Consolidated Financial Statements

Sumitomo Pharma Co., Ltd.

(Previously Sumitomo Dainippon Pharma Co., Ltd.)

Years ended March 31, 2022 and 2021

Consolidated Statement of Profit or Loss

Year Ended March 31, 2022 and 2021

(Millions of yen)

	Note	Year ended March 31, 2021	Year ended March 31, 2022
Revenue	4,5	515,952	560,035
Cost of sales		137,773	157,127
Gross profit		378,179	402,908
Selling, general and administrative expenses	6	190,373	249,081
Research and development expenses		132,682	94,903
Other income	7	17,662	2,406
Other expenses	8	1,562	1,096
Operating profit		71,224	60,234
Finance income	9	9,213	25,777
Finance costs	9	2,586	3,050
Profit before taxes		77,851	82,961
Income tax expenses	10	41,022	42,361
Net profit		36,829	40,600
Net profit attributable to:			
Owners of the parent		56,219	56,413
Non-controlling interests		(19,390)	(15,813)
Net profit total		36,829	40,600
Earnings per share (yen)			
Basic earnings per share	11	141.50	141.99

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2022 and 2021

(Millions of yen)

	Note	Year ended March 31, 2021	Year ended March 31, 2022
Net profit		36,829	40,600
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	12	(7,621)	(56,800)
Remeasurements of defined benefit liability (asset)	12	6,330	2,307
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	12	5,367	42,004
Cash flow hedges	12	102	50
Total other comprehensive income		4,178	(12,439)
Total comprehensive income		41,007	28,161
Total comprehensive income attributable to:			
Owners of the parent		61,008	37,574
Non-controlling interests		(20,001)	(9,413)
Total comprehensive income		41,007	28,161

Consolidated Statement of Financial Position

As of March 31, 2022 and 2021

(Millions of yen)

	Note	As of March 31, 2021	As of March 31, 2022
Assets			
Non-current assets			
Property, plant and equipment	13,16	64,966	64,091
Goodwill	14	176,492	195,144
Intangible assets	15	383,406	398,692
Other financial assets	17,29	193,035	115,844
Income taxes receivables		6,726	5,538
Other non-current assets		3,516	6,527
Deferred tax assets	10	20,191	22,650
Total non-current assets		848,332	808,486
Current assets			
Inventories	18	92,215	99,021
Trade and other receivables	19,29	135,866	151,407
Other financial assets	17,29	29,480	35,596
Income taxes receivables		194	93
Other current assets		8,342	10,420
Cash and cash equivalents	20	193,698	202,984
Total current assets		459,795	499,521
Total assets		1,308,127	1,308,007

(Millions of yen)

	Note	As of March 31, 2021	As of March 31, 2022
Liabilities and equity			
Liabilities			
Non-current liabilities			
Bonds and Borrowings	21,29	263,859	243,963
Other financial liabilities	16,23,29	21,404	16,471
Retirement benefit liabilities	26	15,069	11,461
Other non-current liabilities	25	53,046	57,620
Deferred tax liabilities	10	28,424	26,550
Total non-current liabilities		381,802	356,065
Current liabilities			
Borrowings	21,29	9,960	25,085
Trade and other payables	22,29	64,638	46,183
Other financial liabilities	16,23,29	23,341	13,302
Income taxes payable		24,511	7,583
Provisions	24	99,851	119,149
Other current liabilities	25	55,846	67,071
Total current liabilities		278,147	278,373
Total liabilities		659,949	634,438
Equity			
Share capital	28	22,400	22,400
Capital surplus	28	15,855	16,725
Treasury shares	28	(679)	(681)
Retained earnings	28	508,677	514,210
Other components of equity	28	34,317	55,234
Equity attributable to owners of the parent		580,570	607,888
Non-controlling interests		67,608	65,681
Total equity		648,178	673,569
Total liabilities and equity		1,308,127	1,308,007

Consolidated Statement of Changes in Equity

Year Ended March 31, 2022 and 2021

(Millions of yen)

	Note	Equity attributable to owners of the parent					
						Other components of equity	
		Share capital	Capital surplus	Treasury shares	Retained earnings	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehen sive income	Remeasurements of defined benefit liability (asset)
Balance as of April 1, 2020		22,400	17,837	(677)	457,330	46,118	—
Net profit		—	—	—	56,219	—	—
Other comprehensive income	12	—	—	—	—	(7,621)	6,330
Total comprehensive income		—	—	—	56,219	(7,621)	6,330
Purchase of treasury shares	28	—	—	(2)	—	—	—
Dividends	28	—	—	—	(11,124)	—	—
Transactions with non-controlling interests		—	(1,982)	—	—	—	—
Reclassification from other components of equity to retained earnings		—	—	—	6,252	78	(6,330)
Other increase / decrease		—	—	—	—	—	—
Total transactions with owners		—	(1,982)	(2)	(4,872)	78	(6,330)
Balance as of March 31, 2021		22,400	15,855	(679)	508,677	38,575	—
Net profit		—	—	—	56,413	—	—
Other comprehensive income	12	—	—	—	—	(56,800)	2,307
Total comprehensive income		—	—	—	56,413	(56,800)	2,307
Purchase of treasury shares	28	—	—	(2)	—	—	—
Dividends	28	—	—	—	(11,124)	—	—
Transactions with non-controlling interests		—	870	—	—	—	—
Reclassification from other components of equity to retained earnings		—	—	—	(39,756)	42,063	(2,307)
Other increase / decrease		—	—	—	—	—	—
Total transactions with owners		—	870	(2)	(50,880)	42,063	(2,307)
Balance as of March 31, 2022		22,400	16,725	(681)	514,210	23,838	—

(Millions of yen)

	Note	Equity attributable to owners of the parent				Non-controlling interests	Total equity
		Other components of equity			Total		
		Exchange differences on translation of foreign operations	Cash flow hedges	Total			
Balance as of April 1, 2020		(10,309)	(29)	35,780	532,670	103,190	635,860
Net profit		—	—	—	56,219	(19,390)	36,829
Other comprehensive income	12	5,978	102	4,789	4,789	(611)	4,178
Total comprehensive income		5,978	102	4,789	61,008	(20,001)	41,007
Purchase of treasury shares	28	—	—	—	(2)	—	(2)
Dividends	28	—	—	—	(11,124)	—	(11,124)
Transactions with non-controlling interests		—	—	—	(1,982)	(15,630)	(17,612)
Reclassification from other components of equity to retained earnings		—	—	(6,252)	—	—	—
Other increase/decrease		—	—	—	—	49	49
Total transactions with owners		—	—	(6,252)	(13,108)	(15,581)	(28,689)
Balance as of March 31, 2021		(4,331)	73	34,317	580,570	67,608	648,178
Net profit		—	—	—	56,413	(15,813)	40,600
Other comprehensive income	12	35,604	50	(18,839)	(18,839)	6,400	(12,439)
Total comprehensive income		35,604	50	(18,839)	37,574	(9,413)	28,161
Purchase of treasury shares	28	—	—	—	(2)	—	(2)
Dividends	28	—	—	—	(11,124)	—	(11,124)
Transactions with non-controlling interests		—	—	—	870	7,486	8,356
Reclassification from other components of equity to retained earnings		—	—	39,756	—	—	—
Other increase/decrease		—	—	—	—	—	—
Total transactions with owners		—	—	39,756	(10,256)	7,486	(2,770)
Balance as of March 31, 2022		31,273	123	55,234	607,888	65,681	673,569

Consolidated Statement of Cash Flows

Year Ended March 31, 2022 and 2021

(Millions of yen)

	Note	Year ended March 31, 2021	Year ended March 31, 2022
Cash flows from operating activities			
Net profit		36,829	40,600
Depreciation and amortization		22,673	38,348
Impairment losses		35,720	910
Changes in fair value of contingent consideration		(22,463)	(3,282)
Loss (gain) on sales of property, plant and equipment		(16,731)	(141)
Interest and dividend income		(1,153)	(1,175)
Interest expenses		2,436	2,970
Income tax expenses		41,022	42,361
(Increase) decrease in trade and other receivables		185	(6,097)
(Increase) decrease in inventories		(10,039)	5,356
Increase (decrease) in trade and other payables		(320)	(28,669)
Increase (decrease) in unearned revenue		51,067	(469)
Increase (decrease) in other financial liabilities		12,001	(11,540)
Increase (decrease) in retirement benefits liabilities		288	(348)
Increase (decrease) in provisions		13,145	8,034
Others, net		7,042	(11,953)
Subtotal		171,702	74,905
Interest received		221	173
Dividends received		942	992
Interest paid		(2,229)	(2,500)
Income taxes paid		(35,035)	(42,331)
Net cash provided by operating activities		135,601	31,239
Cash flows from investing activities			
Purchase of property, plant and equipment		(6,048)	(7,347)
Proceeds from sales of property, plant and equipment		21,520	1,313
Purchase of intangible assets		(4,758)	(6,147)
Purchase of investments		(9,366)	(25,905)
Proceeds from sales and redemption of investments		8,141	19,472
Net decrease (increase) in short-term loan receivables		(839)	1,133
Others, net		225	(797)
Net cash provided by (used in) investing activities		8,875	(18,278)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	21	(265,000)	29
Proceeds from long-term borrowings	21	125,000	—

Repayments of long-term borrowings	21	(2,960)	(4,960)
Proceeds from issuance of corporate bonds	21	118,927	—
Repayments of lease liabilities	21	(4,727)	(4,499)
Dividends paid		(11,120)	(11,126)
Payments for acquisition of interest in a subsidiary from non-controlling interests		(19,300)	(3,636)
Others, net		1,965	2,766
Net cash used in financing activities		(57,215)	(21,426)
Net increase (decrease) in cash and cash equivalents		87,261	(8,465)
Cash and cash equivalents at beginning of year	20	101,708	193,698
Effect of exchange rate changes on cash and cash equivalents		4,729	17,751
Cash and cash equivalents at end of year	20	193,698	202,984

Notes to Consolidated Financial Statements

1. Reporting Entity

Sumitomo Pharma Co., Ltd (the “Company”, previously Sumitomo Dainippon Pharma Co., Ltd.) is a company domiciled in Japan. The closing date of the Company’s Consolidated Financial Statements is March 31, 2022. The Company’s Consolidated Financial Statements comprise the Company and its subsidiaries (the “Group”), its interests in associates. The Group is primarily involved in pharmaceutical business. The details of the main business are presented in Note 4 Operating Segments. The registered address of the Company’s Head Office and its main places of business are presented on the Company’s website (URL https://www.sumitomo-pharma.co.jp).

