Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 March, 2022

Daiichi-Sankyo

Daiichi Sankyo Company, Limited

Contents

Consolidated Financial Statements

1) Consolidated Statement of Financial Position

(Millions of Yen)

	Note	As of March 31, 2021	As of March 31, 2022
ASSETS			
Current assets			
Cash and cash equivalents	8,28	380,547	662,477
Trade and other receivables	9	232,036	266,675
Other financial assets	10	444,368	181,368
Inventories	11	200,860	217,910
Other current assets		10,607	16,838
Total current assets		1,268,420	1,345,271
Non-current assets			
Property, plant and equipment	6,12	265,281	304,070
Goodwill	6,13	77,706	83,555
Intangible assets	6,13	172,822	163,884
Investments accounted for using the equity method	14	1,440	1,425
Other financial assets	10	139,991	131,509
Deferred tax assets	15	128,525	138,173
Other non-current assets		30,990	53,513
Total non-current assets		816,757	876,131
Total assets		2,085,178	2,221,402

(Millions of Yen)

	Note	As of March 31, 2021	As of March 31, 2022
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	16,20	297,499	324,784
Bonds and borrowings	17,28	20,391	20,394
Other financial liabilities	17	9,359	10,766
Income taxes payable		6,096	6,910
Provisions	18	6,051	6,795
Other current liabilities		14,173	25,616
Total current liabilities		353,571	395,268
Non-current liabilities			
Bonds and borrowings	17,28	163,441	143,067
Other financial liabilities	17	36,983	42,615
Post-employment benefit liabilities	19	3,929	2,624
Provisions	18	8,741	18,290
Deferred tax liabilities	15	17,516	12,444
Other non-current liabilities	20	228,941	256,219
Total non-current liabilities		459,553	475,262
Total liabilities		813,125	870,530
Equity			
Equity attributable to owners of the Company			
Share capital	21	50,000	50,000
Capital surplus	21	94,494	-
Treasury shares	21	(261,252)	(37,482)
Other components of equity	21	111,479	168,147
Retained earnings		1,277,332	1,170,208
Total equity attributable to owners of the Company		1,272,053	1,350,872
Total equity		1,272,053	1,350,872
Total liabilities and equity		2,085,178	2,221,402

2) Consolidated Statement of Profit or Loss

(Millions of Yen)

	Note	Year ended March 31, 2021	Year ended March 31, 2022
Revenue	6,23	962,516	1,044,892
Cost of sales		338,289	353,328
Gross profit		624,227	691,563
Selling, general and administrative expenses	24	333,079	358,309
Research and development expenses	24	227,353	260,228
Operating profit		63,795	73,025
Financial income	25	12,916	6,114
Financial expenses	25	2,755	5,753
Share of profit (loss) of investments accounted for using the equity method	14	168	129
Profit before tax		74,124	73,516
Income taxes	15	(1,705)	6,543
Profit for the year		75,830	66,972
Profit attributable to:			
Owners of the Company		75,958	66,972
Non-controlling interests		(127)	-
Profit for the year		75,830	66,972
Earnings per share	26		
Basic earnings per share (Yen)		39.17	34.94
Diluted earnings per share (Yen)		39.11	34.91

3) Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Note	Year ended March 31, 2021	Year ended March 31, 2022
Profit for the year		75,830	66,972
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	15	12,499	(4,590)
Remeasurements of defined benefit plans	15	7,847	5,831
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	15,30	18,805	62,078
Other comprehensive income for the year		39,151	63,319
Total comprehensive income for the year		114,982	130,292
Total comprehensive income attributable to:			
Owners of the Company		115,110	130,292
Non-controlling interests		(127)	-
Total comprehensive income for the year		114,982	130,292

4) Consolidated Statement of Changes in Equity

Year ended March 31, 2021

(Millions of yen)

	Note	Equity attributable to owners of the Company					
					Other components of equity		
		Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2020		50,000	94,633	(162,519)	1,611	51,218	29,264
Profit for the year		–	–	–	–	–	–
Other comprehensive income for the year		–	–	–	–	18,805	12,499
Total comprehensive income for the year		–	–	–	–	18,805	12,499
Purchase of treasury shares		–	(138)	(100,054)	–	–	–
Disposal of treasury shares		–	–	1,320	(572)	–	–
Dividend	22	–	–	–	–	–	–
Changes associated with losing control of subsidiaries		–	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	–	(1,347)
Total transactions with owners of the Company		–	(138)	(98,733)	(572)	–	(1,347)
Balance as of March 31, 2021		50,000	94,494	(261,252)	1,038	70,024	40,416

(Millions of yen)

	Note	Equity attributable to owners of the Company					
		Other components of equity					
		Remeasure-ments of defined benefit plans	Total other components of equity	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2020		–	82,094	1,241,600	1,305,809	464	1,306,274
Profit for the year		–	–	75,958	75,958	(127)	75,830
Other comprehensive income for the year		7,847	39,151	–	39,151	–	39,151
Total comprehensive income for the year		7,847	39,151	75,958	115,110	(127)	114,982
Purchase of treasury shares		–	–	–	(100,192)	–	(100,192)
Disposal of treasury shares		–	(572)	(474)	273	–	273
Dividend	22	–	–	(48,946)	(48,946)	–	(48,946)
Changes associated with losing control of subsidiaries		– –	– –	–	–	(336)	(336)
Transfer from other components of equity to retained earnings		(7,847)	(9,194)	9,194	–	–	–
Total transactions with owners of the Company		(7,847)	(9,767)	(40,226)	(148,866)	(336)	(149,203)
Balance as of March 31, 2021		–	111,479	1,277,332	1,272,053	–	1,272,053

Year ended March 31, 2022

(Millions of yen)

	Note	Equity attributable to owners of the Company					
					Other components of equity		
		Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2021		50,000	94,494	(261,252)	1,038	70,024	40,416
Profit for the year		–	–	–	–	–	–
Other comprehensive income for the year		–	–	–	–	62,078	(4,590)
Total comprehensive income for the year		–	–	–	–	62,078	(4,590)
Purchase of treasury shares		–	–	(15)	–	–	–
Disposal of treasury shares		–	–	776	(216)	–	–
Cancellation of treasury shares		–	(94,494)	223,009	–	–	–
Dividend	22	–	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	–	(604)
Total transactions with owners of the Company		–	(94,494)	223,770	(216)	–	(604)
Balance as of March 31, 2022		50,000	–	(37,482)	822	132,103	35,221

(Millions of yen)

	Note	Equity attributable to owners of the Company					
		Other components of equity					
		Remeasure-ments of defined benefit plans	Total other components of equity	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2021		–	111,479	1,277,332	1,272,053	–	1,272,053
Profit for the year		–	–	66,972	66,972	–	66,972
Other comprehensive income for the year		5,831	63,319	–	63,319	–	63,319
Total comprehensive income for the year		5,831	63,319	66,972	130,292	–	130,292
Purchase of treasury shares		–	–	–	(15)	–	(15)
Disposal of treasury shares		–	(216)	(274)	285	–	285
Cancellation of treasury shares		–	–	(128,514)	–	–	–
Dividend	22	–	–	(51,744)	(51,744)	–	(51,744)
Transfer from other components of equity to retained earnings		(5,831)	(6,435)	6,435	–	–	–
Total transactions with owners of the Company		(5,831)	(6,652)	(174,096)	(51,473)	–	(51,473)
Balance as of March 31, 2022		–	168,147	1,170,208	1,350,872	–	1,350,872

5) Consolidated Statement of Cash Flows

(Millions of Yen)

	Note	Year ended March 31, 2021	Year ended March 31, 2022
Cash flows from operating activities			
Profit before tax		74,124	73,516
Depreciation and amortization		57,382	58,245
Impairment losses (reversal of impairment losses)		607	10,446
Financial income		(12,916)	(6,114)
Financial expenses		2,755	5,753
Share of (profit) loss of investments accounted for using the equity method		(168)	(129)
(Gain) loss on sale and disposal of non-current assets		829	(2,700)
(Increase) decrease in trade and other receivables		83,093	(19,060)
(Increase) decrease in inventories		(21,222)	(603)
Increase (decrease) in trade and other payables		23,882	13,290
Others, net		7,315	28,107
Subtotal		215,683	160,750
Interest and dividend received		2,889	2,836
Interest paid		(1,839)	(1,779)
Income taxes paid		(24,525)	(22,580)
Net cash flows from (used in) operating activities		192,207	139,226
Cash flows from investing activities			
Payments into time deposits		(568,192)	(180,675)
Proceeds from maturities of time deposits		746,544	316,820
Acquisition of securities		(352,431)	(328,952)
Proceeds from sale and redemption of securities		203,043	476,150
Acquisition of property, plant and equipment		(31,245)	(62,736)
Proceeds from sale of property, plant and equipment		33	5,260
Acquisition of intangible assets		(32,848)	(13,946)
Acquisition of subsidiaries		(4,401)	–
Payments for loans receivable		(24)	–
Proceeds from collection of loans receivable		725	379
Others, net		(449)	40
Net cash flows from (used in) investing activities		(39,246)	212,339
Cash flows from financing activities			
Repayments of bonds and borrowings	31	(40,389)	(20,391)
Purchase of treasury shares		(100,192)	(15)
Proceeds from sale of treasury shares		2	0
Dividend paid		(48,946)	(51,730)
Payments of lease liabilities	31	(12,907)	(14,095)
Others, net		0	0
Net cash flows from (used in) financing activities		(202,433)	(86,231)
Net increase (decrease) in cash and cash equivalents		(49,471)	265,334
Cash and cash equivalents at the beginning of the year	8	424,184	380,547
Effect of exchange rate changes on cash and cash equivalents		5,834	16,595
Cash and cash equivalents at the end of the year	8	380,547	662,477

Notes to the Consolidated Financial Statements

1. Reporting Entity

Daiichi Sankyo Company, Limited (the "Company") is a public company domiciled in Japan. The addresses of its registered head office and principal business locations are disclosed on the Company's website (https://www.daiichisankyo.co.jp). The Company and its subsidiaries (collectively the "Group") are engaged in manufacturing and marketing of pharmaceutical products.

The Group's consolidated financial statements for the year ended March 31, 2022 were approved on June 22, 2022 by Sunao Manabe, Representative Director, President and CEO.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards ("IFRS") under Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, as the Group meets the criteria of a "Specified Entity" defined under Article 1-2 of this ordinance.

(2) Basis of Measurement

The Group's consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and other items as described in Note 3 "Significant Accounting Policies."

(3) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese Yen, which is the functional currency of the Company. All financial information presented in Japanese Yen has been rounded down to the nearest million Japanese Yen.

(4) Changes in Accounting Policies

The significant accounting policies adopted in preparing the consolidated financial statements of the Group have not changed from the prior year.

(5) Changes in Presentation

(Consolidated Statement of Cash Flows)

"Payments of lease liabilities", which was included in "Others, net" in "Cash flows from financing activities" in the previous year, is disclosed separately from the year ended March 31, 2022, since the monetary significance has increased. In order to reflect this change, the Consolidated Financial Statements for the previous year has been reclassified.

As a result, 12,907 million yen outflow presented in "Others, net" in "Cash flows from financing activities" in the Consolidated Statement of Cash Flows for the previous year has been reclassified as "Payments of lease liabilities".

3. Significant Accounting Policies

(1) Basis of Consolidation

a. Subsidiaries

A Subsidiary is an entity that is controlled by the Group. The Group controls an entity if the Group has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of its returns. Consolidation of a subsidiary begins from the date the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary. Changes in a parent's ownership interest in a subsidiary that occur after obtaining the control over the subsidiary and that do not result in the parent losing control of the subsidiary are accounted for as equity transactions.

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

b. Associates

An associate is an entity over which the Group has significant influence but is not a subsidiary of the Group. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

An investment is accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence over the investment.

When significant influence over an associate is lost, and if there is still remaining ownership interest, the remaining equity interest is measured at fair value. The difference between the fair value and the carrying value at the date on which the equity method is discontinued, is recognized in profit or loss.

Investment in associates includes acquired goodwill.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. The acquisition cost is measured as the sum of the consideration transferred, the amount of non-controlling interest in the acquiree, and in the case of an acquisition achieved in stages, the fair value of the previously held equity interest at the date of acquisition. The consideration transferred is measured at fair value at the date of acquisition. Non-controlling interests are measured either at fair value or at the proportionate share of the acquiree's identifiable net assets for each business combination.

The excess of the acquisition cost over the Group's share of the acquiree's identifiable assets, liabilities, and contingent liabilities at fair value is recognized as goodwill. When the aggregate amount of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the resulting gain is recognized in profit or loss on the date of acquisition. Acquisition related costs are recognized as expenses in the period they are incurred.

(3) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign currency monetary assets and liabilities are translated into the functional currency using the exchange rates at the end of the reporting period and the exchange differences arising on the settlement of monetary items or on translating monetary items are generally recognized in profit or loss. However, exchange differences arising from the translation of financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into the presentation currency at the exchange rate at the end of the reporting period. Income and expenses of foreign operations are translated into the presentation currency at the average exchange rate for the period. When a subsidiary's functional currency is the currency of a hyperinflationary economy, adjustments are made to its separate financial statements to reflect current price levels, and income and expenses of the subsidiary are translated into the presentation currency at the exchange rate at the end of the reporting period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income after the date of transition to IFRS. On the disposal of the entire interest in a foreign operation, or on the partial disposal of the interest in a foreign operation that involves the loss of control of a subsidiary or loss of significant influence over an associate, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated as a separate component of equity, is reclassified to profit or loss as a part of gain or loss on disposal.

(4) Financial Instruments

a. Non-derivative Financial Assets

i) Initial recognition and measurement

Financial assets are recognized on the contract date when the Group becomes a party to the contractual provisions of the instruments.

Financial assets, except for financial assets measured at fair value through profit or loss, are measured at fair value plus transaction costs that are attributable to the acquisition of the financial asset. However, trade receivables that do not contain a significant financing component are initially recognized at transaction price.

At initial recognition, financial assets are classified as (a) financial assets measured at amortized cost; (b) financial assets measured at fair value through other comprehensive income; or (c) financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost

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

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

(b) Financial assets measured at fair value through other comprehensive income

Debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

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

For equity instruments measured at fair value, except for equity instruments held for trading which must be measured at fair value through profit or loss, the Group made an irrevocable election to present subsequent changes in fair value of certain equity instruments in other comprehensive income.

(c) Financial assets measured at fair value through profit or loss

Financial assets, except for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through profit or loss.

ii) Subsequent measurement

After initial recognition, financial assets are measured based on their classification as follows:

(a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.

(b) Financial assets measured at fair value through other comprehensive income

Changes in the fair value of debt instruments classified as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gain and losses, which are recognized in profit or loss, and the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when debt instruments are derecognized.

Changes in the fair value of equity instruments designated as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, and the accumulated amount of other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decrease in fair value compared to acquisition cost is significant.

(c) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

iii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire or are transferred in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred to another entity.

b. Impairment of Financial Assets

At the end of each reporting period, the Group evaluates whether the credit risk on financial assets measured at amortized cost has increased significantly since initial recognition, and a loss allowance for expected credit losses on such financial assets is recognized.

