(3,748,099)	-
Total current liabilities	(458,945,993)	(107,168,648)

No financial assets have been pledged as security.

Fair value hierarchy

All financial assets and liabilities other than derivative financial instruments are short-term receivables and payables and therefore carrying value is a reasonable approximation of fair value.

All derivative financial instruments are held at fair value and fall within Level 2 of the fair value hierarchy as defined below:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: observable inputs other than quoted prices in active markets for identical assets or liabilities.
Level 3: unobservable inputs.

None of the derivatives have been reclassified in the year.

Market risk

Market risk is the risk of adverse financial impact due to changes in fair values or future cash flows of financial instruments from fluctuations in interest rates, foreign exchange rates, credit spreads and equity prices. The company is not materially exposed to any of these risks.

Liquidity and interest rate risk

Liquidity risk is the risk that the company will not have available funds to meets its liabilities.

The company manages its liquidity risk by regularly monitoring its future cash flows and current cash position. Funding is available from its parent company if required.

Credit risk

Credit risk is the risk of loss in the value of financial assets due to counterparties failing to meet all or part of their contractual obligations. The Company has adopted a policy of only dealing with creditworthy counterparties. The Company only transacts with entities that are rated the equivalent to investment grade and above. This information is supplied by independent rating agencies where available and if not available the Company uses other publicly available financial information and its own trading records to rate its major customers. The average credit rating of the cash and cash equivalents is AA- or above.

Before accepting any new customer, the company uses an external credit scoring system to assess the potential customer's credit quality and defines credit limits by customer.

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Year ended 31 March 2019

27. Financial instruments (continued)

The following table provides information regarding the ageing of financial assets and the value of impairment made against these assets:

	Neither past due or impaired £	0-3 months £	3 months to 1 year £	Greater than 1 year £	Impaired £	Total carrying value in the statement of financial position £
2019						
Trade receivables	2,392,635	870,732	-	-	-	3,263,367
Amounts owed by group undertakings	239,227,544	-	-	-	-	239,227,544
Other receivables	3,025,232	-	-	-	-	3,025,232
	244,645,411	870,732	-	-	-	245,516,143
2018						
Trade receivables	46,453	-	-	-	-	46,453
Amounts owed by group undertakings	68,154,676	-	-	-	-	68,154,676
Other receivables	2,219,450	-	-	-	-	2,219,450
	70,420,579	-	-	-	-	70,420,579

The following table details the company's remaining contractual maturity for its financial liabilities:

	<1 month £	1-3 months £	3 months to 1 year £	Total carrying value in the statement of financial position
2019				
Amounts owed to group undertakings	121,155,278	38,276,899	-	159,432,177
Other payables	240,048,613	-	-	240,048,613
Short-term borrowings	133,031	-		133,031
	361,336,922	38,276,899	-	399,613,821
2018				
Amounts owed to group undertakings	42,594,769	-	-	42,594,769
Other payables	57,456,883	-	-	57,456,883
	100,051,652	-	-	100,051,652

27. Financial instruments (continued)

Currency risk

The company undertakes certain transactions denominated in foreign currencies, hence exposure to exchange rate fluctuations. The company uses derivative financial instruments to manage its exposure to foreign exchange rate risk by creating offsetting positions through the use of foreign exchange forward contracts. The market risk related to the foreign exchange agreements is offset by changes in the valuation of the underlying items being hedged. These instruments are designated as fair value through the statement of comprehensive income. Therefore, unrealised gains and losses resulting from marking these contracts to market are credited or charged to the statement of comprehensive income. The fair value of derivatives is classified as a current asset or a current liability.

Forward contracts

	Purchase		Sell	
	2019	2018	2019	2018
	£	£	£	£
AUD	3,067,842	1,655,107	2,613,948	701,569
CHF	-	-	549,988	815,543
EUR	3,244,301	-	54,601,511	27,558,074
JPY	-	-	12,750,488	-
RUB	9,522,636	7,974,154	30,037,527	15,650,913
SEK	32,742	-	2,577,112	1,123,569
GBP	103,130,573	45,849,668	15,867,520	9,629,261
	118,998,094	55,478,929	118,998,094	55,478,929

Unrealised gains and losses resulting from marking forward contracts to market are credited or charged to the statement of comprehensive income. For contracts at 31 March 2019, these gains and losses are listed below:

Buy currency	Total nominal	Sell currency	Total nominal	(Loss)/gain £
AUD	5,627,641	GBP	3,057,791	10,051
EUR	3,765,000	GBP	3,242,637	1,663
GBP	2,619,728	AUD	4,795,019	5,780
GBP	551,082	CHF	713,701	1,094
GBP	54,788,409	EUR	63,364,873	186,898
GBP	12,743,062	JPY	1,839,000,000	(7,425)
GBP	29,675,679	RUB	2,571,455,637	(361,848)
GBP	2,563,701	SEK	31,147,849	(13,410)
RUB	815,214,738	GBP	9,547,650	(25,015)
SEK	395,731	GBP	32,794	(52)
				(202,264)