(Note) The Company has changed its trade name from “Sumitomo Dainippon Pharma Co., Ltd.” to "Sumitomo Pharma Co., Ltd." on April 1, 2022.

2. Basis of Preparation

(1) Compliance with IFRS

The Group’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the international Accounting Standards Board. The provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements applies, as the Company meets the requirements for a “Specified Company Applying Designated International Accounting Standards” prescribed in Article 1 (2) of said ordinance.

The Group’s consolidated financial statements were approved on June 23, 2022 by the Board of Directors.

(2) Basis of Measurement

The Group’s consolidated financial statements are prepared on the historical cost basis, except for certain financial instruments presented 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 Company’s functional currency, rounded to the nearest million yen.

(4) Significant Accounting Estimates, Judgments and Assumptions

In preparing the consolidated financial statements, management has made estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. However, due to the uncertainty of these estimates and assumptions, there are possibilities that material adjustments to the carrying amount of assets and liabilities are required in the fiscal year ending March 31, 2022.

Main accounting estimates, judgments, and assumptions are summarized as follows:

・ Goodwill and intangible assets (Note 14 and 15)

・ Provisions (Note 24)

・ Fair value of contingent consideration (Note 29)

(5) New Standards and Interpretations Issued but Not Yet Applied

There are no new or revised Standards and Interpretations issued by the date of approval of the consolidated financial statements but not adopted by the Group as of March 31, 2022 that would have a significant effect on the Group's consolidated financial statements.

(6) Early application of the new standard

There are no Standards that were early applied by the Group.

3. Significant Accounting Policies

The significant accounting policies adopted by the Group are continuously applied to all the reporting periods presented in the consolidated financial statements.

(1) Basis of consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Group.

The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The Group consolidates the financial statements of subsidiaries from the date when the Group controls the investees and excludes them from the scope of consolidation from the date when the Group loses control over the investees.

When the closing date of subsidiary is different from that of the Group, the financial statements of subsidiary, on which a provisional financial closing has been performed as of the Group's closing date, are used for consolidation purpose.

In preparing the consolidated financial statements, all intergroup balances and transactions, and unrealized gains and losses arising from intergroup transactions are eliminated.

A Change in ownership interest of a subsidiary, without losing control, is accounted for as an equity transaction. Differences between adjustment amount of non-controlling interests and fair value of the consideration are recognized directly as equity attributed to owner of the parent. In the event of losing control, any gain or loss arising from losing control is recognized in profit or loss.

2. Associates

Associates are those entities in which the Group has significant influence over the financial and operating policies but does not have control or joint control. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have control over those policies.

Investment in associate is accounted for by using the equity method.

When the closing date of associates accounted for using the equity method is different from that of the Group, the financial statements of associates, on which a provisional financial closing has been performed as of the Group's closing date, are used for consolidation purpose.

3. Business combinations

Business combinations are accounted for using the acquisition method.

The identifiable assets and liabilities of the acquired company are measured at acquisition-date fair value. The fair value of all the assets and liabilities arising from contingent consideration contract is included in the consideration transferred.

Goodwill is measured at the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests in the acquired company over the net of acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If it is a deficit, the deficit is recognized immediately in profit or loss.

Acquisition-related costs are recognized in the profit or loss when incurred.

4. Joint Control

Joint Control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. An investment in joint arrangement are classified as a joint operation or a joint venture according to the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

When the Company holds an interest in a joint operation, its share of assets, liabilities, revenues, and expenses related to the joint operation are included in similar accounts, respectively.

(2) Foreign currency translations

1. Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate at the date of transactions or at the foreign exchange rate that approximates the spot exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency using the exchange rate at the reporting date. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currency are translated into the functional currency at the exchange rates prevailing at the date when the fair value was measured.

Exchange differences arising from foreign currency translations and settlements are recognized in the profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and the effective portion of cash flow hedges are recognized in other comprehensive income.

2. Foreign operations

The assets and liabilities (including any goodwill arising on the acquisition and fair value adjustments) of the Group’s foreign operations are translated into Japanese yen at the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rate for the period except for the case that the exchange rate fluctuates significantly.

Exchange differences arising from translation of financial statements of the foreign operations are recognized in other comprehensive income. The cumulative amount of such exchange differences is recognized as other components of equity in the Consolidated Statements of Financial Position.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation is reclassified to profit or loss during the period in which the foreign operation is disposed.

(3) Revenue

The Group recognizes revenue based on the following five-step model:

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

The Group's revenue mainly consists of revenue from sales of products such as pharmaceuticals for medical treatments (sales of products), revenue from lump sum payments received arising from technology licensing-out agreements, milestone income and royalty income (revenue arising from intellectual property rights). The revenue recognition policies for each type of revenue are as follows.

1. Sales of products

For sales of products, the performance obligation is judged to have been satisfied and revenue is recognized upon delivery of the products, because the customer obtains control over the products upon delivery. Revenue is measured at the consideration promised in a contract with a customer, less product returns, discounts and rebates, to the extent that it is highly probable that a significant reversal will not occur.

2. Revenue arising from intellectual property rights

Lump sum payments received arising from agreements are recognized as revenue, after signing the technology licensing-out agreements and at a point in time that the development and marketing rights are granted to the third party.

Milestone income is recognized as revenue at a point in time of the achievement of a milestone defined in an agreement.

Royalty income is a consideration on the technology licensing-out agreement that is calculated based on the revenue of counterparty. It is recognized as revenue at the later of either when the revenue of counterparty is recognized or when the performance obligation is satisfied.

The Group's trade receivables are generally collected in one to three months after recognizing revenue on satisfying of performance obligations. In addition, the consideration for performance obligations does not include a significant financing component.

(4) Joint development and joint sales

The Group has entered into a development and commercialization agreement related to the Group's developed products and finished goods with its alliance partner.

In this case, revenue from pharmaceutical sales (sales of goods) is recognized as sales revenue, and the Group's relevant expenses are recognized as cost of sales, selling, general and administrative expenses, and research and development expenses, and presented in gross basis. Also, the Group recognizes expenses paid to its alliance partner for equally sharing profit in cost of sales, selling, general and administrative expenses, and research and development expenses according to the nature.

The details of the major agreements among these are presented in Note 34. Joint Development and Joint Sales.

(5) Income taxes

Income taxes are presented as the aggregate amount of current taxes and deferred taxes, and recognized in the profit or loss, except for those related to business combinations and items that are recognized directly in equity or in other comprehensive income.

Current taxes are measured by the statutory tax rate and tax laws that have been enacted or substantively enacted at the reporting date and the amount expected to be paid to or recovered from the taxation authorities.

Deferred tax assets and liabilities are recognized for temporary differences arising from the difference between the carrying amount of assets or liabilities in the Consolidated Statement of Financial Position at the reporting date and its tax base, tax loss carryforwards and tax credit carryforwards. However, the deferred tax assets and liabilities are not recognized for the following temporary differences:

・Temporary difference arising from initial recognition of goodwill;

・Temporary differences arising from the initial recognition of assets and liabilities in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit or loss;

・Deductible temporary differences associated with investments in subsidiaries and associates when it is not probable that the temporary difference will reverse in the foreseeable future; or there will not be taxable profits will be available against which the deductible temporary differences can be utilized; and

・Taxable temporary differences associated with investments in subsidiaries and associates, to the extent that the Group is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, the carryforwards of unused tax losses and the carryforward of unused tax credits to the extent that it is probable that future taxable profits will be available against which they can be used. In principle, deferred tax liabilities are recognized for all taxable temporary differences.

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 statutory tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

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

(6) Earnings per share

Basic earnings per share are calculated by dividing net profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares held. When there are dilutive potential shares that have an antidilutive effect, such potential shares are not included in the calculation of diluted earnings per share.

(7) Property, plant and equipment

Cost model is applied for measurement of property, plant and equipment after initial recognition.

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes direct costs of acquisition, estimated costs of dismantlement, removal and restoration, and borrowing costs eligible for capitalization requirements.

Property, plant and equipment other than land and construction in progress is depreciated by using straight-line method over each asset's useful life. Depreciation of such asset begins when it is available for use.

The estimated useful lives of major categories of property, plant and equipment are as follows:

・ Buildings and structures	3~60 years
・ Machinery and vehicle	2~17 years
・ Tools, furniture and fixtures	2~20 years
・ Right-of-use assets	The shorter of the estimated useful lives or lease terms

The depreciation method, the residual value and the estimated useful life are reviewed at each reporting date and adjusted if appropriate.

(8) Lease

The Group assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If it is determined that a contract is, or contains, a lease, the Group recognizes right-of-use assets and lease liabilities at the commencement date of the lease.

(1) Right-of-use asset

The right-of-use asset is measured at cost. The cost of the right-of-use asset is measured at the amount of the initial measurement of the lease liability at the commencement date of the lease adjusted for the initial direct costs, etc.

The Group applies a cost model for subsequent measurement of right-of-use asset. After initial recognition, the right-of use asset is depreciated using the straight-line method over the shorter of lease term of underlying asset or its estimated useful life.

The right-of-use asset is stated at cost less accumulated depreciation and accumulated impairment losses and included in property, plant and equipment in the Consolidated Statement of Financial Position.