If the credit risk on financial assets has not increased significantly since initial recognition, a loss allowance is measured at an amount equal to 12-month expected credit losses. If the credit risk on financial assets has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses. However, a loss allowance for trade receivables that do not contain a significant financing component is measured at an amount equal to lifetime expected credit losses.

The Group considers, as a general rule, that there has been a significant increase in the credit risk when payments have not been made for more than 30 days passed contractual due date. The Group considers not only the information regarding due date but also other reasonable and supportable information when determining whether credit risk has increased significantly since initial recognition. The Group considers that there has not been a significant increase in the credit risk when the financial assets are determined to have low credit risk at the end of reporting period.

Expected credit losses on financial assets are measured in a way that reflects the following factors:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received. When expected credit losses are recognized, the carrying amount of the financial asset is reduced through use of a loss allowance for expected credit losses and expected credit losses are recognized in profit or loss. If, in a subsequent period, the amount of the expected credit losses decreases, the previously recognized credit losses are reversed by adjusting the loss allowance and the reversal is recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is reduced directly when they are expected to become uncollectible in the future and all collaterals are implemented or transferred to the Group.

c. Non-derivative Financial Liabilities

i) Initial recognition and measurement

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

At initial recognition, financial liabilities are measured at fair value and, in the case of financial liabilities at amortized cost, the transaction costs that are directly attributable to the issue of the financial liabilities are deducted.

ii) Subsequent measurement

After initial recognition, financial liabilities are measured based on classification as follows:

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising from termination of recognition are recognized in profit or loss.

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

Financial liabilities measured at fair value through profit or loss are measured at fair value through profit or loss.

iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

d. Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset only when the Group has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

e. Derivatives and Hedge Accounting

Derivatives are utilized to hedge foreign currency risk and interest rate risk. The derivatives primarily used by the Group include forward foreign exchange contracts and interest-rate swaps.

At the inception of the hedging relationship the Group formally designates and documents the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements.

The Group assesses at the inception of the hedging relationship, and on an ongoing basis, whether the hedging relationship meets the hedge effectiveness requirements. At a minimum, the Group performs the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes earlier.

Derivatives are initially recognized at fair value with transaction costs recognized in profit or loss when they are incurred. After initial recognition, derivatives are measured at fair value.

Hedges that meet the criteria for hedge accounting are accounted for as follows:

i) Fair value hedges

Changes in the fair value of the hedging instruments are recognized in profit or loss. Changes in the fair value of hedged items attributable to the hedged risks are recognized in profit or loss, adjusting the carrying amount of the hedged item.

ii) Cash flow hedges

The effective portion of changes in fair value of hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss. The cumulative amounts of changes in fair value of hedging instruments recognized in other comprehensive income are reclassified from equity to profit or loss in the same period or periods when the hedged forecast cash flows or hedged items affect profit or loss. If hedged items result in the recognition of non-financial assets or non-financial liabilities, the cumulative amounts recognized in other comprehensive income are accounted for as adjustments in the carrying amount of the non-financial assets or non-financial liabilities. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss. The Group discontinues hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised.

(5) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, readily available bank deposits, and short-term, highly liquid investments having maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of inventories comprise cost of raw materials, direct labor and other costs directly attributable to the inventories and cost of related production overheads. The cost of inventories is assigned by using the weighted average cost formula. 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.

(7) Property, Plant and Equipment

Property, plant and equipment is carried at cost less any accumulated depreciation and any impairment losses.
The cost of an item of property, plant and equipment include any costs directly attributable to the acquisition of the asset, costs of dismantlement, removal and restoration as well as borrowing costs eligible for capitalization.
An item of property, plant and equipment, except for land, is depreciated by the straight-line method based on the estimated useful life of the asset. The estimated useful lives of major items of property, plant and equipment are as follows:

- Buildings and structures: 15 to 50 years
- Machinery and vehicles: 4 to 8 years

The depreciation method, the residual value and the useful life of an item of property, plant and equipment are reviewed at least annually and adjusted as necessary.

(8) Goodwill and Intangible Assets

a. Goodwill

Goodwill is measured at cost less accumulated impairment loss and is not amortized. Goodwill arising from a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination.

b. Intangible Assets

Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss.
The cost of a separately acquired intangible asset is measured at cost and the cost of an intangible asset acquired in a business combination is measured at its fair value at the acquisition date.
Internally generated research expenditure is recognized as an expense when it is incurred. Internally generated development expenditure is recognized as an intangible asset if all the criteria for capitalization can be demonstrated. However, due to the uncertainties relating to the research and development duration and process, it is considered that the criteria for capitalization are not met until marketing approval from a regulatory authority is obtained. Therefore, internally generated development expenditure is recognized as an expense when it is incurred.
Acquisition cost and development expenditure of software for internal use is recognized as an intangible asset if it can be demonstrated that the asset will generate probable future economic benefits.
Intangible assets with finite useful lives are amortized by the straight-line method based on the estimated useful life of the asset. The estimated useful lives of major items of intangible assets are as follows:

- Commercial rights: 9 to 18 years

The amortization method, the residual value and the useful lives of intangible assets are reviewed at least annually and adjusted as necessary.

(9) Leases

a. As a lessee

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.
A right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of tangible fixed assets. In addition, a right-of use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.
A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.
Lease payments are allocated to financial expenses and repayments of lease liabilities so that the interest expenses each period during the lease term will result in a constant interest rate on the outstanding lease liability.
A lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.
When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.
The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

b. As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease.
To classify each lease, if the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset, then it is a finance lease; if not, then it is an operating lease.
When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

(10) Impairment of Non-financial Assets

The Group assesses annually whether there is any indication that a non-financial asset or cash-generating unit that generates cash inflows may be impaired.

If there is any indication that an asset or cash-generating unit may be impaired, the recoverable amount of the asset is estimated. Goodwill, intangible assets with indefinite lives, and intangible assets not yet available for use are not amortized but are tested for impairment annually or at any time there is an indication that an asset may be impaired.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use, which is calculated based on the risk-adjusted future cash flows discounted by an appropriate discount rate.

If the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.

An impairment loss recognized for goodwill is not reversed in a subsequent period. It is assessed whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill 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. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, an impairment loss recognized in prior periods is reversed and the carrying amount of the asset is increased to the recoverable amount. The reversal of the impairment loss is recognized in profit or loss. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior years.

(11) Non-current Assets Held for Sale and Discontinued Operations

A non-current asset, or disposal group comprising assets and liabilities, is classified as asset held for sale if its carrying amount will be recovered primarily through sale rather than continuing use. The asset or disposal group is classified as held for sale only if it is available for immediate sale in its present condition, and the sale is highly probable meaning that the appropriate level of management of the Group is committed to the sale and principally that the sale is expected to be completed within one year. After the asset or disposal group is classified as held for sale, it is measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated or amortized.

Discontinued operations include a component of an entity that either has been disposed of or is classified as held-for-sale, and represents a separate major line of business or geographic area of operations.

(12) Employee Benefits

a. Post-employment Benefits

i) Defined benefit plans

The present value of defined benefit obligations and related current service cost and, where applicable, past service cost are determined using the projected unit credit method for each plan separately.
The discount rate is determined by reference to market yields at the end of the reporting period on high-rated corporate bonds, reflecting the estimated timing of benefit payments.
Past service costs are recognized in profit or loss as incurred.
Actuarial gains and losses are recognized in other comprehensive income in the period when they are incurred and transferred to retained earnings immediately.

ii) Defined contribution plans

The contributions to defined contribution plans are recognized as expenses when the related service is rendered by the employees.

b. Others

Short-term employee benefits are not discounted and are recognized as expenses when the related service is rendered by the employees. The expected costs of accumulating short-term compensated absences are recognized as liabilities when the Group has present legal or constructive obligations to pay as a result of past employee service and when reliable estimates of the obligation can be made.

(13) Provisions

A provision is recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.
When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. The present value is determined by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent in the liabilities. The increase in the carrying amount of a provision reflecting the passage of time is recognized as a financial expense.

(14) Treasury Shares

Treasury shares are recognized as a deduction from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

(15) Share-based Payments

The Company and certain of its subsidiaries operate an equity-settled share-based payment plan and a cash-settled share-based payment plan as share-based payment plans.

a. Equity-settled share-based payment plan

The shares are measured at the fair value at the date of grant based on the fair value of the equity instrument granted, and recognized as expenses over the vesting period, with a corresponding increase in equity.

b. Cash-settled share-based payment plan

The fair value of the amount of payments is recognized as an expense with a corresponding liability. The change in the fair value of the liability at each reporting date is recognized in profit or loss until the liability is settled.

(16) Revenue

Revenue from contracts with customers is recognized by applying the following five steps:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

i) Sales of finished goods and merchandise

Revenue from sale of finished goods and merchandise is recognized when the performance obligation is satisfied, considering the following indicators:

- the Group has a present right to payment for the asset;
- the customer has legal title to the asset;
- the Group has transferred physical possession of the asset; and
- the customer has accepted the asset.

Revenue is measured at the amount after deducting the impact of trade discounts, cash discounts, rebates and returns from the consideration promised in the contract.

ii) License fee revenue

Revenue arising from license agreements is recognized at a point in time or over time depending on the content of performance obligation(s).

Variable consideration from contracts with customers are included in the transaction price only to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

(17) Government Grants

Government grants are recognized at fair value when there is reasonable assurance that the Group complies with the conditions attached to them and that the grants will be received.

Government grants which are intended to compensate specific costs are recognized in profit or loss on a systematic basis over the period in which the Group recognizes the corresponding expenses.

Government grants related to assets are recognized as deferred revenue and recognized in profit or loss on a systematic basis over the estimated useful lives of the relevant assets.

(18) Income Taxes

Income taxes comprise current and deferred income taxes.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of assets or liabilities for accounting purpose and the tax basis, and unused tax losses and tax credits.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized.

When uncertainties exist if the taxing authorizes will accept a particular tax treatment, the said uncertainties are reflected when determining the taxable profit, the carrying amount for the tax basis, unused tax losses and tax credits, and the tax rate.

Deferred tax assets and liabilities are not recognized for temporary differences that arise from the initial recognition of goodwill or that arise from the initial recognition of assets or liabilities in transactions which are not business combinations and, at the time of transaction, affect neither accounting profit nor taxable profit or tax loss.

Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries and associates are recognized, except to the extent that the Group is able to control the timing of the reversal of the temporary differences and that it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets for deductible temporary differences arising from investments in subsidiaries and associates are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these consolidated financial statements requires management of the Group to make judgments, estimates and assumptions that affect the amount of reported income, expenses, assets and liabilities as well as disclosure of contingent liabilities. However, due to uncertainty in the estimates and assumptions, it is possible that significant adjustments to carrying amounts of assets and liabilities may be required in future periods.

Significant items that required management to make estimates and judgments are as follows:

- Impairment of non-financial assets (Note 12. Property, Plant and Equipment, Note 13. Goodwill and Intangible Assets)
- Recoverability of deferred tax assets (Note 15. Income Taxes)
- Provisions (Note 18. Provisions)
- Measurement of defined benefit obligations (Note 19. Employee Benefits)
- Revenue recognition (Note 23. Revenue)
- Contingent liabilities (Note 34. Contingent Liabilities)

The impact due to the spread of the novel coronavirus diseases (COVID-19) on the Group’s business activities and performance is limited, though it is still difficult to anticipate the timing when the pandemic will be resolved. As a result, the Group does not currently expect any changes due to the pandemic in significant accounting judgments, estimates and assumptions in the preparation of the consolidated financial statements as of March 31, 2022.

5. Standards and Interpretations Issued but Not Yet Adopted

The new and revised accounting standards and interpretations issued and to be adopted by the Group in the year ending March 31, 2023 are not expected to have a material impact on the consolidated financial statements. The Group is currently evaluating the impact on the consolidated financial statements of applying standards and interpretations which will be adopted by the Group in the year ending March 31, 2024 and thereafter, and it is not yet estimable.

6. Operating Segment Information

(1) Reportable Segments

Disclosure is omitted as the Group has a single segment, "Pharmaceutical Operation".

(2) Information about products and services

Sales by products and services are as follows:

(Millions of Yen)

	Year ended March 31, 2021		Year ended March 31, 2022		Increase / (decrease)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Prescription drugs	892,923	92.8	977,984	93.6	85,060	9.5
Healthcare (OTC) products	67,425	7.0	64,703	6.2	(2,722)	(4.0)
Others	2,167	0.2	2,204	0.2	37	1.7
Total	962,516	100.0	1,044,892	100.0	82,375	8.6

(3) Information by geographical area

Revenue and non-current assets by geographical area are as follows:

a. Revenue

(Millions of Yen)

	Japan	North America	Europe	Other regions	Consolidated
Year ended March 31, 2021	560,725	191,651	114,047	96,091	962,516
Year ended March 31, 2022	558,253	235,997	138,618	112,022	1,044,892

Note:

Revenue is classified according to the geographical location of customers.

b. Non-current assets

(Millions of Yen)

	Japan	North America	Europe	Other regions	Consolidated
As of March 31, 2021	278,542	172,357	56,775	8,134	515,810
As of March 31, 2022	294,485	179,684	67,337	10,002	551,509

Note:

Non-current assets are primarily presented based on the geographical location of assets, and are comprised of property, plant and equipment, goodwill and intangible assets.

(4) Information on major customers

Customers for which sales were over 10% of total revenue in the Consolidated Statement of Profit or Loss are as follows:

(Millions of Yen)

Name of customer	Year ended March 31, 2021	Year ended March 31, 2022
Alfresa Holdings Corporation and its group companies	185,556	187,782

7. Business Combination

(1) Significant business combination

Year ended March 31, 2021

There were no significant business combinations for the year ended March 31, 2021.

Year ended March 31, 2022

There were no significant business combinations for the year ended March 31, 2022.

(2) Contingent consideration

The contingent consideration in the business combination relates to commercial milestone of Ambit Biosciences Corporation's treatment for acute myeloid leukemia (Generic name: Quizartinib, Development code: AC220). The amount is calculated in consideration of the time value of money. The total future payments that the Company may be required to make under a contingent consideration agreement are JPY 11,665 million (before discount).

The exposure to foreign currency exchange risks at the reporting date is 39,813 thousand U.S. dollar. The impact of a 1% appreciation in the Yen against the U.S. dollar on profit before tax is 48 million yen at the reporting date.

The fair value hierarchy level for this contingent consideration is Level 3. The fair value change of contingent consideration is recognized in "Financial income" and "Financial expenses" The fair value hierarchy is summarized in Note 28 "Financial Instruments."

Reconciliation of the movement in the contingent consideration which is classified as Level 3 from the opening balances to the ending balances is as follows:

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Balance at the beginning of the year	7,750	3,151
Increase arising from business combination	-	-
Changes in fair value during the period	(4,653)	1,389
Settled during the period	-	-
Exchange differences	53	332
Balance at the end of the year	3,151	4,873

8. Cash and Cash Equivalents

Details of "Cash and cash equivalents" are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Cash and bank deposits	294,803	550,176
Short-term investments	85,743	112,301
Total	380,547	662,477

Note:

"Cash and cash equivalents" are classified as financial assets measured at amortized cost.

9. Trade and Other Receivables

Details of “Trade and other receivables” in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Notes and accounts receivable - trade	201,673	215,499
Accounts receivable - other	15,536	20,692
Advance payments	5,437	20,079
Other receivables	10,030	11,328
Allowance for doubtful accounts	(642)	(924)
Total	232,036	266,675

Notes:

1.“Notes and accounts receivable - trade” and “Accounts receivable - other” are classified as financial assets measured at amortized cost.