27. Financial instruments (continued)

For contracts at 31 March 2018, gains and losses are listed below:

Buy currency	Total nominal	Sell currency	Total nominal	(Loss)/gain £
AUD	3,026,922	GBP	1,647,444	7,662
GBP	704,349	AUD	1,283,056	2,780
GBP	822,265	CHF	1,095,507	6,722
GBP	27,655,647	EUR	31,432,739	97,573
GBP	15,568,689	RUB	1,262,383,592	(82,224)
GBP	1,169,002	SEK	13,199,510	45,433
RUB	643,185,594	GBP	7,918,996	55,159
				133,105

The company is mainly exposed to movements in the Euro exchange rate. The impact of a 10% strengthening/(weakening) against each of these currencies, with all variables constant, is shown below:

	2019 £	2018 £
Impact of 10% change in AUD:GBP exchange rate on profit and loss	(48,934)	(101,879)
Impact of 10% change in CHF:GBP exchange rate on profit and loss	64,558	92,581
Impact of 10% change in EUR:GBP exchange rate on profit and loss	(5,774,576)	4,099,962
Impact of 10% change in JPY:GBP exchange rate on profit and loss	1,271,302	(158,261)
Impact of 10% change in RUB:GBP exchange rate on profit and loss	1,103,841	779,282
Impact of 10% change in SEK:GBP exchange rate on profit and loss	284,539	126,788
Impact of 10% change in USD:GBP exchange rate on profit and loss	(2,614,337)	(186,793)

The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year-end for a 10% change in foreign currency rates. In management's opinion, the sensitivity analysis is representative of the inherent foreign exchange risk at the year-end.

The carrying amounts of the company foreign currency denominated monetary assets and monetary liabilities at the reporting date are as follows:

	Liabilities		Assets	
	2019 £	2018 £	2019 £	2018 £
AUD	461,244	5,078,373	-	-
CHF	-	-	577,618	460,795
EUR	2,877,907	16,463	60,714,498	32,718,757
JPY	15,137,088	1,423,040	10,132,192	-
RUB	3,599,511	12,062,745	18,009,482	17,912,456
SEK	-	-	2,549,778	728,992
USD	32,697,202	321,982,736	38,458,092	46,453

28. Events after the statement of financial position date

There were no significant events to report.

29. Related party transactions

Ultimate and immediate parent company

The immediate parent company is Eisai Europe Limited, which owns 100% of the share capital. Eisai Europe Limited heads the smallest group of which the company is a member and for which group accounts are prepared. The group accounts are available from its registered office at European Knowledge Centre, Mosquito Way, Hatfield, Herts AL10 9SN.

The company's ultimate parent company and controlling party is Eisai Co Limited, a company incorporated in Japan, which ultimately controls 100% of the share capital. Eisai Co Limited heads the largest group of which the company is a member and for which group accounts are prepared.

The group accounts for Eisai Co Limited are available from its registered office at 4-6-10 Koishikawa, Bunkyo-ku, Tokyo 112-88, Japan.

Trading transactions

Transactions between the company and other group undertakings are disclosed below:

	Sale of services		Sale of goods		Commission		Purchase of goods/services/royalty	
	2019	2018	2019	2018	2019	2018	2019	2018
	£	£	£	£	£	£	£	£
ECL	3,734,446	2,971,645	22,136,563	1,381,993	6,285,651	-	(153,817,620)	(98,368,464)
Other group undertakings	6,776	7,840	210,438,166	173,490,741	-	-	(117,820,724)	(27,197,190)

	Amounts owed by related parties		Amounts owed to related parties	
	2019	2018	2019	2018
	£	£	£	£
ECL	12,126,701	1,232,358	(116,409,436)	(28,184,090)
Other group undertakings	227,100,843	66,922,318	(43,022,741)	(14,410,679)

Related party transactions are made on terms equivalent to those that prevail in arm's length transactions.

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the company, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2019	2018
	£	£
Short-term employee benefits	277,722	237,297
Post-employment benefits	19,144	31,394
	296,866	268,691

For the highest paid director, the values disclosed above under *Short-term employee benefits* and *Post-employment benefits* represent emoluments and company contributions to a money purchase pension scheme.

30. Obligations under finance leases

The quantification of the expected impact on the change in assets and liabilities following the adoption of IFRS 16 as at 1 April 2018 is shown below:

	IAS 17	IFRS 16
	£	£
Right-of-use assets	-	7,188
Lease liability – current	-	(5,742)
Lease liability – non-current	-	(1,446)
	-	-