(2) Lease liability

The lease liability is initially recognized at the present value of the lease payments that are not paid at the commencement date. The Group normally uses the incremental borrowing rate as a discount rate. After the initial recognition, the lease liability is measured by increasing and reducing the carrying amount to reflect interest on the lease liability and the lease payments made by using the effective interest method. The lease liability is included in other financial liabilities in the Consolidated Statement of Financial Position.

Lease payments are allocated between finance costs which are the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability, and the payment portion of lease liabilities. Finance costs are separated from depreciation expenses of the right-of-use asset in the Consolidated Statement of Profit or Loss.

As for short-term leases and leases of low-value assets, the Group basically does not recognize right-of-use assets and lease liabilities but charges the lease payments associated with short-term leases and leases of low-value assets to the net profit or loss on a straight-line basis over the lease term.

(9) Goodwill

Initial measurement of goodwill is stated in (1) Basis of consolidation 3. Business Combinations.

Goodwill is carried at cost less any accumulated impairment losses.

Goodwill is not amortized and is allocated to cash-generating units or group of cash-generating units. Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Impairment loss on goodwill is recognized in profit or loss and is not reversed in subsequent periods.

(10) Intangible assets

Intangible assets are non-monetary assets without physical substance, other than goodwill, including patents, technologies, marketing rights and in-process research and development acquired separately or acquired in a business combination.

Separately acquired intangible assets are measured initially at cost. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Cost model is applied for measurement of intangible assets after initial recognition. Intangible assets are carried at its cost less accumulated amortization and accumulated impairment losses.

Research expenditures of an internal project are recognized as expenses when they are incurred. Development expenditures of an internal project that satisfy all the recognition criteria are recognized as intangible assets. However, internally generated development expenditures incurred before acquisition of marketing approval, including clinical trial expenditures, etc. are recognized as expenses when they are incurred, because such expenditures are considered not meeting the criteria for recognition of intangible assets due to the uncertainties related to the length of period and the development.

Acquisition costs and development expenditures of software for internal use purpose are recognized as intangible assets if future economic benefits are expected to flow to the Group.

Intangible assets other than in-process research and development project are amortized using straight-line method over each asset’s useful life. Amortization of such asset begins when it is available for use.

The estimated useful lives of major categories of intangible assets are as follows:

・ Intangible assets related to products　3~20 years
・ Software　3~5 years

The amortization method, the residual value and the estimated useful life are reviewed at each reporting date and adjusted if appropriated.

In-process research and development project recognized as intangible asset is not amortized because it is not available for use. Impairment test is performed annually and whenever there is an indication that the in-process research and development project may be impaired.

In-process research and development expenditures are reclassified to patents, marketing rights or other related accounts when marketing approval from regulatory authorities is obtained and are amortized when they are available for use.

(11) Impairment of non-financial assets

The Group assesses whether there is any indication that non-financial assets other than inventories, retirement benefit assets and deferred tax assets may be impaired.

If there is an indication of impairment or annual impairment test is required, the recoverable amount of each asset is measured. Goodwill, intangible assets with indefinite useful lives and an intangible asset not yet available for use are tested for impairment annually or whenever there is an indication of impairment.

Recoverable amount of an asset or a cash-generating unit (“CGU”) is measured at the higher of its fair value less disposal costs and its value in use. The value in use of an asset is measured at the present value of estimated future cash flows by applying a pre-tax discount rate that reflects current assessments of the time value of money and the risk specific to the asset. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount impairment are recognized in profit or loss.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The impairment loss recognized for a CGU is first allocated to reduce the carrying amount of goodwill allocated to the unit, and subsequently reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

Impairment losses on goodwill are not reversed.

The Group assesses at each reporting date whether there is any indication that reversal of impairment loss recognized in prior periods for an asset other than goodwill may exist. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the asset’s recoverable amount.

The reversal of an impairment loss does not exceed the carrying amount (net of amortization or depreciation) that would have been determined if no impairment loss had been recognized for the asset in prior periods.

(12) Financial instruments

1. Financial assets

(i) Initial recognition and measurement

The Group initially recognizes financial assets on transaction date and classifies as financial assets measured at amortized cost and financial assets measured at fair value at the initial recognition. Financial assets are classified as financial asset measured at amortized cost if the following conditions are met. Otherwise, financial assets are classified as financial assets measured at fair value.

・ The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

・ Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principals and interests.

(ii) Subsequent measurement

After initial recognition, financial assets are measured as follows:

(a) Financial assets measured at amortized cost

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

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

Financial assets are measured at fair value and subsequent changes in fair value are recognized in profit or loss.

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

Among the financial assets measured at fair value, an entity may make an irrevocable election at initial recognition for an investment in an equity instrument that is not held for trading purpose to present subsequent changes in the fair value in other comprehensive income. Therefore, the Group makes such election for each financial instrument.

Financial assets measured at fair value through other comprehensive income are measured at fair value, and subsequent changes in fair value are recognized in other comprehensive income. The cumulative amount recognized in other comprehensive income is reclassified to retained earnings, but not profit or loss, when equity instruments are derecognized or when the fair value of equity instruments declines significantly. However, dividends are recognized in profit or loss.

(iii) Derecognition

A financial asset is derecognized when it meets one of the following conditions:

・ the contractual rights to the cash flows from the financial assets expire; or

・ the Group transfers the financial assets and substantially all the risks and rewards related to the ownership of the financial assets.

(iv) Impairment

Financial assets measured at amortized cost are presented at the carrying amount reduced by a loss allowance recognized for expected credit losses to be incurred in the future. The Group assesses whether a credit risk on a financial asset measured at amortized cost has increased significantly since initial recognition and considers all reasonable and supportable information in addition to delinquency information when assessing the credit risk.

The Group estimates expected credit losses for each individual financial asset measured at amortized cost at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If not, the Group estimates expected credit losses for that financial asset at an amount equal to expected credit losses for 12 months after the reporting date.

Among the financial assets measured at amortized cost, the Group estimates expected credit losses at an amount equal to lifetime expected credit losses for trade receivables, independently by each type of similar receivables.

2. Financial liabilities

(i) Initial recognition and measurement

The Group initially recognizes financial liabilities when the Group becomes a contractual party and classifies financial liabilities as follows:

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

Financial liabilities which were designated to be measured at fair value through profit or loss.

(b) Financial liabilities measured at amortized cost

Financial liabilities other than financial liabilities measured at fair value through profit or loss.

Financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at fair value after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent measurement

After the initial recognition, financial liabilities are measured as follows:

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

Financial liabilities are measured at fair value and subsequent changes are recognized in profit or loss.

(b) Financial liabilities measured at amortized cost

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

(iii) Derecognition

A financial liability is derecognized only when the obligation specified in the contract is fulfilled, discharged, cancelled or expires.

3. Derivatives

The Group uses derivatives to hedge foreign currency risk exposures. Such derivatives used by the Group are foreign currency forward contracts. However, the Group does not use derivatives for speculative purpose. Derivatives are initially recognized at fair value and the related transaction costs are recognized as expenses when incurred. Derivatives not qualified for hedge accounting are measured at fair value after initial recognition and the change in fair value is recognized in profit or loss.

4. Hedge accounting

Certain derivatives are designated as hedging instruments in cash flow hedges and if they meet certain hedging criteria, the effective portion of fair value changes of derivatives is recognized in other comprehensive income and is cumulated in accumulated other comprehensive income.

At the inception of the designation of hedge, the Group has a formal documentation of the relationship between hedging instruments and hedged items, including risk management objective, strategy for undertaking the hedge and method for assessing whether the hedge effectiveness requirements are met. At the inception of the hedge and on an ongoing basis, the Group assesses whether the Group can forecast if the hedging instrument is effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

The other components of equity are reclassified to profit or loss, in the hedged item related account in the Consolidated Statement of Profit or Loss, during the same period in which the expected cash flows of hedged item affect profit or loss. If a hedged forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the cumulative amount previously recognized in other components of equity are reclassified to and included in the initial amount of the cost of the non-financial asset or the non-financial liability. In the changes in the fair value of derivatives, the portion of hedging ineffectiveness is immediately recognized in profit or loss.

Hedge accounting is discontinued when the Group revokes the designation of hedge, when the hedging instrument expires or is sold, terminated or executed or when the hedge no longer meets the criteria for hedge accounting.

(13) Inventories

Inventories mainly comprise merchandise and finished goods, work-in-process, raw materials and supplies.

Inventories are measured at the lower of acquisition cost and net realizable value. The cost of inventories is calculated by the average method and comprises purchase costs, processing costs and other related production costs. Finished goods and work-in-process include a proper allocation of production overheads that are based on the expected capacity of the production facilities. 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.

(14) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible to cash and are subjected to insignificant risks of changes in value, and whose maturities are three months or less from the date of acquisition.

(15) Employee benefits

1. Post-retirement benefits

The Group has both defined benefit plans and defined contribution plans as employee post-retirement benefits.

(i) Defined benefit plan

The present value of the defined benefit obligations arising from a defined benefit plan and the related current service cost and past service cost are measured by using the projected unit credit method by each plan. The discount rates are determined by reference to market yields at the fiscal year-end on high quality corporate bonds for the corresponding periods in which the retirement benefits are to be paid. The amount of the net defined benefit liability (asset) is calculated by deducting the fair value of plan assets from the present value of the defined benefit obligation. Service cost and net interest on the net defined benefit liability (asset) are recognized as post-retirement benefit expense in profit or loss. Remeasurement of the net defined benefit liability (asset) are recognized in other comprehensive income and immediately reclassified to retained earnings in the period in which they occur.

(ii) Defined contribution plan

The expense related to post-retirement arising from a defined contribution plan is recognized as post-retirement benefit expense in profit or loss in the period which the employee renders service to the Group.