2. "Advance payments", which was included in "Other receivables " in the previous year, is disclosed separately from the year ended March 31, 2022 since the monetary significance has increased. Accordingly, comparative information has been reclassified.

10. Other Financial Assets

(1) Breakdown of Other Financial Assets

Breakdown of "Other financial assets" in the consolidated statement of financial position is as follows:

a. Current Assets

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Financial assets measured at amortized cost:		
Bank deposits	152,857	64,261
Loans receivable	356	262
Bonds	249,198	116,140
Others	123	126
Financial assets measured at fair value through profit or loss:		
Derivative assets	-	577
Others	41,833	-
Total	444,368	181,368

Note:

"Others" in "Financial assets measured at fair value through profit or loss" are foreign-currency bank deposits embedding forward foreign exchange contracts.

b. Non-current Assets

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Financial assets measured at amortized cost:		
Loans receivable	417	181
Bonds	2,778	-
Others	36,635	36,049
Financial assets measured at fair value through profit or loss:		
Derivative assets	-	30
Bonds	556	615
Others	15,001	17,511
Financial assets measured at fair value through other comprehensive income:		
Equity securities	84,195	76,000
Others	406	1,120
Total	139,991	131,509

(2) Financial assets measured at fair value through other comprehensive income

Details of financial assets measured at fair value through other comprehensive income are as follows:

(Millions of Yen)

Equity Securities	Fair Value	
	As of March 31, 2021	As of March 31, 2022
Listed		
Ultragenyx Pharmaceutical Inc.	15,681	11,057
Shizuoka Bank, Ltd.	8,128	7,767
Alfresa Holdings Corporation	6,836	5,445
MatsukiyoCocokara & Co. (note 2)	788	5,152
Medipal Holdings Corporation	4,638	4,400
Suzuken Co.,Ltd.	4,119	3,457
Sumitomo Mitsui Financial Group, Inc.	2,847	2,500
Kissei Pharmaceutical Co.,Ltd.	2,236	2,332
MS&AD Insurance Group Holdings, Inc.	1,895	2,321
Toho Holdings Co.,Ltd.	2,215	2,019
Cocokara fine Inc. (note 2)	5,148	-
Others	15,096	11,355
Unlisted	14,967	19,310

Notes:

1. Equity securities are held to reinforce transactions and business relationships. These securities are designated as financial assets measured at fair value through other comprehensive income.
2. As a result of the share exchange ("the share exchange") on October 1, 2021, Cocokara fine Inc. became wholly-owned subsidiary of Matsumotokiyoshi Holdings Co., Ltd. Through the share exchange, 1 share of Cocokara fine Inc.'s common stock was allotted to receive 1.7 shares of Matsumotokiyoshi Holdings Co., Ltd.'s common stock. At the same time as the effectuation of the share exchange, the trade name of Matsumotokiyoshi Holdings Co., Ltd. was changed to MatsukiyoCocokara & Co.

(3) Derecognition of Financial Assets Measured at Fair value through Other Comprehensive Income

In the years ended March 31, 2021 and 2022, the Group disposed and derecognized some financial assets measured at fair value through other comprehensive income to improve the efficiency of assets by reassessing the business relationships.

Their fair value and accumulated gains and losses at the time of disposal are as follows:

(Millions of Yen)

	Year ended March 31, 2021		Year ended March 31, 2022	
	Fair value	Accumulated gains (losses)	Fair value	Accumulated gains (losses)
Equity securities	3,936	1,493	1,887	869
Others	1	(8)	-	-

Note:

When financial assets measured at fair value through other comprehensive income are derecognized, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

11. Inventories

Details of “Inventories” in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Merchandise and finished goods	145,182	149,380
Work in process	19,086	18,726
Raw materials	36,591	49,803
Total	200,860	217,910

Notes:

1. Inventories recognized as expenses and included in “Cost of sales” in the consolidated statement of profit or loss for the years ended March 31, 2021 and 2022 are 297,510 million yen and 305,010 million yen, respectively.
2. Write-down of inventories recognized during the period and included in “Cost of sales” in the consolidated statement of profit or loss for the years ended March 31, 2021 and 2022 are 8,014 million yen and 7,850 million yen, respectively.

12. Property, Plant and Equipment

(1) Reconciliation of carrying amount

Reconciliation of the carrying amount and details of acquisition cost, accumulated depreciation and accumulated impairment loss of “Property, plant and equipment” in the consolidated statement of financial position are as follows:

a. Acquisition cost

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2020	380,786	211,265	95,433	21,123	708,609
Individual acquisitions	16,223	6,704	7,644	37,697	68,279
Acquisition through business combinations	-	-	5	-	5
Sales or disposals	(2,743)	(4,189)	(4,554)	-	(11,487)
Exchange differences	2,797	1,833	1,106	522	6,260
Decrease related to deconsolidation	(545)	(146)	(133)	-	(825)
Other increases and decreases	(1,884)	(175)	(213)	(18,605)	(20,878)
Balance as of March 31, 2021	394,643	215,291	99,289	40,738	749,963
Individual acquisitions	29,512	15,116	7,959	51,611	104,200
Sales or disposals	(14,667)	(33,338)	(3,858)	(1)	(51,866)
Exchange differences	7,544	4,062	1,512	1,946	15,065
Other increases and decreases	10,105	(114)	(223)	(42,133)	(32,366)
Balance as of March 31, 2022	427,138	201,017	104,679	52,161	784,996

b. Accumulated depreciation and accumulated impairment loss

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2020	217,249	164,534	79,772	-	461,556
Depreciation	14,169	10,637	6,341	-	31,148
Impairment loss	24	53	25	-	102
Acquisition through business combinations	-	-	5	-	5
Sales or disposals	(2,582)	(4,051)	(4,520)	-	(11,154)
Exchange differences	1,178	1,212	829	-	3,220
Decrease related to deconsolidation	(27)	(8)	(73)	-	(109)
Other increases and decreases	52	(103)	(37)	-	(87)
Balance as of March 31, 2021	230,064	172,273	82,343	-	484,681
Depreciation	15,653	10,970	6,457	-	33,080
Impairment loss	4,617	1	0	-	4,620
Sales or disposals	(13,244)	(32,659)	(3,792)	-	(49,696)
Exchange differences	3,157	2,459	1,180	-	6,796
Other increases and decreases	1,482	(5)	(33)	-	1,444
Balance as of March 31, 2022	241,730	153,039	86,155	-	480,926

c. Carrying amounts

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2020	163,536	46,731	15,661	21,123	247,053
Balance as of March 31, 2021	164,578	43,017	16,946	40,738	265,281
Balance as of March 31, 2022	185,407	47,977	18,523	52,161	304,070

Note:

Depreciation of property, plant and equipment is included in “Cost of sales,” “Selling, general and administrative expenses,” and “Research and development expenses” in the consolidated statement of profit or loss.

(2) Impairment of Property, Plant and Equipment

The Group performed impairment testing for certain property, plant and equipment for which indicators of potential impairment were identified.

As a result of the impairment testing, impairment loss of 102 million yen and 4,620 million yen were recognized for the year ended March 31, 2021 and 2022, respectively, and recorded in “Cost of sales”, “Selling, general and administrative expenses” and “Research and development expenses” in the consolidated statement of profit or loss.

The impairment loss for the year ended March 31, 2022 was mainly related to property, plant and equipment owned by Plexxikon Inc. An impairment testing was performed for the “Property, plant and equipment” of Plexxikon Inc., as there was an indication that the assets may be impaired due to the termination of its business. As a result of the impairment testing, the carrying amount of the assets was reduced to the recoverable amount, and an impairment loss of 4,274 million yen relating to " Land, buildings and structures" was recorded in "Research and development expenses" in the consolidated statement of profit or loss. The value in use was used for the recoverable amount, and the value in use measured by applying a pre-tax discount rate of 13.76% was 1,509 million yen.

13. Goodwill and Intangible Assets

(1) Reconciliation of Carrying Amount

Reconciliation of the carrying amount and details of acquisition cost, accumulated amortization and accumulated impairment loss of “Goodwill” and “Intangible assets” in the consolidated statement of financial position are as follows:

a. Acquisition cost

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 2020	76,760	52,779	294,152	24,156	371,088
Individual acquisitions	-	737	17,468	1,267	19,473
Acquisition through business combinations	-	7,129	-	-	7,129
Sales or disposals	-	(21)	(18,111)	(332)	(18,465)
Reclassification to assets held for sale	-	-	(1,528)	-	(1,528)
Exchange differences	945	997	4,790	472	6,259
Other increases and decreases	-	(18,771)	18,588	(674)	(857)
Balance as of March 31, 2021	77,706	42,851	315,359	24,889	383,099
Individual acquisitions	-	3,501	9,312	1,753	14,566
Sales or disposals	-	(50)	(34,546)	(375)	(34,971)
Exchange differences	5,848	2,855	17,626	1,489	21,971
Other increases and decreases	-	(2,560)	2,536	(244)	(268)
Balance as of March 31, 2022	83,555	46,597	310,288	27,512	384,398

b. Accumulated amortization and accumulated impairment loss

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 2020	-	-	179,029	19,560	198,589
Amortization	-	-	24,791	1,322	26,113
Impairment loss	-	21	482	-	504
Sales or disposals	-	(21)	(16,275)	(328)	(16,625)
Reclassification to assets held for sale	-	-	(1,528)	-	(1,528)
Exchange differences	-	-	2,829	419	3,248
Other increases and decreases	-	-	(21)	(4)	(25)
Balance as of March 31, 2021	-	-	189,307	20,970	210,277
Amortization	-	-	23,692	1,360	25,053
Impairment loss	-	880	4,945	-	5,825
Sales or disposals	-	(50)	(34,546)	(372)	(34,969)
Exchange differences	-	-	12,958	1,395	14,354
Other increases and decreases	-	-	(28)	1	(27)
Balance as of March 31, 2022	-	830	196,328	23,355	220,514

c. Carrying amounts

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Adjusted balance as of April 1, 2020	76,760	52,779	115,123	4,596	172,499
Balance as of March 31, 2021	77,706	42,851	126,052	3,919	172,822
Balance as of March 31, 2022	83,555	45,767	113,959	4,157	163,884

Note:

Amortization of intangible assets is included in “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” in the consolidated statement of profit or loss.

(2) Significant Goodwill and Intangible Assets

The Group allocated major goodwill to two groups of cash-generating units, the prescription drug business and the healthcare (OTC) products business. The carrying amount of goodwill allocated to each group as of March 31, 2021 and 2022 are 57,784 and 63,219 million yen to the prescription drug business, respectively, and 16,000 million yen to the healthcare (OTC) products business.

The carrying amount of intangible assets mainly consists of:

- commercial rights of Bempedoic Acid owned by Daiichi Sankyo Europe GmbH of 32,071 million yen and 30,843 million yen and at March 31, 2021 and 2022, respectively, which are amortized based on the straight-line method and the remaining amortization period as of March 31, 2022 is 10 years;
- commercial rights of TURALIO owned by Plexxikon Inc. of 23,942 million yen and 21,889 million yen as of March 31, 2021 and 2022, respectively, which are amortized based on the straight-line method with remaining amortization period as of March 31, 2022 of 11 years;
- patent rights for the introduction of gene therapy manufacturing technology from Ultragenyx Pharmaceutical Inc. of 10,611 million yen and 7,073 million yen at March 31, 2021 and 2022, which are amortized based on the straight-line method with remaining amortization period as of March 31, 2022 of 1 year;
- in-process research and development of Quizartinib owned by Ambit Biosciences Corporation of 27,046 million yen and 29,902 million yen as of March 31, 2021 and 2022, respectively;

(3) Research and Development Expenditure

Research expenditure and development expenditure which do not meet the criteria for capitalization are expensed when incurred. The amount of expensed research and development expenditure is 227,353 million yen and 260,228 million yen for the years ended March 31, 2021 and 2022, respectively.

(4) Impairment of Goodwill

The Group performs impairment testing for goodwill annually and at any time there is an indication that goodwill may be impaired. Impairment tests for goodwill were performed as follows:

a. Prescription drug business

The recoverable amount was estimated based on value in use using the mid-term plan through fiscal 2025, which was approved by management, and the valuation included a terminal value assuming a growth rate of 0% after fiscal 2025.

The value in use was calculated using a pre-tax discount rate and exceeded the carrying amount, therefore no impairment loss was recognized for the year ended March 31, 2022. The pre-tax discount rate for the year ended March 31, 2021 and 2022 were 5.9% and 5.8%, respectively. The value in use exceeded the carrying amount, and the Group determined that the possibility of the value in use becoming lower than the carrying amount is remote, even if the discount rate were to increase within a reasonable range.

b. Healthcare (OTC) products business

The recoverable amount was estimated based on value in use using the mid-term plan through fiscal 2025, which was approved by management, and the valuation included a terminal value assuming a growth rate of 0% after fiscal 2025.

The value in use was calculated using a pre-tax discount rate and exceeded the carrying amount, therefore no impairment loss was recognized for the year ended March 31, 2022. The pre-tax discount rate for the year ended March 31, 2021 and 2022 were 6.7% and 6.2%, respectively. The value in use exceeded the carrying amount, and the Group determined that the possibility of the value in use becoming lower than the carrying amount is remote, even if the discount rate were to increase within a reasonable range.

(5) Impairment of Intangible Assets

The Group performs impairment testing for intangible assets which indicate potential impairment at all such times and for intangible assets not yet available for use annually and at any time there is an indication that an asset may be impaired.

The recoverable amount of an intangible asset is the higher of its fair value less costs of disposal and its value in use, which is calculated based on risk-adjusted future cash flows discounted by an appropriate discount rate. If the carrying amount of an intangible asset exceeds the recoverable amount, an impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.

For measurement of the value in use, the Group considers the possibility that the manufacturing and marketing of new products are approved, sales forecasts of products and other factors. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments in the amount of intangible assets may be required in the consolidated financial statements for the year ending March 31, 2023.
As a result of the impairment testing, impairment losses of 504 million yen and 5,825 million yen were recognized for the years ended March 31, 2021 and 2022, respectively, and recorded in "Cost of sales", "Selling, general and administrative expenses" and "Research and development expenses" in the consolidated statement of profit or loss. The impairment loss for the year ended March 31, 2021 and 2022 were mainly related to foreign subsidiaries' commercial rights, and the Group recognized an impairment loss resulting from a decline in profitability mainly due to market entry of competing products.

14. Investments Accounted for Using the Equity Method

Carrying amounts of investments in associates accounted for using the equity method are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Carrying amounts of investments in associates	1,440	1,425

Financial information of associates accounted for using the equity method is as follows.
These amounts are after adjustment for the Group's ownership ratio.