2. Other long-term employee benefits

Long-term employee benefit obligations other than post-retirement benefit plan are measured at the present value of the future benefit payments by the Group in exchange for the services rendered by employees up to the reporting date.

3. Short-term employee benefits

Short-term employee benefits are recognized as an expense on an undiscounted basis at the time when the service is rendered by employee.

Bonuses are recognized as liabilities, when the Group has a present legal or constructive obligation to pay for service rendered as a result of the service rendered by employees in the past.

(16) Share-based payments

Certain consolidated subsidiaries in the Group introduce the equity-settled share-based payment plans.

In the equity-settled share-based payments, the service received are measured at the fair value of the equity instruments at the date of grant. The fair value of the equity instruments is recognized as an expense from the date of grant over the vesting period while the same amount is recognized as an increase in equity.

(17) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation arising 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 the present value of the expenditures expected to be required to settle the obligation. The discount rate is generally a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(18) Government grants

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

Government grants related to assets are being deducted from acquisition cost of the asset and are recognized in profit or loss over the useful life of the depreciable asset as a reduced depreciation expense. Also, government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

(19) Capital

1. Ordinary share

With regard to ordinary shares issued by the Company, the issuance value is recorded in share capital and capital surplus, and the costs directly attributable to the issue of ordinary shares (after tax effect) are recognized as a deduction from capital surplus.

2. Treasury share

When treasury shares are acquired, they are recognized at cost and presented as a deduction from equity. In addition, directly attributable costs arising from the acquisition of treasury shares are deducted from capital surplus.

When treasury shares are sold, the difference between carrying amount and consideration received is recognized in capital surplus.

4. Operating Segments

The Group sets core operating profit, which is an indicator showing the Company's profitability from ordinary income, as its own business performance management indicator.

Core operating profit is operating profit after deducting gains and losses arising from extraordinary items prescribed by the Group. The amount deducted as extraordinary items mainly represents impairment losses, business structure improvement expenses, the changes in fair values of contingent considerations arising from business combinations and etc.

(1) Reportable segments

The Group is mainly engaged in manufacture, purchase and sales of pharmaceuticals for medical treatment and manages the performance of pharmaceutical business by market in Japan, North America, China and etc. Therefore, the Group has four reportable segments: Japan, North America, China, and Other Regions.

The Group's reportable segments are the components of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resources to be allocated to the segments and assess their performances.

(2) Revenues and operating results of the reportable segments

Revenues, profit or loss and other items by each of the Group's reportable segments are shown below.

The accounting policies of reportable segments are identical to those set forth in the Note 3 Significant Accounting Policies.

The Group sets core segment profit, which is an indicator showing the segment's profitability from ordinary income, as its own indicator of segment business performance management.

Core segment profit is calculated by deducting research and development expenses, gains and losses on sales of operations and etc. which are not allocated to operating segments because such expenses are managed on a global basis from core operating profit, and presented as segment profit.

1. Year ended March 31, 2021

(Millions of yen)

	Reportable segments					Other business (Note)	Total
	Pharmaceutical business						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers, etc.	152,497	281,493	27,831	17,233	479,054	36,898	515,952
Inter-segment revenues	70	—	—	—	70	46	116
Total	152,567	281,493	27,831	17,233	479,124	36,944	516,068
Segment profit (Core segment profit)	24,284	116,881	13,238	8,693	163,096	3,574	166,670
Other items							
Depreciation and amortization	5,710	11,363	838	910	18,821	304	19,125
Impairment losses	128	35,592	—	—	35,720	—	35,720

(Note) The “Other business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs and other products.

2. Year ended March 31, 2022

(Millions of yen)

	Reportable segments					Other business (Note 1)	Total
	Pharmaceutical business						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers, etc. (Note 2)	149,915	319,790	38,296	12,176	520,177	39,858	560,035
Inter-segment revenues	61	—	—	—	61	40	101
Total	149,976	319,790	38,296	12,176	520,238	39,898	560,136
Segment profit (Core segment profit)	19,612	105,385	19,590	3,254	147,841	3,491	151,332
Other items							
Depreciation and amortization	5,733	26,865	893	654	34,145	327	34,472
Impairment losses	10	900	—	—	910	—	910

(Note) 1. The “Other business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs and other products.

2. Revenues from external customers in the North America segment includes the lump-sum payment of $270 million (¥30,348 million) for the license agreement for joint development and commercialization with Otsuka Pharmaceutical Co., Ltd.

(3) Reconciliations between the total amounts of reportable segments and the amounts in the consolidated financial statements (reconciliation items)

The details of reconciliation are as follows:

(Millions of yen)

Revenue	Year ended March 31, 2021	Year ended March 31, 2022
Total of reportable segments	479,124	520,238
Revenue of other business	36,944	39,898
Elimination of inter-segment revenue	(116)	(101)
Revenue on the consolidated financial statements	515,952	560,035

(Millions of yen)

Profit	Year ended March 31, 2021	Year ended March 31, 2022
Total of reportable segments	163,096	147,841
Segment profit of other business	3,574	3,491
Elimination of inter-segment profit	22	26
Research and development expenses (Note)	(97,082)	(94,004)
Gains on business transfers	—	1,146
Others	(27)	9
Core operating profit	69,583	58,509
Change in fair value of contingent consideration	22,463	3,282
Impairment losses	(35,720)	(910)
Other income	17,689	1,251
Other expenses	(1,562)	(1,096)
Others	(1,229)	(802)
Operating profit in the consolidated financial statements	71,224	60,234

(Note) The Group does not allocate research and development expenses to the operating segments because such expenses are managed on a global basis. Differences from research and development expenses on Consolidated Statement of Profit or Loss consist of impairment losses and expenses related to research and development excluded from calculation of core operating profit.

(Millions of yen)

Other items	Total of reportable segments		Other business		Adjustments		Amount in the consolidated financial statements	
	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2021	Year ended March 31, 2022	Year ended March 31, 2021	Year ended March 31, 2022
Depreciation and amortization	18,821	34,145	304	327	3,548	3,876	22,673	38,348

(4) Revenues

The details of revenues from external customers etc. are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Sale of goods	503,788	509,050
Revenue arising from intellectual property rights	7,924	37,205
Other	4,240	13,780
Total	515,952	560,035

(5) Information by product and service

The details of sales from external customer, etc. by product and service are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Pharmaceuticals	479,054	520,177
Others	36,898	39,858
Total	515,952	560,035

(6) Geographic information

The Group's geographic revenues are classified by country and region, based on the location of customers.

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Japan	192,608	222,884
North America	280,437	287,289
U.S.A.in North America	275,594	282,521
Others	42,907	49,862
Total	515,952	560,035

The details of the breakdown of carrying amounts of the Group's non-current assets (except for financial assets, deferred tax assets and retirement benefit assets) by location are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Japan	65,979	65,438
North America	566,701	600,494
U.S.A. in North America	565,215	598,877
Others	2,426	4,060
Total	635,106	669,992

(7) Information of major customers

Revenue from major customers which individually accounts for greater than 10% of the total Group's revenue are as - follows:

(Millions of yen)

	Reportable segment	Year ended March 31, 2021	Year ended March 31, 2022
McKesson Corporation	North America	95,732	91,340
Cardinal Health Inc.	North America	82,143	85,425
AmerisourceBergen Corporation	North America	71,767	73,745

5. Revenue

(1) Disaggregation of revenue and its relationship with reportable segments

The Group disaggregates revenue by type of goods and services. The relationship between disaggregated revenue and the reportable segments are as follows:

Year ended March 31, 2021

(Millions of yen)

	Reportable segments					Other business (Note 1)	Total	Including revenue from contracts with customers	Including revenue from other sources (Note 2)
	Pharmaceutical business								
	Japan	North America	China	Other Regions	Subtotal				
Sales of goods	150,255	274,015	27,596	15,024	466,890	36,898	503,788	503,788	—
Revenue arising from intellectual property rights	791	4,924	—	2,209	7,924	—	7,924	7,924	—
Other	1,451	2,554	235	—	4,240	—	4,240	1,868	2,372
Total	152,497	281,493	27,831	17,233	479,054	36,898	515,952	513,580	2,372

(Note) 1. The "Other business" category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, and other products.

2. Revenue from other sources is sales revenue from contracts with joint partners in which the counterparty is not deemed as a customer. The details are presented in Note 34 Joint Development and Joint Sales (1) Joint development and joint sales with Pfizer Inc.

Year ended March 31, 2022

(Millions of yen)

	Reportable segments					Other business (Note 1)	Total	Including revenue from contracts with customers	Including revenue from other sources (Note 2)
	Pharmaceutical business								
	Japan	North America	China	Other Regions	Subtotal				
Sales of goods	148,001	271,567	38,056	11,568	469,192	39,858	509,050	509,050	—
Revenue arising from intellectual property rights (Note 3)	163	36,434	—	608	37,205	—	37,205	37,205	—
Other	1,751	11,789	240	—	13,780	—	13,780	1,978	11,802
Total	149,915	319,790	38,296	12,176	520,177	39,858	560,035	548,233	11,802

(Note) 1. The “Other business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, and other products.

2. Revenue from other sources is sales revenue from contracts with joint partners in which the counterparty is not deemed as a customer. The details are presented in Note 34 Joint Development and Joint Sales (1) Joint development and joint sales with Pfizer Inc.

3. Revenues from external customers in the North America segment in the year ended March 31, 2022 includes the lump-sum payment of $270 million (¥30,348 million) for the license agreement for joint development and commercialization with Otsuka Pharmaceutical Co., Ltd.

(2) Contract balances

Contract balances arising from contracts with customers are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Receivables from contracts with customers		
Accounts receivable and notes receivable	127,260	139,151
Contract assets	1,310	1,870
Contract liabilities	2,011	472

Receivables from contracts with customers and contract assets were included in "Trade and other receivable" and contract liabilities were included in "Other liabilities".

Contract assets are comprised of rights to consideration based on supply agreements. When these rights become unconditional, the Group reclassifies the contract assets to trade receivables.

Contract liabilities are the consideration of lump sum payments received arising from agreements related to some technology licensing-out agreements for which the performance obligation has not yet satisfied. Such consideration is recognized as revenue at the point of time when the performance obligations related to these technology licensing-out agreements are satisfied.

Among revenue recognized during the year ended March 31, 2022, ¥2,011 million was included in contract liabilities balance at the beginning of the fiscal year ended March 31, 2022. Among revenue recognized during the year ended March 31, 2021, ¥2,539 million was included in contract liabilities balance at the beginning of the fiscal year ended March

31, 2021. Also, there are no significant amounts of revenue recognized during the year ended March 31, 2021 and 2022 from performance obligations satisfied (or partially satisfied) in the prior fiscal years.

(3) Transaction price allocated to the remaining performance obligations

As there are no transactions with expected revenue recognition period over one year, information related to remaining performance obligations are not disclosed. Also, there are no significant amounts in consideration from contracts with customers that are not included in transaction prices.

(4) Assets recognized from the costs to obtain or fulfil a contract with a customer

There are no incremental costs of obtaining contracts or the costs incurred for fulfilling contracts that shall be recognized as assets.

6. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Salaries and bonuses	77,437	91,652
Retirement benefit expenses	5,125	5,863
Advertising and promotion expenses	37,362	37,780
Depreciation and amortization	16,707	31,742
Impairment losses	151	1
Change in fair value of contingent consideration (Note)	(22,463)	(3,282)
Others	76,054	85,325
Total	190,373	249,081

(Note) Contingent considerations are future payments to the former shareholder when milestones specified at the time of acquisition are achieved. The details are presented in Note 29 Financial Instruments.

7. Other Income

The details of other operating income are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Gain on sale of property, plant and equipment (Note)	16,925	267
Others	737	2,139
Total	17,662	2,406

(Note) Gain on sale of property, plant and equipment in the year ended March 31, 2021 includes gain on sale of the former Ibaraki Plant amounting ¥16,725 million.

8. Other Expenses

The details of other operating expenses are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Donation	1,072	597
Others	490	499
Total	1,562	1,096

9. Finance Income and Finance Expenses

(1) Finance income

The details of finance income are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Interest income		
Financial assets at amortized cost	211	183
Dividend income		
Financial asset at fair value through other comprehensive income	942	992
Exchange gain (net)	8,037	24,530
Others	23	72
Total	9,213	25,777

(2) Finance costs

The details of finance costs are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Interest expenses		
Financial liabilities at amortized cost	2,436	2,970
Others	150	80
Total	2,586	3,050

10. Deferred Income Taxes and Income Tax Expenses

(1) Deferred Income Taxes

1. Deferred tax assets and liabilities on the Consolidated Statement of Financial Position.

The details of deferred tax assets and liabilities on the Consolidated Statement of Financial Position are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Deferred tax assets	20,191	22,650
Deferred tax liabilities	28,424	26,550
Net deferred tax assets	(8,233)	(3,900)

2. Details and movement in deferred tax assets and liabilities

The details of originations of deferred tax assets and liabilities by major reasons and movements are as follows:

Year ended March 31, 2021

(Millions of yen)

	As of April 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	As of March 31, 2021
Outsourced research expenses	9,346	(3,781)	—	—	5,565
Inventories	22,656	51	—	(31)	22,676
Property, plant and equipment	1,832	135	—	67	2,034
Intangible assets	(49,015)	7,578	—	(518)	(41,955)
Other financial assets	(17,783)	(1)	3,122	(3,402)	(18,064)
Accrued expenses and provisions	6,062	(1,306)	—	4	4,760
Retirement benefits	8,274	45	(2,776)	(4)	5,539
Tax loss carryforwards	16,723	(5,765)	—	41	10,999
Tax credits	204	—	—	4	208
Undistributed profits of foreign subsidiaries	(910)	(70)	—	—	(980)
Others	2,950	(1,949)	—	(16)	985
Total	339	(5,063)	346	(3,855)	(8,233)

(Note) Others mainly include exchange differences on translation of foreign operations and effects arising from sale of financial assets measured at fair value through other comprehensive income during the current fiscal year.

Year ended March 31, 2022

(Millions of yen)

	As of April 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	As of March 31, 2022
Outsourced research expenses	5,565	231	—	—	5,796
Inventories	22,676	(417)	—	(45)	22,214
Property, plant and equipment	2,034	(444)	—	193	1,783
Intangible assets	(41,955)	2,049	—	(4,233)	(44,139)
Other financial assets	(18,064)	(23)	6,340	(2)	(11,749)
Accrued expenses and provisions	4,760	(1,336)	—	67	3,491
Retirement benefits	5,539	17	(1,013)	11	4,554
Tax loss carryforwards	10,999	1,012	—	1,251	13,262
Tax credits	208	419	—	59	686
Undistributed earnings of foreign subsidiaries	(980)	(416)	—	—	(1,396)
Others	985	528	—	85	1,598
Total	(8,233)	1,620	5,327	(2,614)	(3,900)

(Note) Others mainly include exchange differences on translation of foreign operations.

3. Unrecognized deferred tax assets

Tax loss carryforwards, tax credit carryforwards and deductible temporary differences for which deferred tax assets are not recognized are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Tax loss carryforwards	36,407	46,048
Tax credit carryforwards	18,512	19,690
Deductible temporary differences	20,430	29,085

4. Unrecognized deferred tax assets and expiry schedule

(i) Expiry schedule of the tax loss carryforwards for which deferred tax assets are not recognized

The expiry schedule of tax losses carryforwards for which deferred tax assets are not recognized are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Not later than 1 year	—	—
Later than 1 year and not later than 2 years	—	—
Later than 2 years and not later than 3 years	—	—
Later than 3 years and not later than 4 years	—	—
Later than 4 years	36,407	46,048
Total	36,407	46,048

(ii) Expiry schedule of the tax credit carryforward for which deferred tax assets are not recognized

The expiry schedule of tax credit carryforwards for which deferred tax assets are not recognized are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Not later than 1 year	—	—
Later than 1 year and not later than 2 years	—	—
Later than 2 years and not later than 3 years	—	—
Later than 3 years and not later than 4 years	—	—
Later than 4 years	18,512	19,690
Total	18,512	19,690

5. Recoverability of deferred tax assets

Deferred tax assets as of March 31, 2022 was ¥ 70,952 million. Recoverability of deferred tax assets depends upon the future taxable income and future taxable temporary differences, and deferred tax assets are recognized to the extent that future taxable income and future taxable temporary differences will be available.

6. Unrecognized deferred tax liabilities

There are no taxable temporary differences in respect of investments in subsidiaries, etc. for which unrecognized deferred tax liabilities were not recognized as of March 31, 2021 and 2022.

(2) Income Tax Expenses

1. Income tax expenses

The details of income tax expenses are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Current tax expenses (Note)	35,959	43,981
Deferred tax expense		
Origination and reversal of temporary differences	5,063	(1,620)
Assessment of the recoverability of deferred tax assets	—	—
Subtotal	5,063	(1,620)
Total	41,022	42,361

(Note) On March 27, 2020, “The Coronavirus Aid, Relief, and Economic Security (CARES) Act” (the “CARES Act”) was enacted in the United States of America. The main provisions of the Act that impact on the year ended March 31, 2021 and 2022 are as follows:

(Carryback of net operating tax losses)

The CARES Act allows a five-year carryback of net operating tax losses arising in tax years beginning after January 1, 2018 and before December 31, 2020.

As a result, the effects arising from carryback of net operating tax losses of (¥2,344 million) (profit) for the year ended March 31, 2021 were included in the current tax expenses in the year ended March 31, 2021.

Income tax expenses recognized for the sales of financial assets measured at fair value through other comprehensive income and the significant declines of the fair value of financial assets were (¥3,426 million) (profit) for the year ended March 31, 2021 and (¥18,612 million) (profit) for the year ended March 31, 2022.

2. Reconciliation of income tax rate

The reconciliation between the normal statutory tax rate and the effective tax rate is as follows:

The Group is mainly subject to corporate tax, inhabitant tax and enterprise tax for the years ended March 31, 2021 and 2022. The normal statutory tax rate based on these taxes is 30.6% for the years ended March 31, 2021 and 2022. However, overseas subsidiaries are subject to income taxes in their respective countries of domicile.

	Year ended March 31, 2021	Year ended March 31, 2022
Normal statutory tax rate	30.6%	30.6%
Permanent non-deductible expenses such as entertainment expenses	1.3%	0.9%
Permanent non-taxable income such as dividend received	(0.1%)	(0.5%)
Tax credit for research and development expenses	(7.6%)	(2.8%)
Changes in unrecognized deferred tax assets	11.3%	9.1%
Difference of subsidiaries' applicable income tax rates	28.5%	14.3%
Changes in tax effect of undistributed earnings of subsidiaries	0.1%	0.5%
Effect of change in fair value of contingent consideration	(8.2%)	(0.9%)
Effect of the CARES Act	(3.0%)	—
Others	(0.2%)	(0.1%)
Effective tax rate	52.7%	51.1%

11. Earnings per Share

The basis for calculation and the amount of basic earnings per share are as follows:

	Year ended March 31, 2021	Year ended March 31, 2022
The basis for calculation of basic earnings per share		
Net profit attributable to owners of the parent (Millions of yen)	56,219	56,413
Amounts not attributable to ordinary shareholders of the parent (Millions of yen)	—	—
Net profit used to calculate basic earnings per share (Millions of yen)	56,219	56,413
Weighted average number of ordinary shares (Thousands of shares)	397,294	397,293
Earnings per share		
Basic earnings per share (Yen)	141.50	141.99

(Note) Diluted earnings per share is not disclosed as there are potential shares that have an antidilutive effect for the years ended March 31, 2021 and 2022. These potential shares are stock options issued by certain subsidiaries. The details are presented in Note 27, Share-based payments.