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Profit for the year	168	129
Other comprehensive income	-	-
Total comprehensive income for the year	168	129

15. Income Taxes

(1) Deferred Tax Assets and Liabilities

Sources of "Deferred tax assets" and "Deferred tax liabilities" are as follows:

Year ended March 31, 2021

(Millions of Yen)

	Balance as of April 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2021
Deferred tax assets					
Prepaid outsourced research expenses and co-development expenses	18,306	1,860	-	-	20,167
Depreciation and amortization	3,146	591	-	-	3,737
Unrealized gain and valuation loss of inventories	16,335	15,265	-	-	31,600
Unused tax losses	47,130	6,099	-	-	53,230
Accrued expenses	20,830	1,806	-	-	22,637
Post-employment benefit liabilities	3,726	-	-	(3,726)	-
Valuation loss of securities	1,395	180	-	-	1,575
Impairment loss	7,929	(1,985)	-	-	5,944
Lease liabilities	11,891	(1,497)	-	-	10,394
Others	21,028	3,191	-	-	24,219
Total	151,720	25,513	-	(3,726)	173,507
Deferred tax liabilities					
Intangible assets	15,667	(724)	-	2,369	17,311
Financial assets measured at fair value through other comprehensive income	13,726	-	5,175	-	18,902
Post-employment benefit assets	-	2,049	3,726	(3,726)	2,048
Reserve for advanced depreciation of property, plant and equipment	6,247	(228)	-	-	6,018
Right-of-use assets	9,092	(1,217)	-	-	7,875
Others	7,880	2,459	-	-	10,339
Total	52,613	2,338	8,901	(1,357)	62,496
Net balance	99,106	23,175	(8,901)	(2,369)	111,010

Notes:

1. The difference between the total amounts recognized in profit or loss and other comprehensive income in the table above and the total deferred income taxes in profit or loss and total income taxes recognized through other comprehensive income, respectively, relates to income tax expenses associated with foreign currency translation differences.
2. For the recognition of deferred tax assets related to unused tax losses, the Group considers the estimated amount and timing of generation of future taxable profit based on future business plans. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments may be required in the consolidated financial statements for the year ending March 31, 2022.

Year ended March 31, 2022

(Millions of Yen)

	Balance as of April 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2022
Deferred tax assets					
Prepaid outsourced research expenses and co-development expenses	20,167	(2,498)	-	-	17,668
Depreciation and amortization	3,737	681	-	-	4,418
Unrealized gain and valuation loss of inventories	31,600	17,032	-	-	48,633
Unused tax losses	53,230	(7,198)	-	-	46,031
Accrued expenses	22,637	3,514	-	-	26,151
Valuation loss of securities	1,575	(635)	-	-	939
Impairment loss	5,944	(528)	-	-	5,415
Lease liabilities	10,394	2,336	-	-	12,730
Others	24,219	5,654	-	-	29,874
Total	173,507	18,358	-	-	191,865
Deferred tax liabilities					
Intangible assets	17,311	(4,702)	-	-	12,609
Financial assets measured at fair value through other comprehensive income	18,902	-	(2,440)	-	16,462
Post-employment benefit assets	2,048	155	2,132	-	4,336
Reserve for advanced depreciation of property, plant and equipment	6,018	(256)	-	-	5,762
Right-of-use assets	7,875	2,644	-	-	10,519
Others	10,339	6,105	-	-	16,445
Total	62,496	3,946	(307)	-	66,136
Net balance	111,010	14,411	307	-	125,729

Note:

1. The difference between the total amounts recognized in profit or loss and other comprehensive income in the table above and the total deferred income taxes in profit or loss and total income taxes recognized through other comprehensive income, respectively, relates to income tax expenses associated with foreign currency translation differences.
2. For the recognition of deferred tax assets related to unused tax losses, the Group considers the estimated amount and timing of generation of future taxable profit based on future business plans. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments may be required in the consolidated financial statements for the year ending March 31, 2023.
3. Since the Company and some of its domestic subsidiaries will apply Group Tax Sharing System in replacement of Consolidated Taxation System from the year ending March 31, 2023, the amount of deferred tax assets and deferred tax liabilities are accounted for on the assumption that Group Tax Sharing System will be applied.

(2) Unrecognized Deferred Tax Assets

Deductible temporary differences, unused tax losses (detail by expiry) and unused tax credits (detail by expiry) for which deferred tax assets are not recognized in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Deductible temporary differences	58,075	57,290
Unused tax losses		
Within 1 year	-	-
Over 1 year within 5 years	5,668	-
Over 5 years	33,304	38,736
Total	38,972	38,736
Unused tax credits		
Within 1 year	-	111
Over 1 year within 5 years	232	1,750
Over 5 years	2,444	2,702
Total	2,677	4,565

(3) Unrecognized Deferred Tax Liabilities

The total temporary differences associated with equity investments in subsidiaries and associates for which deferred tax liabilities are not recognized are 111,341 million yen and 166,177 million yen as of March 31, 2021 and 2022, respectively. When the Group can control the timing of the reversal of the temporary differences and it is not probable that the temporary differences will be reversed in the foreseeable future, deferred tax liabilities are not recognized.

(4) Income Taxes Recognized through Profit or Loss

Details of income taxes recognized through profit or loss are as follows:

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Current period income taxes	21,122	20,261
Deferred income taxes		
Origination and reversal of temporary differences	(5,696)	(15,132)
Change in income tax rate or imposition of new taxation	(179)	22
Adjustments and reversals of deferred tax assets	(16,952)	1,393
Total	(22,828)	(13,717)
Total income tax expenses	(1,705)	6,543

(5) Income Taxes Related to Items in Other Comprehensive Income

Details of income taxes recognized through other comprehensive income are as follows:

(Millions of Yen)

	Year ended March 31, 2021			Year ended March 31, 2022		
	Before tax effect	Tax effect	After tax effect	Before tax effect	Tax effect	After tax effect
Financial assets measured at fair value through other comprehensive income	18,175	(5,675)	12,499	(6,765)	2,174	(4,590)
Remeasurements of defined benefit plans	11,656	(3,809)	7,847	7,941	(2,110)	5,831
Exchange differences on translation of foreign operations	18,805	-	18,805	62,078	-	62,078
Total	48,637	(9,485)	39,151	63,255	64	63,319

(6) Reconciliation of Effective Tax Rate

Major sources of differences between the statutory tax rate and effective tax rate are as follows:

	Year ended March 31, 2021	Year ended March 31, 2022
Statutory tax rate	30.5%	30.5%
Permanent non-deductible expenses such as entertainment expenses	1.8%	2.1%
Permanent non-taxable income such as dividends received	(0.7%)	(0.1%)
Changes in unrecognized deferred tax assets	(21.9%)	(1.0%)
Effect of different tax rates in foreign jurisdictions	(1.2%)	(8.7%)
Tax credit for research and development expenses	(8.4%)	(8.6%)
Other Tax credits	(4.2%)	(5.5%)
Adjustment to period-end deferred tax assets due to change in tax rate	(0.3%)	0.0%
Others	2.1%	0.2%
Effective tax rate	(2.3%)	8.9%

Notes:

1. The Company is subject to corporate tax, inhabitant tax, and enterprise tax, which is tax deductible against taxable income for corporate tax purposes when paid. The applicable tax rate based on these taxes is 30.5% for the years ended March 31, 2021 and 2022. The statutory tax rate used for the calculation of deferred tax assets and liabilities is 30.5% for the years ended March 31, 2021 and 2022. Overseas operations are subject to income taxes of the jurisdictions in which they are located.
2. Changes in unrecognized deferred tax assets are mainly due to changes in deferred tax assets related to unused tax losses as a result of revisions to estimates of future taxable profit in Japan.
3. Tax credit for research and development expenses mainly arises in Japan and the United States.
4. "Other tax credits"", which was included in "Others" in the previous year, is disclosed separately from the year ended March 31, 2022 since the monetary significance has increased. Accordingly, comparative information has been reclassified.

16. Trade and Other Payables

Details of "Trade and other payables" in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Notes and accounts payable - trade	68,691	68,536
Accounts payable - other	108,934	107,107
Others	119,873	149,139
Total	297,499	324,784

Note:
"Notes and accounts payable - trade" and "Accounts payable - other" are classified as financial liabilities measured at amortized cost.

17. Bonds and Borrowings, and Other Financial Liabilities

(1) Breakdown of Bonds and Borrowings

Breakdown of "Bonds and borrowings" in the consolidated statement of financial position is as follows:

a. Current Liabilities

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Financial liabilities measured at amortized cost:		
Unsecured bank loans	20,000	20,000
Other borrowings	391	394
Total	20,391	20,394

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Financial liabilities measured at amortized cost:		
Unsecured corporate bonds	119,628	119,649
Unsecured bank loans	41,000	21,000
Other borrowings	2,812	2,418
Total	163,441	143,067

(2) Breakdown of Other Financial Liabilities

Breakdown of "Other financial liabilities" in the consolidated statement of financial position is as follows:

a. Current Liabilities

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	72	71
Lease liabilities	9,287	10,694
Total	9,359	10,766

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Financial liabilities measured at amortized cost:	3,210	2,918
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	718	236
Lease liabilities	33,054	39,460
Total	36,983	42,615

(3) Terms of Bonds

Terms of bonds are as follows:

(Millions of Yen)

Company name	Name of bond	Date of issuance	As of March 31, 2021	As of March 31, 2022	Interest rate	Maturity date
Daiichi Sankyo Company Limited	4th Unsecured corporate bonds	September 18, 2013	20,000	20,000	0.85%	September 15, 2023
Daiichi Sankyo Company Limited	5th Unsecured corporate bonds	July 25, 2016	75,000	75,000	0.81%	July 25, 2036
Daiichi Sankyo Company Limited	6th Unsecured corporate bonds	July 25, 2016	25,000	25,000	1.20%	July 25, 2046
Total	-	-	120,000	120,000	-	-

(4) Terms of Borrowings

Terms of borrowings are as follows:

(Millions of Yen)

Category	As of March 31, 2021	As of March 31, 2022	Average interest rate	Repayment period
Current portion of long-term borrowings	20,000	20,000	0.04%	-
Long-term borrowings	41,000	21,000	0.09%	Year 2023
Other borrowings	3,204	2,812	-	-
Total	64,204	43,812	-	-

Note:

Average interest rate is calculated using the ending balance of the borrowings and the interest rates as of March 31, 2022.

18. Provisions

(1) Movement in provisions

Details of the movement in “Provisions” in the consolidated statement of financial position by class of provision are as follows:

Year ended March 31, 2021

(Millions of Yen)

	Restructuring	Environmental measures	Others	Total
Balance as of April 1, 2020	5,588	8,198	2,178	15,965
Increase during the period	4	-	1,104	1,108
Utilized	(605)	(198)	(1,261)	(2,064)
Reversed unused	(48)	(427)	(57)	(532)
Interest cost due to unwinding of discount	3	-	5	9
Exchange differences	223	-	81	305
Other increases and decreases	0	-	2	2
Balance as of March 31, 2021	5,166	7,573	2,053	14,793
Current liabilities	3,576	1,015	1,459	6,051
Non-current liabilities	1,590	6,558	593	8,741
Total	5,166	7,573	2,053	14,793

Year ended March 31, 2022

(Millions of Yen)

	Restructuring	Environmental measures	Others	Total
Balance as of April 1, 2021	5,166	7,573	2,053	14,793
Increase during the period	128	9,474	2,381	11,984
Utilized	(173)	(1,014)	(965)	(2,153)
Reversed unused	(14)	(0)	(131)	(146)
Interest cost due to unwinding of discount	4	-	5	9
Exchange differences	443	-	147	591
Other increases and decreases	-	-	8	8
Balance as of March 31, 2022	5,556	16,032	3,498	25,086
Current liabilities	3,918	-	2,877	6,795
Non-current liabilities	1,638	16,032	620	18,290
Total	5,556	16,032	3,498	25,086

(2) Summary of Provisions and Expected Timing of Economic Benefits Outflow

Provisions are calculated based on management's best estimate of the future outflows of economic benefits as of the reporting dates. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments may be required in the consolidated financial statements for the year ending March 31, 2023.

The summary of provisions recorded by the Group and the periods in which the outflow of economic benefits is expected to occur are as set out below. There were no significant asset retirement obligations as of March 31, 2021 and 2022.

a. Restructuring

Provisions for restructuring are recognized at the estimated amount of losses for planned restructurings mainly in relation to reduction of the number of employees in North America and Europe. Provisions for restructuring are recognized when the Group has a detailed formal plan and has raised a valid expectation in those affected that it is certain that the Group will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The timing of payments will be affected by the progress of the future restructuring of business operations.

b. Environmental measures

In the previous year, the Company recorded 7,573 million yen in "Provision for environmental measures" as the estimated cost of Removal of contaminated soil storage facilities on the site of the former Yasugawa Plant. In the current year, the provision decreased by 1,015 million yen due to utilization related to the payment of work commencement fee and other costs.

In addition, since the investigation was completed complying with the Soil Contamination Countermeasures Act of Japan relating to Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, and as the discussions with the government has confirmed the outline of the work plan, an additional 9,474 million yen has been recorded in "Provision for environmental measures" based on the current best estimate. As a result, the "Provision for environmental measures" as of March 31, 2022 is 16,032 million yen, which is recorded in non-current liabilities.

The timing of payments will be affected by the work plan decided in the discussions with the government.

19. Employee Benefits

The Company and its domestic subsidiaries mainly adopt the Group's joint defined benefit corporate pension plan and defined contribution plan.

Under the joint defined benefit corporate pension plan, upon retirement, employees enrolled in the plan for longer than a specified vesting period can elect to receive either a pension or lump-sum payment, and employees not fulfilling the vesting period requirement can receive a lump sum payment. In either case the benefits are based on 80% of points accumulated by the time of retirement. This pension plan is operated by a corporate pension fund independent of the Group, and the Group contributes to the plan the amount calculated based on the monthly points assigned for each participant. The fund is to be operated using the contributed amounts to ensure stable benefits to participants. The Group has introduced a risk reserve contribution which contributes in advance in case of future financial risks. In addition, the Company has established a retirement benefit trust for the joint defined benefit corporate pension plan and contributed marketable securities owned by the Company as trust assets.

Under the defined contribution plan, the Group contributes to a respective employee's individual account in the amount of the monetary value of monthly points, based on 20% of the accumulated points an employee accumulates to retirement, and does not owe a legal or constructive obligation to contribute more than this amount.

The Group may also pay additional, discretionary retirement lump-sum benefits, in addition to the employee benefits plans described above.

Certain overseas components have defined benefit and defined contribution plans.

(1) Present Value of Defined Benefit Obligations

Changes in present value of the defined benefit obligations are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2020	146,109	16,292	162,402
Current service cost	5,548	443	5,991
Interest cost	1,021	279	1,300
Benefits paid	(6,012)	(720)	(6,732)
Employee contributions	-	265	265
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	809	(125)	684
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	0	1,190	1,190
Past service cost	-	(41)	(41)
Exchange differences	-	1,445	1,445
Other increases and decreases	-	28	28
Balance as of March 31, 2021	147,477	19,057	166,535
Current service cost	5,586	564	6,151
Interest cost	1,030	250	1,281
Benefits paid	(6,373)	(1,000)	(7,373)
Employee contributions	-	149	149
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	(41)	68	26
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	(3,982)	(1,397)	(5,380)
Past service cost	-	25	25
Exchange differences	-	975	975
Other increases and decreases	-	155	155
Balance as of March 31, 2022	143,698	18,848	162,546

Note:

Expenses related to employee benefits are reported in Note 24 "Major Expenses by Nature."