12. Other Comprehensive Income

The movement of other comprehensive income is as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income		
Amounts arising during the year	(10,797)	(63,156)
Tax effect	3,176	6,356
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(7,621)	(56,800)
Remeasurements of defined benefit liability (asset)		
Amounts arising during the year	9,106	3,320
Tax effect	(2,776)	(1,013)
Remeasurements of defined benefit liability (asset)	6,330	2,307
Exchange differences on translation of foreign operations		
Amounts arising during the year	5,367	42,004
Exchange differences on translation of foreign operations	5,367	42,004
Cash flow hedges		
Amounts arising during the year	156	65
Tax effect	(54)	(15)
Cash flow hedges	102	50
Total	4,178	(12,439)

13. Property, Plant and Equipment

(1) Movements in acquisition cost, accumulated depreciation and accumulated impairment losses and carrying amount

Movements in acquisition cost, accumulated depreciation and accumulated impairment losses and carrying amount of property, plant and equipment are as follows:

1. Acquisition cost

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Balance as of April 1, 2020	80,408	60,778	28,783	4,831	1,921	18,241	194,962
Additions	773	487	466	—	4,600	4,136	10,462
Transfer from construction in progress	1,079	2,444	1,701	—	(5,224)	—	—
Sales and disposals	(6,988)	(8,154)	(1,655)	—	(27)	(1,691)	(18,515)
Foreign currency translation differences	313	185	177	7	12	237	931
Others	(147)	31	2	—	127	(68)	(55)
Balance as of March 31, 2021	75,438	55,771	29,474	4,838	1,409	20,855	187,785
Additions	570	473	317	—	6,224	2,378	9,962
Transfer from construction in progress	1,904	1,990	1,466	—	(5,360)	—	—
Sales and disposals	(341)	(885)	(1,048)	—	(914)	(1,142)	(4,330)
Foreign currency translation differences	1,192	672	635	44	9	1,152	3,704
Others	(37)	(3)	(91)	—	(33)	22	(142)
Balance as of March 31, 2022	78,726	58,018	30,753	4,882	1,335	23,265	196,979

2. Accumulated depreciation and accumulated impairment losses

（Millions of yen）

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Balance as of April 1, 2020	(48,650)	(52,569)	(23,814)	(64)	(27)	(4,090)	(129,214)
Depreciation	(2,413)	(1,947)	(2,050)	—	—	(4,224)	(10,634)
Impairment losses	—	—	—	—	(128)	—	(128)
Sales and disposals	6,971	8,074	1,623	—	27	1,162	17,857
Foreign currency translation differences	(176)	(145)	(142)	—	—	(27)	(490)
Others	1	(211)	—	—	—	—	(210)
Balance as of March 31, 2021	(44,267)	(46,798)	(24,383)	(64)	(128)	(7,179)	(122,819)
Depreciation	(2,807)	(2,131)	(2,122)	—	—	(4,391)	(11,451)
Impairment losses	—	—	(1)	—	(10)	—	(11)
Sales and disposals	321	707	1,022	—	—	881	2,931
Foreign currency translation differences	(612)	(470)	(523)	—	—	(376)	(1,981)
Others	70	—	73	—	128	172	443
Balance as of March 31, 2022	(47,295)	(48,692)	(25,934)	(64)	(10)	(10,893)	(132,888)

3. Carrying amount

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Balance as of April 1, 2020	31,758	8,209	4,969	4,767	1,894	14,151	65,748
Balance as of March 31, 2021	31,171	8,973	5,091	4,774	1,281	13,676	64,966
Balance as of March 31, 2022	31,431	9,326	4,819	4,818	1,325	12,372	64,091

(Note)1. There is no capitalized borrowing cost for property, plant and equipment for the years ended March 31, 2021 and 2022.

2. Details of commitment in respect of acquisitions of property, plant and equipment are presented in Note 30. Capital Expenditure Commitments.

3. Property, plant and equipment under construction is presented as Construction in progress.

(2) Impairment losses

Impairment losses recognized for the year ended March 31, 2021 and 2022 were ¥128 million and ¥11 million, respectively. Impairment loss was recorded in Cost of sales in the Consolidated Statement of Profit or Loss.

Impairment losses represented a recognition of impairment losses of construction in progress with the decreased profitability in Japan segment of pharmaceutical business. The recoverable amount is measured based on value in use. However, as the profitability is no longer expected, the total carrying amount is reduced to zero.

14. Goodwill

(1) Movements in acquisition cost and accumulated impairment losses and carrying amount of goodwill

Movements in acquisition cost and accumulated impairment losses and carrying amount of goodwill are as follows:

1. Acquisition cost

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Beginning balance	173,464	176,492
Acquisition through business combinations	—	—
Foreign currency translation differences	3,028	18,652
Ending balance	176,492	195,144

2. Accumulated impairment losses

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Beginning balance	—	—
Impairment losses	—	—
Foreign currency translation differences	—	—
Ending balance	—	—

3. Carrying amount

(Millions of yen)

Balance as of April 1, 2020	173,464
Balance as of March 31, 2021	176,492
Balance as of March 31, 2022	195,144

(2) Significant goodwill

Significant goodwill recognized in the Consolidated Statement of Financial Position arose from the acquisition of Sumitovant Biopharma Ltd., Sepracor Inc. (currently known as Sunovion Pharmaceuticals Inc.) and Tolero Pharmaceuticals, Inc. (currently known as Sumitomo Dainippon Pharma Oncology, Inc.) by the Group. The carrying amounts of significant goodwill are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Sumitovant Biopharma Ltd.	77,403	85,583
Sepracor Inc.	69,708	77,075
Tolero Pharmaceuticals, Inc.	21,892	24,205

(3) Impairment test of goodwill

In principle, the geographical business segment managed for internal reporting purposes is identified as a CGU used in the impairment test by the Group. Some business segments contain multiple CGUs. The North America segment of the pharmaceutical business are comprised of two individual CGUs, which are “excluding oncology area” and “oncology area”. All the goodwill recognized for the years ended March 31, 2021 and 2022 were attributed to the North America segment of the pharmaceutical business. The Group performs the impairment test of goodwill by the above two individual CGUs.

The carrying amounts of goodwill attributable to the North America segment of the pharmaceutical business that were allocated to the two individual CGUs are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
North America (excluding oncology area)	152,255	168,346
North America (oncology area)	24,237	26,798
Total	176,492	195,144

Impairment losses are recognized when recoverable amount is less than carrying amount, and the carrying amount of goodwill is reduced to the extent of the recoverable amount. The recoverable amount is determined based on value in use that was measured basis on business plan approved at management meeting. Value in use is determined by the present value of estimated future cash flows based on the past experience and external information, using assumptions such as the planned launch schedules, the probability of success of R&D activities and revenue forecasts and plans including selling prices of products and developed products.

As the recoverable value of CGU is greater than the carrying amount as a result of the impairment tests as of March 31, 2021 and 2022, impairment losses are not recognized.

The discount rate used in the impairment test for goodwill is based on the weighted average cost of capital, etc. set by each CGU. The pre-tax discount rate used in the impairment test of goodwill were 13.5% -17.0% and 12.1%-18.0% as of March 31, 2021 and 2022, respectively. Value in use is sufficiently greater than carrying amount of a CGU, and the Group considers that impairment loss is unlikely to occur even if key assumptions used in measuring value in use change within a reasonable range.

15. Intangible Assets

(1) Movements in acquisition cost, accumulated amortization and accumulated impairment losses and carrying amount

Movements in acquisition cost, accumulated amortization and accumulated impairment losses and carrying amount of intangible assets are as follows:

1. Acquisition cost

(Millions of yen)

	Intangible assets related to products	Software	Others	Total
Balance as of April 1, 2020	499,834	17,185	246	517,265
Individual acquisition	2,469	2,199	2	4,670
Sales and disposals	—	(86)	(11)	(97)
Foreign currency translation differences	8,770	212	2	8,984
Others	(7)	58	—	51
Balance as of March 31, 2021	511,066	19,568	239	530,873
Individual acquisition	3,176	2,507	455	6,138
Sales and disposals	—	(114)	(3)	(117)
Foreign currency translation differences	51,735	1,043	13	52,791
Others	—	—	—	—
Balance as of March 31, 2022	565,977	23,004	704	589,685

2. Accumulated amortization and accumulated impairment losses

(Millions of yen)

	Intangible assets related to products	Software	Others	Total
Balance as of April 1, 2020	(85,803)	(10,250)	(183)	(96,236)
Amortization	(9,551)	(2,481)	(8)	(12,040)
Impairment losses	(35,592)	—	—	(35,592)
Sales and disposals	—	79	11	90
Foreign currency translation differences	(3,532)	(153)	(1)	(3,686)
Others	—	(3)	—	(3)
Balance as of March 31, 2021	(134,478)	(12,808)	(181)	(147,467)
Amortization	(24,178)	(2,710)	(9)	(26,897)
Impairment losses	(899)	—	—	(899)
Sales and disposals	—	114	3	117
Foreign currency translation differences	(15,072)	(773)	(2)	(15,847)
Others	—	—	—	—
Balance as of March 31, 2022	(174,627)	(16,177)	(189)	(190,993)

3. Carrying amount

(Millions of yen)

	Intangible assets related to products	Software	Others	Total
Balance as of April 1, 2020	414,031	6,935	63	421,029
Balance as of March 31, 2021	376,588	6,760	58	383,406
Balance as of March 31, 2022	391,350	6,827	515	398,692

(Note) 1. The amortization of intangible assets is recognized in cost of sales, selling, general and administrative expenses, and research and development expenses of the Consolidated Statement of Profit or Loss.

2. There are no internally generated intangible assets.

3. There are no interest expenses capitalized as intangible assets.

4. Intangible assets related to products include expenditures incurred in the research and development phase, of which the approval for sales by regulatory authorities has not been obtained. As they are not yet available for use, it is determined that the period for which future economic benefits will inflow to the Group is unforeseeable. Therefore, such assets are classified as intangible assets with indefinite useful lives. The carrying amounts of such intangible assets as of March 31, 2021 and 2022 were ¥165,928 million, and ¥29,799 million, respectively.

(2) Significant intangible assets

Significant intangible assets recognized in the Consolidated Statement of Financial Position are as follows:

			Carrying amount (Millions of yen)		Residual amortization period
			As of March 31, 2021	As of March 31, 2022	As of March 31, 2022
Myovant Sciences Ltd.	relugolix	In-process research and development	133,184	—	—
	MYFEMBREE®	Patent rights	—	139,604	16 years
	ORGOVYX®	Patent rights	62,335	64,745	16 years
Urovant Sciences Ltd.	GEMTESA®	Patent rights	91,336	93,894	14 years
Cynapsus Therapeutics Inc.	KYNMOBI®	Patent rights	51,328	51,481	16 years
Tolero Pharmaceuticals, Inc.	TP-0903	In-process research and development	16,828	18,606	—

The above table mainly represent the intangible assets related to products arising from the acquisition of Myovant Sciences Ltd., Urovant Sciences Ltd., Cynapsus Therapeutics Inc. (currently known as Sunovion CNS Development Canada ULC), and Tolero Pharmaceuticals, Inc. (currently known as Sumitomo Dainippon Pharma Oncology, Inc.) by the Group.

As the in-process research and development, which represents ongoing research development assets, are not approved for sales by regulatory authorities and not yet available for use, it is determined that the period for which future economic benefits will inflow to the Group is unforeseeable. Therefore, such assets are classified as intangible asset with indefinite useful lives. In addition, there exists a risk of impairment losses to be incurred due to failure in product commercialization due to the inherent uncertainties in the research and development processes, and due to a decrease in the profitability associated with changes in market environment and other factors.

(3) Impairment losses

Intangible assets are grouped into CGU that is the smallest group of assets independently generating cash flows. As for the intangible assets related to products, any individual assets of each finished goods and developed products are classified as a CGU.

Impairment losses of intangible assets are recognized when recoverable amount is less than carrying amount, and the carrying amount of intangible assets is reduced to the extent of the recoverable amount. The recoverable amount is determined based on value in use. Value in use is determined by the present value of estimated future cash flows based on the past experience and external information.

The discount rate used in the impairment test for intangible assets is based on the weighted average cost of capital, etc. set by each cash generating unit. The pre-tax discount rate used in the impairment test of intangible assets were 6.0% - 17.0% and 7.0%-18.0% as of March 31, 2021 and 2022, respectively.

As a result of impairment test, impairment losses for the year ended March 31, 2021 amounting to ¥35,592 million recognized in selling, general and administrative expenses, and research and development expenses in the Consolidated Statement of Profit or Loss were ¥151 million and ¥35,441 million, respectively.

The impairment losses were mainly impairment loss on in-process research and development of napabucasin (product code: BBI608) amounting to ¥26,952 million yen, which is Global clinical Phase 3 study for colorectal cancer, and impairment loss on in-process research and development of alvocidib (product code: DSP-2033) amounting to ¥8,489 million, which was being developed as a small molecule inhibitor of cyclin-dependent kinase 9 (CDK9) for hematologic malignancies in North America segment of pharmaceutical business.

As for in-process research and development above, the total carrying amount is reduced to zero due to the discontinuation of their clinical development.

As for in-process research and development excluding the above, value in use is significantly greater than the carrying amount of that assets, even if key assumptions used in measuring the value in use change within a reasonable range, the Group considers the possibility of occurring an impairment loss low.

16. Leases

The Group mainly uses offices and warehouses under lease contacts. Certain lease contracts contain renewal options after termination of lease terms. There are no escalation clauses and any significant restrictions provided in the lease contracts.

Leases as a lessee

(1) Amounts recognized in profit or loss

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Depreciation	4,224	4,391
Interest expenses on lease liabilities	320	307
Expenses related to short-term leases	298	222
Expenses related to leases of low-value assets	790	789
Variable lease payments not included in the measurement of lease liabilities	48	17
Income from sublease of right-of-use assets	688	671

(2) Right-of-use assets

The movements in acquisition cost, accumulated depreciation, accumulated impairment losses and carrying amounts of right-of-use assets included in property, plant and equipment are as follows:

1. Acquisition cost

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Land	Total
Balance as of April 1, 2020	13,681	4,560	—	18,241
Additions	2,966	1,165	5	4,136
Sales and disposals	(570)	(1,121)	—	(1,691)
Foreign currency translation differences	212	25	—	237
Others	(68)	—	—	(68)
Balance as of March 31, 2021	16,221	4,629	5	20,855
Additions	1,791	2,057	—	3,848
Sales and disposals	(441)	(701)	—	(1,142)
Foreign currency translation differences	958	194	—	1,152
Others	(162)	(1,286)	—	(1,448)
Balance as of March 31, 2022	18,367	4,893	5	23,265

2. Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Land	Total
Balance as of April 1, 2020	(2,884)	(1,206)	—	(4,090)
Depreciation	(3,178)	(1,045)	(1)	(4,224)
Sales and disposals	533	629	—	1,162
Foreign currency translation differences	(14)	(13)	—	(27)
Balance as of March 31, 2021	(5,543)	(1,635)	(1)	(7,179)
Depreciation	(3,459)	(932)	—	(4,391)
Sales and disposals	441	440	—	881
Foreign currency translation differences	(301)	(75)	—	(376)
Others	167	5	—	172
Balance as of March 31, 2022	(8,695)	(2,197)	(1)	(10,893)

3. Carrying amount

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Land	Total
Balance as of April 1, 2020	10,797	3,354	—	14,151
Balance as of March 31, 2021	10,678	2,994	4	13,676
Balance as of March 31, 2022	9,672	2,696	4	12,372

(3) Lease liabilities

The contractual maturities of lease liabilities are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Contractual undiscounted cash flows		
Within 1 year	6,059	5,772
Over 1 year, within 5 years	9,360	9,118
Over 5 years	2,307	1,429
Balance of undiscounted lease liabilities	17,726	16,319
Balance of lease liabilities	16,861	15,496
Lease liabilities (non-current)	10,961	10,033
Lease liabilities (current)	5,900	5,463

(4) Amounts recognized in the Consolidated Statement of Cash Flows

The total cash outflows for leases are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Repayments of lease liabilities	4,727	4,499
Interest expenses on lease liabilities paid	322	307
Others	1,136	1,028
Total	6,185	5,834

17. Other Financial Assets

(1) Details of other financial assets

The details of other financial assets are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Financial assets at amortized cost		
Loan receivables	27,690	27,253
Others	2,603	8,615
Financial assets at fair value through profit or loss		
Equity securities, etc.	32	176
Financial assets at fair value through other comprehensive income		
Equity securities, etc.	190,923	111,855
Bonds	1,155	3,364
Derivative assets	112	177
Total	222,515	151,440
Other financial assets（non-current）	193,035	115,844
Other financial assets（current）	29,480	35,596
Total	222,515	151,440

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

1. Details of fair value

The fair values of major investees are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Roivant Sciences Ltd.	123,110	52,227
JCR Pharmaceuticals Co., Ltd.	12,189	7,674
Medipal Holdings Corporation	6,888	6,541
Ono Pharmaceutical Co., Ltd.	4,812	5,105
Suzuken Co., Ltd.	3,998	3,355
Alfresa Holdings Corporation	3,501	2,788
Shikoku Yakugyo Co., Ltd.	796	2,596
Forest Holdings, Inc.	1,874	2,240
Mochida Pharmaceutical Co., Ltd.	2,323	2,023
HEALIOS K.K.	2,504	1,745
Others	28,928	25,561
Total	190,923	111,855

2. Others

The dividend income derived from the financial assets measured at fair value through other comprehensive income held by the Group are ¥942 million and ¥851 million for the years ended March 31, 2021 and 2022, respectively.

The details of “Other financial assets” under financial assets measured at fair value through other comprehensive income which were disposed in the years ended March 31, 2021 and 2022 are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Fair value at the time of disposal	173	8,022
Accumulated gains (losses)	42	5,475
Dividend income	—	141

These were disposed as a result of the revision of business strategies, etc. The accumulated gains (net of tax) reclassified from other components of equity to retained earnings at the disposal are ¥28 million and ¥3,801 million for the years ended March 31, 2021 and 2022, respectively.

The accumulated losses (net of tax) of those financial assets measured at fair value through other comprehensive income of which the significant decline in fair value compared with acquisition cost is other-than-temporary, amounting to (¥38 million) and (¥46,219 million) for the years ended March 31, 2021 and 2022, respectively, are reclassified from other components of equity to retained earnings.

18. Inventories

The details of Inventories are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Merchandise and finished goods	76,775	78,962
Work-in-process	3,982	3,712
Raw materials and supplies	11,458	16,347
Total	92,215	99,021

Certain inventories included in raw materials and supplies are expected to be consumed over more than 12 months from each fiscal year-end. However, these are included in Inventories as they are held within the normal operating cycle.

The amount of write-downs of inventories recognized as cost of sales in profit or loss are ¥1,362 million and ¥2,937 million for the years ended March 31, 2021 and 2022, respectively.

19. Trade and Other Receivables

(1) Details of trade and other receivables

The details of trade and other receivables are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Financial assets measured at amortized cost		
Accounts receivable and notes receivable	127,260	139,151
Other receivables	7,297	10,387
Contract assets	1,310	1,870
Allowance for credit losses	(1)	(1)
Total	135,866	151,407
Trade and other receivables (non-current)	—	—
Trade and other receivables (current)	135,866	151,407
Total	135,866	151,407

(2) Credit risk and market risk, and loss allowances

The exposures to credit risk and foreign currency risk, and the loss allowances for trade and other receivables are presented on Note 29. Financial Instruments.