(2) Fair Value of Plan Assets

Changes in fair value of plan assets are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2020	151,469	14,168	165,637
Interest income	1,060	246	1,306
Benefits paid	(5,597)	(428)	(6,025)
Employer contributions	13,667	546	14,213
Employee contributions	-	265	265
Remeasurement – Return on plan assets	12,943	610	13,553
Exchange differences	-	1,275	1,275
Other increases and decreases	-	34	34
Balance as of March 31, 2021	173,542	16,718	190,261
Interest income	1,214	219	1,434
Benefits paid	(6,141)	(665)	(6,806)
Employer contributions	6,749	741	7,491
Employee contributions	-	149	149
Remeasurement – Return on plan assets	1,415	349	1,764
Exchange differences	-	934	934
Other increases and decreases	-	157	157
Balance as of March 31, 2022	176,780	18,605	195,386

Note:

The Group expects to contribute 6,879 million yen to defined benefit pension plans for the year ending March 31, 2023.

(3) Fair Value of Plan Assets by Class

Breakdown of fair value of the plan assets by class is as follows:

(Millions of Yen)

	Plans in Japan			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2021	As of March 31, 2022	As of March 31, 2021	As of March 31, 2022
Equity securities	57,883	61,265	-	-
Bonds	57,674	59,383	-	-
Real estate	-	-	11,233	14,855
Life insurance general accounts	-	-	19,461	19,057
Others	10,725	4,818	16,563	17,400
Total	126,283	125,466	47,259	51,314

(Millions of Yen)

	Overseas plans			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2021	As of March 31, 2022	As of March 31, 2021	As of March 31, 2022
Equity securities	1,912	2,185	-	-
Bonds	632	697	-	-
Others	2,956	3,510	11,217	12,212
Total	5,501	6,393	11,217	12,212

(4) Asset Ceiling

Changes in the effect of asset ceiling are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2020	-	733	733
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	-	21	21
Exchange differences	-	63	63
Balance as of March 31, 2021	-	818	818
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	-	(823)	(823)
Exchange differences	-	5	5
Balance as of March 31, 2022	-	-	-

(5) Breakdown of Post-employment Benefit Liabilities

Breakdown of “Post-employment benefit liabilities” in the consolidated statement of financial position is as follows:

As of March 31, 2021

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	147,477	19,057	166,535
Fair value of plan assets	(173,542)	(16,718)	(190,261)
Funding deficit	(26,064)	2,338	(23,726)
Impact of asset ceiling	-	818	818
Post-employment benefit assets	26,472	168	26,640
Others	185	10	196
Post-employment benefit liabilities	593	3,336	3,929

As of March 31, 2022

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	143,698	18,848	162,546
Fair value of plan assets	(176,780)	(18,605)	(195,386)
Funding deficit	(33,082)	242	(32,840)
Post-employment benefit assets	33,249	1,976	35,226
Others	225	13	238
Post-employment benefit liabilities	392	2,232	2,624

(6) Significant Assumptions and Other Information for Defined Benefit Plans

a. Significant actuarial assumptions

Significant actuarial assumptions are as follows:

	As of March 31, 2021	As of March 31, 2022
Discount rate		
Plans in Japan	0.7%	0.9%
Overseas plans	0.2%~13.5%	0.8%~19.1%

b. Sensitivity Analysis

Effect of a 1% change in actuarial assumptions on the defined benefit obligations is as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Discount rate		
Effect on defined benefit obligations of 1% increase	(21,696)	(20,387)
Effect on defined benefit obligations of 1% decrease	26,234	24,562

c. Sensitivity Analysis Method, Assumptions and Limitations

The results of the sensitivity analysis show how a 1% increase or decrease in the discount rate would lead to a decrease or increase in the defined benefit obligations as of the reporting date. The effect of the notional discount rate is calculated as an approximation provided by the logarithmic interpolation method, which reflects a conceptual average discount period, based on the notional balances of the defined benefit obligations provided by multiple discount rates.

d. Investment Policy and Management of Plan Assets

The Group manages the plan assets to secure necessary mid-to long-term returns and to build adequate high quality plan assets within acceptable risk levels, in order to ensure future payments of pension benefits and lump-sum payments.

A target rate of return is set using the result of Asset-liability management ("ALM") analysis, aiming to maintain sound funding of pension financing into the future. Each individual asset is targeted to earn a rate of return exceeding the market rate for each investment category. In aggregate, a target rate of return is set aiming to exceed the combined market rate which is correlated to an investment portfolio for the market in each investment category.

To meet the target returns, the Group defines and pursues strategic asset allocation, which is designed to continue maximizing returns in the future ("the strategic asset mix") with consideration of expected returns, standard deviations or risks and correlation of each of the investments. The strategic asset mix is determined through the assessment process, including the ALM analysis and the fund's maturation assessment, from medium-term and long-term perspectives. The strategic asset mix is reviewed every three years, or as needed when there is a significant change in the investment environment.

e. Funding Policy and Rules Affecting Future Contributions

In relation to the joint defined benefit corporate pension plan adopted in Japan, the Group's funds revise the amounts of contributions every five years to ensure balanced finances for future periods. The funds also revise the amounts of contributions in the event that the balance of the fund reserve falls below the amount of the liability reserve following adjustment by the amount of deficit eligible for carry-forward as of the fund's reporting date.

The Company and its domestic subsidiaries, which have adopted the joint corporate pension fund, are required to make additional required contributions when the amount of the fund reserve as of the year-end falls below the minimum base amount. They are also required to make a contribution necessary to cover the cost associated with the payments of benefits for the fiscal year in case the reserve is expected to be depleted by the year-end.

In addition, the Group makes a risk reserve contribution in consideration of future financial risks.

f. Maturity Analysis of Defined Benefit Obligations

The weighted average duration of the defined benefit obligations are 14.4 years and 13.9 years as of March 31, 2021 and 2022, respectively.

(7) Defined Contribution Plans

Expenses related to defined contribution plans, which are mainly employer contributions were 15,880 million yen and 17,675 million yen for the years ended March 31, 2021 and 2022, respectively.

20. Government Grants

(1) Government grants related to assets

Amounts of government grants related to assets which are recognized as deferred revenue and recorded in "Trade and other payables" and "Other non-current liabilities" in the consolidated statement of financial position are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Trade and other payables	2,031	1,617
Other non-current liabilities	6,091	5,661

Note:

Government grants were received mainly to acquire property, plant and equipment related to development and production facilities for influenza vaccine. There are no unfulfilled conditions and other contingencies attached to the government grants presented above.

(2) Government grants related to income

Government grants related to income were received mainly related to the establishment of development and production systems for the novel coronavirus diseases (COVID-19). When relevant expenditure is incurred, a grant of the same amount is recognized in profit or loss, and 1,165 million yen and 10,177 million yen were deducted from "Research and development expenses" for the years ended March 31, 2021 and 2022, respectively. There are no unfulfilled conditions and other contingencies attached to these government grants.

21. Capital and Other Components of Equity

(1) Share Capital and Capital Surplus

The number of authorized shares and details of fully paid issued shares are as follows:

a. Number of Authorized Shares

(Thousands of shares)

	Number of ordinary shares
April 1, 2020	2,800,000
March 31, 2021	8,400,000
March 31, 2022	8,400,000

Note:

As of October 1, 2020, the Company partially amended the Articles of Incorporation in line with a share split based on the resolution of the Board of Directors meeting held on April 27, 2020. As a result, the total number of shares issuable increased by 5,600,000 thousand shares to 8,400,000 thousand shares.

b. Details of Fully Paid Issued Shares

	Number of issued shares (Thousands of shares)	Share Capital (Millions of Yen)	Capital surplus (Millions of Yen)
April 1, 2020	709,011	50,000	94,633
Increase and decrease during the period	1,418,022	-	(138)
March 31, 2021	2,127,034	50,000	94,494
Increase and decrease during the period	(180,000)	-	(94,494)
March 31, 2022	1,947,034	50,000	-

Notes:

1. The shares issued by the Company are ordinary shares with no par value which have no restrictions on any rights.
2. Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares. As a result, the total number of shares issuable increased by 1,418,022 shares.
3. As a result of the cancellation of 180,000 thousand shares of treasury stock on April 15, 2021, the total number of issued shares is 1,947,034 thousand shares.

(2) Treasury Shares

The number and amount of treasury shares are as follows:

	Number of treasury shares (Thousands of shares)	Amount (Millions of Yen)
April 1, 2020	60,943	162,519
March 31, 2021	210,868	261,252
March 31, 2022	30,247	37,482

Notes:

1. All treasury shares are owned by the Company.
2. Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares.
3. As of April 15, 2021, 180,000 thousand shares of treasury stock were cancelled.
4. The Company operates stock option plans and uses its treasury shares to settle the rights under these plans. Details of the stock option plans are presented in Note 27 “Share-based payments”.
5. The Company operates restricted share-based remuneration plans and uses its treasury shares to settle the rights under these plans.

(3) Other Components of Equity

a. Subscription Rights to Shares

The Company operates stock option plans and subscription rights to shares are issued in accordance with the Japanese Companies Act.

b. Exchange Differences on Translation of Foreign Operations

Exchange differences arise from translating financial statements of foreign operations.

c. Financial Assets Measured at Fair Value through Other Comprehensive Income

Changes in fair value of financial assets measured at fair value through other comprehensive income.

d. Remeasurements of Defined Benefit Plans

Remeasurements of defined benefit liabilities and assets.

22. Dividend

(1) Amount of Dividend Paid

Year ended March 31, 2021

Resolution	Class of shares	Total amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 15, 2020	Ordinary shares	22,682	35.0	March 31, 2020	June 16, 2020
Board of Directors' meeting held on October 30, 2020	Ordinary shares	26,264	40.5	September 30, 2020	December 1, 2020

Year ended March 31, 2022

Resolution	Class of shares	Total amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 21, 2021	Ordinary shares	25,868	13.5	March 31, 2021	June 22, 2021
Board of Directors' meeting held on October 29, 2021	Ordinary shares	25,875	13.5	September 30, 2021	December 1, 2021

Note:

Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares. For the "Dividend per share" with a record date before September 30, 2020, the amount prior to the share split is presented.

(2) Dividend with Record Date in the Year but whose Effective Date is in the Following Year

Year ended March 31, 2021

Resolution	Class of shares	Total amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 21, 2021	Ordinary shares	25,868	13.5	March 31, 2021	June 22, 2021

Year ended March 31, 2022

Resolution	Class of shares	Total amount of dividend (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 27, 2022	Ordinary shares	25,876	13.5	March 31, 2022	June 28, 2022

23. Revenue

(1) Goods and service

The main business of the Group is manufacturing and marketing of pharmaceutical products, and the promised goods or services to be transferred to customers are as follows:

a. Sales of finished goods and merchandise

The promised goods or services to be transferred to customers are mainly the sales of prescription drugs and healthcare (OTC) products. Regarding this type of sale, the Group recognizes revenue when finished goods and merchandise are transferred to and accepted by customers, because control of finished goods and merchandise is transferred and the performance obligation is satisfied at that time. The Group receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

The Group is obliged to take trade discounts, cash discounts, rebates and returns depending on the conditions of contracts. In this case, the transaction price is measured at the amount after deducting the estimated amounts of those items from the consideration promised in the contract with customers, and the amount of consideration expected to be returned to customers is recorded as a refund liability. The estimation of refund liabilities is based on the contractual conditions and/or historical experience.

b. License fee revenue

The Group receives consideration for upfront payments, milestone revenue and running royalties by entering into agreements to grant rights to third parties for the research and development of products, manufacturing and marketing of products, and usage of technologies.

Revenue from upfront payments is recognized at the time of granting a license if the performance obligation is satisfied at a point in time, and milestone revenue is recognized when a milestone agreed among parties such as application for approval to regulatory agencies is achieved, considering a possibility that significant reversal of revenue might occur subsequently. If a performance obligation is not satisfied at a point in time, its consideration is accounted for as a contract liability and recognized as revenue over a period in accordance with satisfaction of the performance obligation such as research and development cooperation related to individual contracts. Running royalties are measured based on sales of counterparties or other indexes and recognized as revenue considering the timing of occurrence.

The Group receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

(2) Disaggregation of revenue

Breakdown of revenue of the Group is as follows:

Year ended March 31, 2021

(Millions of Yen)

		Region				
		Japan	North America	Europe	Other regions	Total
Sales of finished goods and merchandise	Prescription drugs	487,855	166,107	107,458	93,527	854,948
	Healthcare (OTC) products	66,465	-	-	560	67,025
	Total	554,320	166,107	107,458	94,087	921,974
License fee revenue		160	23,384	1,725	981	26,252
Others		6,244	2,159	4,864	1,022	14,290
Total		560,725	191,651	114,047	96,091	962,516

Note:

Revenue mainly consists of revenue recognized from contracts with customers and the amount of revenue recognized from other sources is not significant.

Year ended March 31, 2022

(Millions of Yen)

		Region				
		Japan	North America	Europe	Other regions	Total
Sales of finished goods and merchandise	Prescription drugs	485,671	208,525	135,535	109,114	938,847
	Healthcare (OTC) products	64,155	-	-	377	64,532
	Total	549,826	208,525	135,535	109,491	1,003,379
License fee revenue		209	25,909	1,146	1,045	28,311
Others		8,217	1,561	1,935	1,485	13,201
Total		558,253	235,997	138,618	112,022	1,044,892

Note:
Revenue mainly consists of revenue recognized from contracts with customers and the amount of revenue recognized from other sources is not significant.

(3) Contract balances

The balances of accounts receivable arising from contracts with customers and contract liabilities are as follows:

(Millions of Yen)

	As of April 1, 2020	As of March 31, 2021	As of March 31, 2022
Accounts receivable arising from contracts with customers	282,539	201,032	214,575
Contract liabilities	160,353	198,430	234,174

Notes:

1. Accounts receivable arising from contracts with customers are included in “Trade and other receivables” and contract liabilities are included in “Trade and other payables” and “Other non-current liabilities” in the consolidated statement of financial position.
2. The main contract liabilities are consideration received from customers prior to satisfaction of performance obligations regarding license fee revenue.
3. The amount of revenue recognized for the years ended March 31, 2021 and 2022 out of the balance of contract liabilities as of April 1, 2020 and 2021 were 14,783 million yen and 21,537 million yen, respectively.
4. The amount of revenue in accordance with performance obligations satisfied or partially satisfied in prior periods for the years ended March 31, 2021 and 2022 were 7,152 million yen and 7,234 million yen, respectively, which were mainly related to milestone revenue and running royalties.

(4) Transaction prices allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations were mainly related to license fee revenue, and the period in which revenue will be recognized are as set out in the table below.

The disclosure of contracts for which the initial expected period is within one year is omitted applying the practical expedient.

In addition, among consideration from contracts with customers, there is no significant amount that is not included in transaction price.

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Within 1 year	20,939	20,018
Over 1 year within 5 years	74,386	80,532
Over 5 years	102,804	127,862
Total	198,130	228,412

24. Major Expenses by Nature

Information related to major expenses by nature is as follows:

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Advertisement and promotional expenses	93,322	112,795
Salaries and bonuses	181,959	190,494
Statutory benefits	20,764	20,575
Post-employment benefits	22,459	24,371
Other employee benefit expenses	4,862	3,589
Rent and leases	7,803	7,756
Depreciation and amortization	57,382	58,245
Gain on sale of property, plant and equipment	(130)	(3,911)
Loss on disposal of property, plant and equipment	960	1,210
Impairment loss	607	10,446
Provisions for environmental measures (note) 1	-	9,474
Restructuring costs	(53)	1,690
Loss compensation (note) 2	15,000	-

Notes:

1. Summary of “Provisions for environmental measures” is diclosed in Note 18. “Provisions”
2. The Company terminated its marketing alliance agreement for the “Squarekids subcutaneous injection syringe”, a tetravalent combination vaccine, and its joint development agreement on pentavalent combination vaccine with Sanofi K.K. (hereafter, “Sanofi”) effective March 31, 2021. The Company recorded a 15,000 million yen loss in Selling, general and administrative expenses in the year ended March 31, 2021 relating to compensation to Sanofi for the loss sustained from the termination of the 2 agreements.

25. Financial Income and Financial Expenses

(1) Financial Income

Breakdown of “Financial income” is as follows:

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Interest income		
Financial assets measured at amortized cost:		
Bank deposits	715	945
Loans receivable	18	3
Bonds	682	514
Others	(162)	63
Financial assets measured at fair value through profit or loss	30	7
Dividend income		
Financial assets measured at fair value through other comprehensive income:		
Dividend income from financial assets held at the end of the year	1,307	1,288
Dividend income from financial assets derecognized during the year	77	43
Financial assets measured at fair value through profit or loss	42	0
Gain from change in fair value and realized gain		
Financial assets and liabilities measured at fair value through profit or loss:		
Derivatives	448	1,059
Others	4,129	1,885
Net foreign exchange gains	904	-
Others	4,722	303
Total	12,916	6,114

Note:
“Others” in Financial Income for the year ended March 31, 2021 mainly includes the amount of the change in fair value of the contingent consideration for Ambit Biosciences Corporation.

(2) Financial Expenses

Breakdown of “Financial expenses” is as follows:

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Interest expenses		
Financial liabilities measured at amortized cost:		
Borrowings	91	44
Bonds	1,127	1,076
Others	13	66
Lease liabilities	570	745
Others	38	10
Loss on change in fair value and realized loss		
Financial assets and liabilities measured at fair value through profit or loss:		
Derivatives	358	397
Others	370	1,656
Net foreign exchange losses	-	219
Others	185	1,537
Total	2,755	5,753

Note:
“Others” in Financial Expenses for the year ended March 31, 2022 mainly includes the amount of the change in fair value of the contingent consideration for Ambit Biosciences Corporation.

26. Earnings Per Share

(1) Basis for calculation of Basic Earnings per Share

	Year ended March 31, 2021	Year ended March 31, 2022
a. Profit Attributable to owners of the Company		
Profit attributable to owners of the Company (Millions of Yen)	75,958	66,972
Profit not attributable to owners of the Company (Millions of Yen)	-	-
Profit used to calculate basic earnings per share (Millions of Yen)	75,958	66,972
b. Weighted-average Number of Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	1,939,343	1,916,602
c. Basic Earnings per Share		
Basic earnings per share (Yen)	39.17	34.94

Note:
Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares. “Basic Earnings per Share” is calculated as if the share split had taken place at the beginning of the year ended March 31, 2021.

(2) Basis for calculation of Diluted Earnings per Share

	Year ended March 31, 2021	Year ended March 31, 2022
a. Diluted Profit Attributable to owners of the Company		
Profit used to calculate basic earnings per share (Millions of Yen)	75,958	66,972
Adjustments to profit (Millions of Yen)	-	-
Profit used to calculate diluted earnings per share (Millions of Yen)	75,958	66,972
b. Weighted-average Number of Diluted Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	1,939,343	1,916,602
Potential effect of issue of subscription right to shares (Thousands of shares)	2,631	1,897
Weighted-average number of ordinary shares (diluted) (Thousands of shares)	1,941,975	1,918,499
c. Diluted Earnings per Share		
Diluted earnings per share (Yen)	39.11	34.91

Note:
Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares. “Diluted Earnings per Share” is calculated as if the share split had taken place at the beginning of the year ended March 31, 2021.

27. Share-based Payments

The Company operates stock option plans, restricted share-based remuneration plans and medium-term performance-based share compensation plan. In addition, some subsidiaries issue share appreciation rights as cash-settled share-based payments.

(1) Details of Restricted Share-based Remuneration Plans, the Number of Shares Granted During the Year, and their Fair Values

Details of restricted share-based remuneration plans, the number of shares granted during the year, and their fair values are as follows:

	Year ended March 31, 2021	Year ended March 31, 2022
Grant date	July 14, 2020	July 20, 2021
Granted (Shares)	91,677	113,072
Fair value (Yen)	2,944	2,510.5

Notes:

1. Restricted shares are granted to members of the Company's Board of Directors and Corporate Officers, excluding external Board members ("holders of subscription rights to restricted shares").
2. The transfer restriction period is the period extending to the time immediately after resignation or retirement of the positions that are a Director of the Company or its Corporate Officer not concurrently serving as a Director. The restriction is cancelled when the transfer restriction period expires on the condition that holders of subscription rights to restricted shares continuously served as either a member of the Company's Board of Directors or as a Corporate Officer who does not concurrently serve as a member of the Company's Board of Directors throughout the period of service.
3. The Company forms a restricted share allotment agreement with the holders of subscription rights to restricted shares which prohibits them from transferring, creating any security interest on, or otherwise disposing of the Company's ordinary shares that have been received by allotment under the agreement for a specified period. The agreement also includes the Company's right to acquire the said ordinary shares without contribution in the case where specified events happen.
4. Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares. Therefore, "Granted" and "Fair value" are converted into the amounts after the share split of the year ended March 31, 2021.

(2) Details of Stock Option Plans and Unexercised Balances as of March 31, 2022

Details of stock option plans and unexercised balances as of March 31, 2022 are as follows:

	Number of stock options		Grant date	Exercise period of granted options
	Granted (Shares)	Unexercised (Shares)		
1st issuance subscription rights to shares (as stock options)	305,700	9,000	February 15, 2008	From February 16, 2008 to February 15, 2038
2nd issuance subscription rights to shares (as stock options)	516,600	15,000	November 17, 2008	From November 18, 2008 to November 17, 2038
3rd issuance subscription rights to shares (as stock options)	692,400	45,300	August 17, 2009	From August 18, 2009 to August 17, 2039
4th issuance subscription rights to shares (as stock options)	711,300	117,000	August 19, 2010	From August 20, 2010 to August 19, 2040
5th issuance subscription rights to shares (as stock options)	698,400	166,200	July 12, 2011	From July 13, 2011 to July 12, 2041
6th issuance subscription rights to shares (as stock options)	886,200	285,300	July 9, 2012	From July 10, 2012 to July 9, 2042
7th issuance subscription rights to shares (as stock options)	578,400	261,300	July 8, 2013	From July 9, 2013 to July 8, 2043
8th issuance subscription rights to shares (as stock options)	435,000	272,100	July 8, 2014	From July 9, 2014 to July 8, 2044
9th issuance subscription rights to shares (as stock options)	356,100	225,900	July 7, 2015	From July 8, 2015 to July 7, 2045
10th issuance subscription rights to shares (as stock options)	405,600	348,300	July 5, 2016	From July 6, 2016 to July 5, 2046
Total	5,585,700	1,745,400	-	-

Notes:

1. The stock option plans are equity-settled.
2. Stock options are granted to members of the Company’s Board of Directors and Corporate Officers, excluding external Board members.

3. Persons to whom stock options are granted ("holders of subscription rights to shares") may exercise their subscription rights to shares until the end of the fiscal year that ends within 10 years from the day following their resignation from the office as a Member of the Board of Directors or as a Corporate Officer of the Company which they held when the subscription rights to shares were granted. If the holders of subscription rights to shares concurrently serve as a Member of the Board of Directors and Corporate Officer, the day of resignation from the office is the day they retire from the office as a Member of the Board of Directors, regardless of whether they continued to hold the position of a Corporate Officer. If the holders of subscription rights to shares served as a Corporate Officer when the subscription rights to shares were granted and if they took office as a Member of the Board of Directors upon their resignation as a Corporate Officer, the day when they resigned from the office is the day when they resign from the office as a Member of the Board of Directors, and not the day when they retire as a Corporate Officer.
4. There are no vesting conditions for the stock options.
5. Number of stock options represents the number of ordinary shares that would be issued upon exercise of the stock options.
6. Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares. Therefore, "Granted" and "Unexercised" are converted into the amounts after the share split.

(3) Movement in the Number of Stock Options and the Exercise Prices

Movement in the number of stock options and the exercise prices are as follows:

	Year ended March 31, 2021		Year ended March 31, 2022	
	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)
Unexercised balance at the beginning of the year	3,617,400	1	2,258,400	1
Granted	-	-	-	-
Exercised	(1,359,000)	1	(513,000)	1
Expired	-	-	-	-
Unexercised balance at the end of the year	2,258,400	1	1,745,400	1
Options outstanding	2,258,400	1	1,745,400	1
Range of exercise prices	1 Yen		1 Yen	
Weighted average remaining contractual life	22.24years		21.57years	

Notes:

1. Number of stock options represents the number of ordinary shares that would be issued upon exercise of the stock options.
2. Weighted average share price at the exercise date for the stock options which were exercised during the period is 2,848 yen and 2,724 yen for the years ended March 31, 2021 and 2022, respectively.
3. Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares. The number of ordinary shares, weighted average exercise price and weighted average share price are calculated as if the share split had taken place at the beginning of the year ended March 31, 2021.

(4) Fair Value Measurement of Stock Options Granted During the Period

No stock options were granted in the year ended March 31, 2021 and 2022.

(5) Share-based Payment Expenses

Breakdown of share-based payment expenses is as follows:

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Equity-settled	273	281
Cash-settled	11,764	851
Total	12,037	1,133

Notes:

1. Equity-settled share-based payment transactions relate to the restricted share-based remuneration plans.
2. Cash-settled share-based payment transaction consists of Stock Appreciation Right (“SAR”) and Restricted Stock Unit (“RSU”), which some consolidated subsidiaries grant to specific employees.
   For a SAR, the Company pays cash based on the difference between the stock price on the grant date and the exercise date, and rights are vested three years after the grant date and are exercisable within the following seven years.
   RSU rights are vested three years after the grant date, and the Company pays cash based on the stock price as of the date the rights are vested and applicable dividends.
3. Although the trust for the medium-term performance-based compensation, which is a trust-type and share-based compensation plan that uses share delivery trust, has not been established yet, as points for the medium-term performance-based compensation are awarded based on the already established share delivery rules, the Company expensed the amount of future payments for medium-term performance-based share compensation in the year ended March 31, 2022. Such expenses are included in cash-settled in the table above.
4. Liabilities arising from cash-settled share-based payment transactions are 16,759 million yen and 12,100 million yen as of March 31, 2021 and 2022, respectively.

28. Financial Instruments

(1) Risk Management

The Group is exposed to credit risks, foreign currency exchange risks, interest rates risks, market price fluctuation risks and liquidity risks arising from operating and financing activities. The Group uses derivative instruments only to hedge these risks, and the Group’s policy is not to enter into speculative derivative transactions. Each group company’s finance department executes and manages derivative transactions. A derivative transaction management policy is established, which states limitation of authorities and transaction amounts. Derivative transactions are executed and managed in accordance with this policy and are reported to the Board of Directors.

a. Credit Risk

Trade receivables, such as notes receivables and accounts receivable- trade, are exposed to the credit risk of the customers. The Company’s Sales Administration Department periodically monitors the condition of major customers and controls outstanding balances and due dates for each individual customer in accordance with the credit management policy to identify collectability issues at an early stage in an effort to mitigate the credit risks. Consolidated subsidiaries also perform the same controls in accordance with the Company’s credit management policy.

The Group is exposed to credit risks of financial institutions holding deposits and issuers of bonds. The Group executes transactions only with highly rated counterparties within credit limits, which are determined for each of the counterparties in accordance with the fund management policy to minimize concentration risk.

Derivative transactions are exposed to credit risks of counterparties. The Group executes transactions only with highly rated financial institutions in order to mitigate the counterparties’ credit risk.

The Group deems that there is debt default if the following events occur because it is considered that all or a part of accounts receivable cannot be collected or it is extremely difficult to collect, and measures expected credit losses for each account receivable as a financial asset with high credit risk. Financial assets which are individually immaterial are grouped by similarity of the nature of risks, and impairment is assessed as a whole.

- Critical financial difficulty of counterparty
- Uncollectable accounts receivable, or delay of collection against repeated demand for payment
- Bankruptcy of counterparty, or increase in possibility that counterparty needs financial reform

i) Movement in Allowance for Doubtful Accounts

The movement in allowance for doubtful accounts is as follows:

(Millions of Yen)

	Recorded at an amount equal to 12-month expected credit losses	Recorded at an amount equal to lifetime expected credit losses		Total
		Trade receivable	Credit impaired financial assets	
Balance as of April 1, 2020	0	529	0	530
Increase during the period	0	320	0	320
Utilized	-	(27)	-	(27)
Reversed unused	-	(184)	-	(184)
Others (including exchange differences)	0	4	-	4
Balance as of March 31, 2021	0	641	1	643
Increase during the period	0	657	0	657
Utilized	-	(226)	-	(226)
Reversed unused	-	(260)	-	(260)
Others (including exchange differences)	0	112	-	112
Balance as of March 31, 2022	1	923	1	926

ii) Credit Risk Exposure

Ageing analysis of trade receivable that are past due at the end of reporting period is as set out in the table below. There was no material past due items or credit risk exposure in financial assets other than trade receivable.

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Before due	197,752	211,311
Past due by 30 days	2,550	2,581
Past due by 31-60 days	473	193
Past due by 61-90days	83	300
Past due by more than 90 days	812	1,122
Total	201,673	215,499

The Group has securities and other assets as collaterals for accounts receivables from wholesalers. There is no material effect on the allowance for doubtful accounts due to these collaterals.

b. Foreign Currency Exchange Risks

Trade receivables, trade payables denominated in foreign currencies, which arise from the Company’s global operations, are exposed to foreign currency exchange risks.

i) Exposure to Foreign Currency Exchange Risks

Net exposure to foreign currency exchange risks is as set out below. The amount does not include exposure to foreign currency exchange risks that is hedged by derivatives.

	As of March 31, 2021	As of March 31, 2022
U.S. dollar (Thousands of U.S. dollar)	(205,560)	(375,601)
Euro (Thousands of Euro)	130,732	454,046

ii) Foreign Exchange Sensitivity Analysis

The impact of a 1% appreciation in the Yen against the U.S. dollar and Euro on profit before tax for the financial instruments held by the Group at each year-end is as set out below. This analysis is based on the assumption that other factors remain constant. The exposure to fluctuations of all foreign currencies other than U.S. dollar and Euro is not significant.

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
U.S. dollar	227	459
Euro	(169)	(620)

c. Interest Rate Risks

Borrowings with variable interest rates are exposed to interest rate risks. The Group uses interest rates swaps to hedge interest rate risks.

d. Market Price Fluctuation Risk

The Group holds bonds and shares issued by companies including business partners which are exposed to market price fluctuation risks. The Group regularly monitors the fair value of the instruments and financial condition of the issuers (business partners) and continuously reconsiders composition of holdings of securities to manage market price fluctuation risks.

Some subsidiaries use cash-settled share-based payment transactions based on the Company’s shares, which are exposed to share price fluctuation risks.

e. Liquidity Risk

Liquidity risk is the risk that the Group is not able to meet the obligations associated with its financial liabilities as they become due. The Group continuously monitors cash flow planning and actual results to manage liquidity risks. The Group also has commitment line contracts with financial institutions and maintains credit lines which are useable to manage liquidity risks.

Outstanding balances by due date of major financial liabilities are as follows:

As of March 31, 2021

(Millions of Yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Trade and other payables	220,124	220,124	220,124	-	-	-	-	-
Unsecured Corporate bonds	119,628	137,489	1,076	1,076	20,992	907	907	112,528
Unsecured bank loans	61,000	61,020	20,008	20,008	21,004	-	-	-
Other borrowings	3,204	3,298	412	412	412	412	412	1,236
Lease liabilities	42,342	46,086	8,396	5,911	3,679	2,994	2,829	22,275
Derivative liabilities	790	758	408	258	90	-	-	-
Total	447,090	468,776	250,426	27,667	46,178	4,314	4,149	136,040

As of March 31, 2022

(Millions of Yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Trade and other payables	232,954	232,954	232,954	-	-	-	-	-
Unsecured Corporate bonds	119,649	136,412	1,076	20,992	907	907	907	111,621
Unsecured bank loans	41,000	41,031	20,022	21,009	-	-	-	-
Other borrowings	2,812	2,886	412	412	412	412	412	824
Lease liabilities	50,154	53,441	10,823	8,103	6,138	5,392	4,034	18,950
Derivative liabilities	308	315	233	81	-	-	-	-
Total	446,880	467,042	265,523	50,598	7,457	6,712	5,353	131,396

(2) Fair Value of Financial Instruments

a. Fair value and carrying amount of financial instruments

Comparison between fair value and carrying amount of financial instruments is as follows:

(Millions of Yen)

	As of March 31, 2021		As of March 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	119,628	121,347	119,649	120,965
Borrowings	64,204	64,265	43,812	43,851

b. Measurement of Fair Values

Measurement methods of fair values are as follows:

i) Other Financial Assets and Other Financial Liabilities

For financial instruments traded in an active market, the fair value is determined by reference to the quoted market price. When there is no active market, the fair value of the financial instruments is measured by using appropriate valuation methods. The fair value of derivatives is measured by reference to quotes obtained from financial institutions which are contractual counterparties.

ii) Bonds

The fair value of bonds is determined by reference to the observable market price. The bonds are categorized as Level 2 in the fair value hierarchy.

iii) Borrowings

The fair value of borrowings with variable interest rates reflects the market rate in the short-term and therefore approximates the carrying value. Fair value of borrowings with fixed interest rates is discounted using an expected market interest rate based on the assumption that the total principal amount is newly borrowed on the same terms and conditions. The borrowings are categorized as Level 2 in the fair value hierarchy.

Fair value of all other financial assets and liabilities approximates carrying amounts.

(3) Fair Value Hierarchy

a. Fair Value Hierarchy

The fair value hierarchy of financial instruments is summarized as follows:

Level 1: Fair value measured at quoted prices in active markets for identical assets or liabilities

Level 2: Fair value measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value measured by appropriate valuation methods using inputs that are not based on observable market data

Transfers of financial instruments among these levels are recognized at the end of each quarter of the year.

As of March 31, 2021

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss:				
Bonds	-	556	-	556
Others	14,514	42,319	-	56,834
Financial assets measured at fair value through other comprehensive income:				
Equity securities	69,634	-	14,561	84,195
Others	-	-	406	406
Total	84,149	42,876	14,967	141,993
Financial liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	-	790	-	790
Contingent consideration	-	-	3,151	3,151
Total		790	3,151	3,941

Notes:

1. There were no transfers of financial instruments between the levels.
2. “Others” categorized as Level 2 under “Financial assets measured at fair value through profit or loss” includes 41,833 million yen of foreign-currency bank deposits embedding forward foreign exchange contracts. The fair value of financial instruments categorized as Level 2 is measured using the quoted price obtained from the financial institutions.
3. The fair value of unlisted shares is categorized as Level 3 and measured at fair value using comparable peer company analysis and other valuation models, such as the net asset method. Since unobservable inputs, such as EBITDA, are used in these valuation models, the fair value of these shares is categorized as Level 3. To measure fair value, EBITDA ratio in the range of (0.9) ~ 20.2 is used based on the corresponding comparable peer companies. When the EBITDA ratio increases, the fair value also increases.
4. “Contingent consideration” under “Financial liabilities measured at fair value through profit or loss” is included in “Other non-current liabilities” in the consolidated statement of financial position.

As of March 31, 2022

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss:				
Derivative assets	-	577	30	607
Bonds	-	615	-	615
Others	16,963	547	-	17,511
Financial assets measured at fair value through other comprehensive income:				
Equity securities	57,811	-	18,189	76,000
Others	-	-	1,120	1,120
Total	74,775	1,741	19,340	95,856
Financial liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	-	308	-	308
Contingent consideration	-	-	4,873	4,873
Total	-	308	4,873	5,182

Notes:

1. There were no transfers of financial instruments between the levels.
2. The fair value of financial instruments categorized as Level 2 is measured using the quoted price obtained from the financial institutions.
3. The fair value of unlisted shares is categorized as Level 3 and measured at fair value using comparable peer company analysis and other valuation models, such as the net asset method. Since unobservable inputs, such as EBITDA, are used in these valuation models, the fair value of these shares is categorized as Level 3. To measure fair value, EBITDA ratio in the range of (0.2) ~ 16.3 is used based on the corresponding comparable peer companies. When the EBITDA ratio increases, the fair value also increases.
4. “Contingent consideration” under “Financial liabilities measured at fair value through profit or loss” is included in “Other current liabilities” in the consolidated statement of financial position.

b. Reconciliation of Level 3 Fair Values

The following table shows reconciliation from the opening balances to the ending balances for Level 3 fair values.

Year ended March 31, 2021

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Balance at the beginning of the year	16,348	14,967
Gain (Loss) Other comprehensive income	(306)	3,293
Purchase	440	1,199
Sale and settlement	(1,319)	(120)
Others	(194)	-
Balance at the end of the year	14,967	19,340

Note:
The above table does not include contingent consideration arising from business combinations, which is included in Note 7 "Business Combination."

(4) Derivatives and Hedge Accounting

a. Cash Flow Hedges

The Group uses forward foreign exchange contracts to hedge movements of cash flows associated with future business transactions denominated in foreign currencies. When criteria for hedge accounting are met, they are designated as cash flow hedges. The effective portion of changes in fair value related to hedging instruments is recognized in other comprehensive income, and the ineffective portion of changes in fair value is recognized in profit or loss. The accumulated amount recognized in equity through other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss. In the year ended March 31, 2021 and 2022 there is no reclassification to profit or loss.

b. Derivatives Not Designated as Hedging Instruments

The Group uses derivatives when economically reasonable even if the hedging arrangement does not meet the criteria for hedge accounting.

The Group uses the following derivatives which are not designated as hedging instruments:

- Forward foreign exchange contracts to hedge foreign currency exchange risk; and
- Interest rates swaps to hedge fluctuations of variable interest rates for borrowings.

The Group does not hold derivatives for speculative purposes.

c. Fair Values of Derivatives

Fair values of derivatives are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Derivative assets		
Currency related	-	577
Others	-	30
Total	-	607
Derivative liabilities		
Interest related	790	308
Total	790	308

(5) Offsetting Financial assets and Financial liabilities

Details of offsetting financial assets and financial liabilities with the same counterparty are as follows:

Year ended March 31, 2021

(Millions of Yen)

Financial assets	Transaction type	Total amount of financial asset already recognized	Total amount of financial liability already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial asset presented in Consolidated Statement of Financial Position
Cash and cash equivalents	Notional pooling	16,619	16,059	560

(Millions of Yen)

Financial liabilities	Transaction type	Total amount of financial liability already recognized	Total amount of financial asset already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial liability presented in Consolidated Statement of Financial Position
Bonds and borrowings	Notional pooling	16,059	16,059	-

Year ended March 31, 2022

(Millions of Yen)

Financial assets	Transaction type	Total amount of financial asset already recognized	Total amount of financial liability already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial asset presented in Consolidated Statement of Financial Position
Cash and cash equivalents	Notional pooling	66,729	66,107	621

(Millions of Yen)

Financial liabilities	Transaction type	Total amount of financial liability already recognized	Total amount of financial asset already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial liability presented in Consolidated Statement of Financial Position
Bonds and borrowings	Notional pooling	66,107	66,107	-

(6) Capital Management

The Group recognizes the necessity of securing liquidity and fund raising capacity to enable flexible investments to enhance shareholder returns as well as to achieve sustainable growth.

Therefore, the Group monitors movement in mid-to-long term liquidity, credit ratings which demonstrate the soundness of financial condition, and the appropriate capital structure.

In addition, one of the Group's objectives is to achieve ROE of 16% or more and DOE of 8% or more in the year ended March 31, 2026 in order to accomplish its 2030 Vision.

The major indicators the Group employs for capital management are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Cash plus marketable securities (note 1)	827,214	842,910
Bonds and borrowings	183,832	163,462
Net cash	643,381	679,447
Total shareholder return ratio (note 2)	200.3%	77.3%

Notes:

1. "Cash plus marketable securities" includes cash and cash equivalents, and securities with original maturities of more than three months.
2. "Total shareholder return ratio" is calculated based on (Dividend plus total acquisition costs of treasury shares) / Profit attributable to owners of the Company.

There are no significant capital adequacy requirements applicable to the Group.

29. Lease Transactions

(1) Lessee

The Group has entered into rental agreements mainly for real estate and machinery, and determines that a contract that transfers the right to control the use of specified assets for a certain period of time in exchange for consideration is a lease or contains a lease. As such, the Group recognizes the right-of-use assets and lease liabilities at the commencement date. However, for short-term leases or leases of low-value underlying assets, the Group expenses lease payments related to these leases over the lease term on a straight-line basis.

Mainly for contracts that are related to real estate, the lessee's options to extend leases are granted with a view to securing flexibility of substituting assets, reducing administrative tasks for asset management and enhancing efficiency etc.

Options to extend a lease period will be exercised when the Group determines necessary, comprehensively considering the necessity of the subject assets in carrying out businesses, the difficulty in acquiring alternative assets and the costs incurred to manage the assets. If the Group determines that it is reasonably certain that an extension option will be exercised at the commencement date, it includes the extended period in the lease term and includes the lease payments for that period in the measurement of lease liabilities. The lease extendable period by exercising the option and lease payments related to the extendable period are generally commensurate with or approximate to the original lease term and lease payments.

In addition, leases of real estate can be canceled without paying any penalty by submitting the notice of termination to the lessor within a certain period of time prior to the termination.

The Group presents the right-of-use assets as "property, plant and equipment" in the consolidated statement of financial position.

The movement and the details of right-of-use assets are as follows:

(Millions of Yen)

	Land, building and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 2020	28,462	2,760	105	31,328
Individual acquisitions	8,150	1,425	-	9,575
Depreciation	(5,803)	(1,497)	(50)	(7,352)
Sales or disposals	(60)	(120)	-	(180)
Other increases and decreases	(1,005)	113	-	(891)
Balance as of March 31, 2021	29,743	2,681	54	32,479
Individual acquisitions	4,341	2,002	21	6,365
Depreciation	(6,579)	(1,571)	(40)	(8,191)
Impairment losses	(2,816)	-	-	(2,816)
Sales or disposals	(132)	(529)	-	(661)
Other increases and decreases (note)	10,598	189	3	10,791
Balance as of March 31, 2022	35,155	2,771	38	37,966

Note:
Mainly includes variations due to lease modifications and early termination relating to right-of-use assets are included.

The following shows the expenses and cash outflows related to leases, and increase in the right-of-use assets:

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Depreciation costs of the right-of-use assets		
Land, building and structures	5,803	6,579
Machinery and vehicles	1,497	1,571
Tools, furniture and fixtures	50	40
Total	7,352	8,191
Interest expenses for lease liabilities	570	745
Expenses for short-term leases	1,017	1,176
Expenses for leases of low-value underlying assets	3,837	3,951
Cash outflows related to leases	17,993	19,387
Increase in right-of-use assets	9,575	18,923

For the maturity analysis of lease liabilities, see Note 28 “Financial instruments.”

(2) Lessor

The Group rents company houses to its employees. This transaction is defined as a sublease, and the lease term is consistent with the lease term of the head lease. The Group classifies the sublease as a finance lease.

30. Other Comprehensive Income

Reclassification adjustments related to “Other comprehensive income” are as follows:

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Other comprehensive income that are or may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Change for the year	18,316	62,078
Reclassification adjustments	489	-
Subtotal	18,805	62,078
Other comprehensive income, before adjustments for tax effects	18,805	62,078
Tax effects	-	-
Total	18,805	62,078

31. Cash Flow Information

(1) Changes in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

(Millions of Yen)

	Borrowings	Bonds	Lease liabilities	Total
Balance as of April 1, 2020	84,594	139,606	42,131	266,332
Changes from financing cash flows	(20,389)	(20,000)	(12,907)	(53,296)
Non-cash changes				
Acquisitions	-	-	13,936	13,936
Exchange differences	-	-	1,068	1,068
Others	-	21	(1,886)	(1,865)
Balance as of March 31, 2021	64,204	119,628	42,342	226,175
Changes from financing cash flows	(20,391)	-	(14,095)	(34,487)
Non-cash changes				
Acquisitions	-	-	10,491	10,491
Exchange differences	-	-	2,858	2,858
Others	-	21	8,557	8,578
Balance as of March 31, 2022	43,812	119,649	50,154	213,616

32. Related Parties

(1) Transactions with Related Parties

Transactions with related parties are on the same terms as the normal course of business. There were no material transactions with related parties for the years ended March 31, 2021 and 2022.

(2) Remuneration of Key Management Personnel

(Millions of Yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Remuneration and bonuses	572	954
Restricted share-based remuneration	96	98
Medium-term performance-based share compensation	-	63
Total	667	1,115

33. Commitments

Total contractual amounts of commitments for acquisition of assets after the end of each year are as follows:

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Property, plant and equipment	57,675	106,123
Intangible assets	139,901	142,396
Total	197,576	248,520

Note:
The commitments for intangible assets mainly relate to the acquisitions of sales licenses for technology introduction and represent the milestone payments based on the achievement of milestones associated with the medical research and development objectives. The amounts presented above represent the maximum payments if all milestones are achieved and may differ from the actual amounts paid.

34. Contingent Liabilities

(1) Loan Guarantees

The Company provides loan guarantees in relation to its employees' borrowings from financial institutions as shown below. In the event that the employees are unable to repay their debt, the Company will need to bear the unpaid amounts.

(Millions of Yen)

	As of March 31, 2021	As of March 31, 2022
Employees (housing and other loans)	291	233

(2) Litigations

a. Judgement Action Related to Proprietary Antibody Drug Conjugate Technology with Seagen Inc. (formerly Seattle Genetics, Inc.)

The Company filed a Declaratory Judgement action in the District Court of Delaware in November 2019 in response to receiving communications from Seagen Inc., claiming certain intellectual property rights related to Daiichi Sankyo's antibody-drug conjugate (ADC) products with respect to a collaboration between the two companies for the development of ADCs.

On the other hand, Seagen Inc. applied for an arbitration on the objection in November 2019 and thereafter the arbitration procedure has been in progress.

Although the Company does not currently recognize any obligation to Seagen Inc., the Company may need to make payments depending on the results of the arbitration or other proceedings. However, it is not considered possible at present to reasonably estimate the monetary amount of any such payments.

b. Lawsuit relating to Seagen Inc.'s U.S. patent

In October 2020, Seagen Inc. filed a patent infringement lawsuit in the U.S. District Court of Eastern District of Texas, alleging that the Company's ADCs, including ENHERTU, infringed a U.S. patent held by Seagen Inc. Subsequently, a jury trial was held in April 2022 which reached a verdict that ENHERTU infringed the patent. The jury has determined that Seagen Inc.'s damages amount between October 2020 and March 2022 prior to the jury trial was 42 million U.S. dollar, and found that there was willful infringement of Seagen Inc.'s U.S. patent. In addition, Seagen Inc. requested the court to issue an order requiring the Company to pay royalties on future sales of ADCs, such as ENHERTU, from April 2022 to November 2024, when the patent expires. The court has not yet made a judgement for this matter and will do so after considering the contents of the above jury's verdict and further claims of both parties. As a result, the damages amount of Seagen Inc. determined by the jury may be subject to change based on the court's judgement. In the case of willful infringement, the amount of compensation for damages can be increased up to three times under U.S. patent law. If compensation will be paid to Seagen Inc., it will be split equally between the Company and AstraZeneca UK Limited based on the agreement for joint development and sales alliance of ENHERTU. Since the jury's verdict is unacceptable for the Company, legal measures including post-jury trial claims and appeals are being considered.

In relation to this matter, in December 2020, the Company and its subsidiary claimed that Seagen Inc.'s U.S. patent is invalid and filed a petition with the United States Patent and Trademark Office ("USPTO") for Post Grant Review ("PGR") to examine the validity of Seagen Inc.'s U.S. patent. However, the USPTO decided that a PGR would not be initiated. In response to this decision, in July 2021, the Company and its subsidiary filed a request for rehearing of the decisions denying institution with the USPTO, and in August 2021, filed an administrative litigation in the U.S. District Court for the Eastern District of Virginia. In April 2022, the USPTO approved the request for rehearing and decided to initiate a PGR.

Regardless of the outcome of the first instance of the patent infringement lawsuit, the Company believes that Seagen Inc.'s U.S. patent is likely to be judged invalid in the appeal court and is also likely to be judged invalid in the PGR at the USPTO. The Company believes that it is unlikely that it will be ordered to pay compensation, and therefore did not record any provision for compensation for the alleged patent infringement.

The Group estimates the possible outflow of economic benefits due to settlement of contingent liabilities by using all available inputs at the reporting date. Except for the items noted above, there are no contingent liabilities that could have a significant impact on the Group's operations in future periods.

35. Major Consolidated Subsidiaries and Associates

Major consolidated subsidiaries and associates as of March 31, 2022 are as follows:
There were no significant changes in percentage of voting rights from March 31, 2021.

Consolidated Subsidiaries

Company	Location	Function	Percentage of voting rights (%)
Daiichi Sankyo Espha Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Healthcare Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Propharma Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Chemical Pharma Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Biotech Co., Ltd.	Kitamoto, Saitama, Japan	Pharmaceuticals	100.0
Daiichi Sankyo RD Novare Co., Ltd.	Edogawa-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Business Associe Co., Ltd.	Chuo-ku, Tokyo, Japan	Other	100.0
Daiichi Sankyo U.S. Holdings, Inc.	New Jersey, United States	Pharmaceuticals	100.0
Daiichi Sankyo Inc.	New Jersey, United States	Pharmaceuticals	100.0
American Regent, Inc.	New York, United States	Pharmaceuticals	100.0
Daiichi Sankyo Europe GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo France SAS	Rueil-Malmaison, France	Pharmaceuticals	100.0
Daiichi Sankyo Deutschland GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo Italia S.p.A.	Rome, Italy	Pharmaceuticals	100.0
Daiichi Sankyo España S.A.	Madrid, Spain	Pharmaceuticals	100.0
Daiichi Sankyo UK Ltd.	Buckinghamshire, United Kingdom	Pharmaceuticals	100.0
Daiichi Sankyo (China) Holdings Co., Ltd.	Shanghai, China	Pharmaceuticals	100.0
Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.	Beijing, China	Pharmaceuticals	100.0
Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd.	Shanghai, China	Pharmaceuticals	100.0
Daiichi Sankyo Taiwan Ltd.	Taipei, Taiwan	Pharmaceuticals	100.0
Daiichi Sankyo Korea Co., Ltd.	Seoul, South Korea	Pharmaceuticals	100.0
Daiichi Sankyo Brasil Farmacêutica LTDA.	Sao Paulo, Brazil	Pharmaceuticals	100.0

Associate accounted for using the equity method

Company	Location	Function	Percentage of voting rights (%)
Hitachi Pharma Information Solutions, Ltd.	Chiyoda-ku, Tokyo, Japan	Other	27.2

Note:
At the Board of Directors meeting held on March 31, 2022, the Company decided to transfer all shares of Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd. to YaoPharma Co., Ltd. The transfer is scheduled to be completed at the end of August 2022.

36. Subsequent Events

Not applicable.

KPMG

Independent auditor's report

To the Board of Directors of Daiichi Sankyo Company, Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Daiichi Sankyo Company, Ltd. ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2022, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, 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.

Emphasis of Matter

We draw attention to Note 34, "Contingent Liabilities, (2) Litigations a. Judgement Action Related to Proprietary Antibody Drug Conjugate Technology with Seagen Inc. (formerly Seattle Genetics, Inc.)" to the consolidated financial statements. The Company filed a Declaratory Judgement action in the District Court of Delaware in November 2019 in response to receiving communications from Seagen Inc., claiming certain intellectual property rights related to Daiichi Sankyo's antibody-drug conjugate (ADC) products with respect to a collaboration between the two companies for the development of ADCs. On the other hand, Seagen Inc. applied for an arbitration on the objection in November 2019 and thereafter the arbitration procedure has been in progress. Although the Company does not currently recognize any obligation to Seagen Inc., the Company may need to make payments depending on the results of the arbitration or other proceedings. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Appropriateness of the Company’s judgement on the recoverability of deferred tax assets</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>
In the consolidated statement of financial position of the Group, deferred tax assets of 138,173 million yen were recognized at the end of the current fiscal year. As described in Note 15, “Income Taxes” to the consolidated financial statements, the amount of gross deferred tax assets before being offset by deferred tax liabilities amounted to 191,865 million yen, which included deferred tax assets of 46,031 million yen for unused tax losses, which mainly belonged to the Company that had a large amount of unused tax losses.
As described in Note 15, “Income Taxes” to the consolidated financial statements, the Company will apply Group Tax Sharing System in replacement of Consolidated Taxation System from the year ending March 31, 2023, the amount of deferred tax assets and deferred tax liabilities are accounted for on the assumption that Group Tax Sharing System will be applied.
In addition, as described in Note 3, “Significant Accounting Policies, (18) Income Taxes” to the consolidated financial statements, deferred tax assets are recognized for deductible temporary differences, and unused tax losses and tax credits to the extent that it is probable that future taxable profit will be available against which they can be utilized.
The recoverability of deferred tax assets of the Company was determined based on the future taxable profit and the results of the scheduling of temporary differences of the Company and certain domestic subsidiaries on the assumption that Group Tax Sharing System will be applied. (hereinafter, referred to collectively as the “tax sharing group”). Since the period in which unused tax losses can be utilized is limited in Japan, the estimate of taxable profit during the carryforward period has a particularly significant effect on the Company’s judgement on the recoverability of deferred tax assets. The future taxable profit of the tax sharing group was estimated mainly based on the Company’s business plan. The business plan is significantly affected by the possibility that the manufacturing and marketing of major products in development are approved and the sales forecast of products (including new products), which involve a high degree of uncertainty and are highly dependent upon management’s estimates and judgment.
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The primary procedures we performed to assess whether the Company’s judgement on the recoverability of deferred tax assets was appropriate included the following:
(1) Internal control testing
We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the Company’s judgement on the recoverability of deferred tax assets, including controls over the development of assumptions related to the business plan.
In addition, we determined the nature, timing and extent of substantive procedures, considering the results of the control assessment.
(2) Assessment of the reasonableness of the business plan
In order to assess the appropriateness of key assumptions related to the Company’s business plan that formed the basis for estimating the future taxable profit of the tax sharing group, we primarily:

assessed whether the probability of obtaining regulatory approval for the manufacturing and marketing of major products in development was appropriate by inquiring of the personnel in charge regarding the Company’s judgment based on the clinical trial phases, and evaluating, as necessary, the consistency with published medical articles as well as external data; and
assessed whether the product sales forecast was appropriate by performing the following procedures:

inquiry of the personnel in charge regarding assumptions embedded in the product sales forecast;
assessment of sales forecasts for existing major products considering historical sales trends and patent expiration dates
assessment of the consistency of assumptions related to sales forecast for major products in development, including the number of target patients, selling prices, the average duration of administration and the trend of product market share with past product sales results, published demographic statistics and the results of research by external professional organizations.

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We, therefore, determined that our assessment of the appropriateness of the Company's judgement of the recoverability of deferred tax assets was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	

Appropriateness of the Company's valuation of the in-process research and development related to Quizartinib	
The key audit matter	**How the matter was addressed in our audit**
In the consolidated statement of financial position of the Group, intangible assets of 163,884 million yen were recognized at the end of the current fiscal year. As described in Note 13, "Goodwill and Intangible Assets" to the consolidated financial statements, 45,767 million yen of those intangible assets were in-process research and development (i.e., intangible assets not yet available for use), the largest of which with a carrying amount of 29,902 million yen was related to Quizartinib, a FLT3 inhibitor. As described in Note 3, "Significant Accounting Policies, (10) Impairment of Non-financial Assets" to the consolidated financial statements, in-process research and development is tested for impairment annually or at any time there is an indication that an asset may be impaired. In the impairment testing, if the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount. The Company used the value in use as the recoverable amount in the impairment testing. Future cash flows estimated in calculating the value in use are significantly affected by the probability of obtaining regulatory approval for the manufacturing and marketing of related products and the sales forecast of those products, which involve a high degree of uncertainty and are highly dependent upon management's estimates and judgment. In addition, selecting appropriate models and input data for estimating the discount rate used to calculate the value in use requires a	The primary procedures we performed to assess whether the Company's valuation of in-process research and development related to Quizartinib was appropriate included the following: **(1) Internal control testing** We tested the design and operating effectiveness of certain of the Company's internal controls relevant to the valuation of intangible assets, including controls over the development of assumptions related to the sales forecast of products. In addition, we determined the nature, timing and extent of substantive procedures, considering the results of the control assessment. **(2) Assessment of the reasonableness of the estimated value in use** In order to assess the appropriateness of key assumptions embedded in the estimated future cash flows used in calculating the value in use, we primarily: ● assessed whether the probability of obtaining regulatory approval for the manufacturing and marketing of related products was appropriate by inquiring of the personnel in charge regarding the Company's judgment based on the clinical trial phases, and evaluating the consistency with published medical articles as well as external data if necessary; and ● assessed whether the sales forecast of related products was appropriate by inquiring of the personnel in charge regarding, among others, the number of target patients, prescription prices, the average duration of administration and the trend of product market shares, which formed the basis for the sales forecast, and evaluating the consistency with past product sales results, published demographic statistics and the results of research by external professional organizations if necessary. Furthermore, we assessed the appropriateness of

high degree of expertise in valuation. We, therefore, determined that our assessment of the appropriateness of the Company's valuation of in-process research and development related to Quizartinib was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	the model used to estimate the discount rate with the assistance of valuation specialists within our domestic network firms, and evaluated the appropriateness of the input data through comparison with data published by external organizations.

Appropriateness of the Company's judgment as to whether a provision should be recognized for a lawsuit relating to Seagen Inc.'s U.S. patent

The key audit matter	How the matter was addressed in our audit
As described in Note 34, "Contingent Liabilities, (2) Litigations b. Lawsuit relating to Seagen Inc.'s U.S. patent" to the consolidated financial statements for the current fiscal year, Seagen Inc. filed a patent infringement lawsuit in the U.S. District Court of Eastern District of Texas, alleging that the Company's ADCs, including ENHERTU, infringed a U.S. Patent held by Seagen Inc. A jury trial was held in April 2022 which reached a verdict that ENHERTU infringed the patent. The jury has determined that Seagen Inc.'s damages amount between October 2020 and March 2022 was 42 million U.S. dollar, and found that there was willful infringement of Seagen Inc.'s U.S. patent. In the case of willful infringement, the amount of compensation for damages can be increased up to three times under U.S. Patent law. In relation to this matter, in April 2022, the United States Patent and Trademark Office ("USPTO") decided to initiate a Post Grant Review ("PGR") in response to a request made by the Company and its subsidiary. As described in Note 3, "Significant Accounting Policies, (13) Provisions" to the consolidated financial statements, a provision is recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.	The primary procedures we performed to assess whether the Company's judgment regarding recognition of a provision for the patent infringement lawsuit was appropriate, included the following: ● inspected the Board of Directors meeting materials and summarized materials regarding the patent infringement lawsuit and PGR, which were prepared by the Legal Department and Intellectual Property Department of the Company, and inquired of responsible personnel in the Legal Department and Intellectual Property Department about what claims both parties had made, how the court procedure had progressed and how the matter would proceed; ● conducted a written confirmation of the progress and prospects of the lawsuit with the legal experts in charge of the patent infringement lawsuit; ● assessed the appropriateness of the Company's judgment as to a provision should not be recognized by inquiring of responsible personnel in the Legal Department and Intellectual Property Department regarding the probability that the patent would be judged invalid in the PGR at the USPTO and the probability that a result from the PGR would affect to the future court procedure of the patent infringement lawsuit and by examining the consistency of the published past data of patent revocation by the PGR with information on relationships between PGR results and courts' judgments; and ● inspected the Company legal experts' written opinion on the consequence of the patent

The Company determined that it was unlikely that it would be ordered to pay compensation, and therefore did not record any provision at the end of the current fiscal year. The Company's judgment as to whether a provision should be recognized for the patent infringement lawsuit is made based on the probability that Seagen Inc.'s U.S. Patent is judged invalid in the court and in the PGR at the USPTO, which is a specialized issue dealt with in the court and PGR process, involves a high degree of uncertainty and significantly depends on management's judgment. We, therefore, determined that our assessment of the appropriateness of the Company's judgment as to whether a provision should be recognized for the patent infringement lawsuit was one of the most significant matters in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.	infringement lawsuit and assessed whether the legal experts agreed with the Company's opinion that it was unlikely that it would be ordered to pay compensation at the end of the current fiscal year. On our inspecting, we also made inquiries to the legal experts engaged by us to understand the written opinion from the legal aspect.

Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

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

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with IFRS and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Board and its Members are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of the Group's financial reporting process.

Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements

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

As part of our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Board and its Members regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

From the matters communicated with the Audit and Supervisory Board and its Members, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

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

Kanako Ogura
Designated Engagement Partner
Certified Public Accountant

Michiaki Yamabe
Designated Engagement Partner
Certified Public Accountant

Masahiro Emori
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 22, 2022

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.