20. Cash and Cash Equivalents

The details of cash and cash equivalents are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Financial assets measured at amortized cost		
Cash and deposits	158,520	140,566
Short-term investments (cash equivalents)	35,178	62,418
Total	193,698	202,984

21. Bonds and Borrowings

(1) Details of Bonds and Borrowings

The details of Bonds and Borrowings are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022	Average interest rate	Repayment due date
Bonds (other than current portion)	118,993	119,116	1.47%	September 2050
Long-term borrowings (other than current portion)	144,866	124,847	0.25%	December 2024~ December 2025
Current portion of long-term borrowings	4,960	20,060	0.18%	—
Short-term borrowings	5,000	5,025	0.37%	—
Total	273,819	269,048	—	—
Bonds and Borrowings (non-current)	263,859	243,963	—	—
Borrowings(current)	9,960	25,085	—	—
Total	273,819	269,048	—	—

(Note) The average interest rate is the weighted average interest rate calculated based on the balance of the borrowings as of March 31, 2022.

(2) Issuance conditions of bonds

A summary of issuance conditions of bonds is as follows:

(Millions of yen)

Issuer	Bond name	Issue date	As of March 31,2021	As of March 31,2022	Interest rate (%)	Collateral	Maturity date
Sumitomo Pharma Co., Ltd.	1st Unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions	September 10, 2020	60,000	60,000	1.39 (Note 1)	None	September 9, 2050 (Note 3)
Sumitomo Pharma Co., Ltd.	2nd Unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions	September 10, 2020	60,000	60,000	1.55 (Note 2)	None	September 9, 2050 (Note 4)
Total	—	—	120,000	120,000	—	—	—

(Note) 1. The fixed interest rate has been applied since the day after September 10, 2020 and will have been applied until September 10, 2027, and a variable interest rate from the day after September 10, 2027 ("Step-up interest rates" will be applied from the day after September 10, 2027).

2. The fixed interest rate has been applied since the day after September 10, 2020 and will have been applied until September 10, 2030, and a variable interest rate from the day after September 10, 2030 ("Step-up interest rates" will be applied from the day after September 10, 2030).

3. The Company may redeem the Hybrid Bonds at its discretion on each interest payment date from and including September 10, 2027, or in case a tax event or an equity credit change event occurs.

4. The Company may redeem the Hybrid Bonds at its discretion on each interest payment date from and including September 10, 2030, or in case a tax event or an equity credit change event occurs.

The above bonds are classified as financial liabilities measured at amortized cost and measured at cost less direct transaction cost.

(3) Changes in liabilities associated with cash flows from financing activities

The changes in liabilities associated with cash flows from financing activities are as follows:

(Millions of yen)

	Short-term borrowings	Long-term borrowings	Bonds	Lease liabilities	Total
Balance as of April 1, 2020	270,004	27,980	—	17,295	315,279
Cash flows from financing activities	(265,000)	122,040	118,927	(4,727)	(28,760)
Other changes					
Additions due to acquisition of right-of-use assets	—	—	—	4,089	4,089
Interest expenses	813	213	1,043	320	2,389
Payment of interests	(811)	(213)	(883)	(322)	(2,229)
Effect of foreign currency translation differences	(5)	—	—	164	159
Others	—	(194)	—	56	(138)
Balance as of March 31, 2021	5,001	149,826	119,087	16,875	290,789
Cash flows from financing activities	29	(4,960)	—	(4,499)	(9,430)
Other changes					
Additions due to acquisition of right-of-use assets	—	—	—	3,758	3,758
Interest expenses	73	396	1,887	307	2,663
Payment of interests	(79)	(349)	(1,764)	(309)	(2,501)
Effect of foreign currency translation differences	5	—	—	857	862
Others	(4)	(6)	—	(1,481)	(1,491)
Balance as of March 31, 2022	5,025	144,907	119,210	15,508	284,650

(Note) Interest payables are included in the above.

22. Trade and Other Payables

The details of trade and other payables are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Financial liabilities measured at amortized cost		
Accounts payable and notes payables	26,076	22,455
Other payables	38,562	23,728
Total	64,638	46,183
Trade and other payables (non-current)	—	—
Trade and other payables (current)	64,638	46,183
Total	64,638	46,183

23. Other Financial Liabilities

The details of other financial liabilities are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Financial liabilities at amortized cost		
Deposit received	3,566	4,125
Others (Note)	15,410	4,739
Financial liabilities at fair value through profit or loss		
Contingent considerations	8,337	4,419
Others	571	994
Lease liabilities	16,861	15,496
Total	44,745	29,773
Other financial liabilities (non-current)	21,404	16,471
Other financial liabilities (current)	23,341	13,302
Total	44,745	29,773

(Note) "Others" under Financial liabilities at amortized cost include upfront payment received from Pfizer, Inc. based on development and commercialization agreement on relugolix in North America in oncology and women's health in the year ended March 31, 2021. The details are presented in Note 34. Joint Development and Joint Sales (1) Joint development and joint sales with Pfizer Inc.

24. Provisions

(1) Movements of provisions

The movement of provisions is as follows:

Year ended March 31, 2022

(Millions of yen)

	Reserve for sales returns	Reserve for sales rebates	Total
Balance at the beginning of the year	8,610	91,241	99,851
Increase	3,552	101,992	105,544
Decrease (utilization)	(2,039)	(95,332)	(97,371)
Decrease (reversal)	(95)	(43)	(138)
Foreign currency translation differences	1,037	10,226	11,263
Balance at the end of the year	11,065	108,084	119,149
Provision (non-current)	—	—	—
Provision (current)	11,065	108,084	119,149
Total	11,065	108,084	119,149

(2) Details of Provisions

Provisions are measured based on the best estimation on the timing of settlement of the future obligations as well as cash flows estimated to be required to settle obligations as of reporting date. Significant adjustments to provisions are possible to be made in the consolidated financial statements for the fiscal years subsequent to the reporting date, in case the result that is different from the assumptions used for estimation occurs.

1. Reserve for sales returns

Reserve for sales returns is provided based on the estimated amount of sales return of all the products and goods. Among the balance as of March 31 2022, ¥9,756 million was reserve for sales returns recognized for products sold by Sumitomo Dainippon Pharma America, Inc. (hereinafter, SDPA). The future outflow of economic benefits is expected to be incurred within the normal operating cycle from the end of each reporting period.

2. Reserve for sales rebates

Reserve for sales rebates is provided based on the estimated amount to be paid for sales rebates related to public programs, wholesales and other contacts. Among the balance as of March 31, 2022, ¥104,693 million was reserve for sales rebates recognized for products sold by SDPA. Sales rebates related to various insurance programs (Medicaid, etc.) that are applied to major products sold in the United States need time to be determined as the settlement period is about one year. As for estimation of reserves for sales rebates, final distribution channels and applicable insurance programs need to be estimated as the rates of sales rebates, which are the basis of calculation of sales rebates, differ depending on distribution channels (wholesalers, pharmacies and hospitals) and applicable insurance programs. These management judgements would have significant effect on estimation of reserves for sales rebates. The future outflow of economic benefits is expected to be incurred within the normal operating cycle from the end of each reporting period.

25. Other liabilities

The details of other non-current liabilities and other current liabilities are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Unearned revenue (Note)	53,281	58,401
Accrued bonuses	28,448	36,792
Accrued expenses	9,204	17,603
Others	17,959	11,895
Total	108,892	124,691
Other non-current liabilities	53,046	57,620
Other current liabilities	55,846	67,071
Total	108,892	124,691

(Note) “Unearned revenue” is upfront payment received from Pfizer, Inc. based on development and commercialization agreement on relugolix in North America in oncology and women’s health. The details are presented in Note 34. Joint Development and Joint Sales (1) Joint development and joint sales with Pfizer Inc.

26. Employee Benefits

(1) Summary of post-retirement benefit plans

The Company and certain consolidated subsidiaries adopt funded or unfunded defined benefit plans and defined contribution plans to pay for the employee post-retirement benefits.

Under the defined benefit corporate pension plans which are funded plan, lump-sum payments or pensions are mainly paid based on job position and length of service period. Certain defined benefit corporate pension plans are established by retirement benefit trusts.

Under the lump-sum payment retirement plans as post-retirement benefit, payments are paid based on job grade and length of service period.

(2) Defined benefit plan

1. Details of defined benefit liabilities and assets

Net defined benefit liabilities and assets recognized in the Consolidated Statement of Financial Position are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Present value of defined benefit obligations	99,327	96,144
Fair value of the plan assets (including retirement benefit trusts)	84,258	84,683
Net defined benefit (assets) liabilities	15,069	11,461
Retirement benefit liabilities	15,069	11,461
Retirement benefit assets	—	—

2. Defined benefit obligations

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

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Balance at beginning of the year	99,931	99,327
Current service cost	3,057	3,068
Interest expense	628	676
Remeasurement of net defined benefit liability (asset)		
Changes in demographic assumptions	(68)	(232)
Changes in financial assumptions	(934)	(2,084)
Experience adjustments	212	(69)
Past service cost	27	(178)
Benefits paid	(3,566)	(4,411)
Foreign currency translation differences	15	60
Others	25	(13)
Balance at end of the year	99,327	96,144

(Note) The weighted average number of payment years of defined benefit obligations are 14.2 years and 14.0 years as of March 31, 2021 and 2022, respectively.

3. Plan assets

Changes in the fair value of plan assets are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Balance at beginning of the year	76,061	84,258
Interest income	371	586
Benefits paid	(2,856)	(3,437)
Contributions by the employer	2,365	2,356
Remeasurement of defined benefit plans		
Return on plan assets	8,316	935
Others	1	(15)
Balance at end of the year	84,258	84,683

(Note) The Group is expected to pay contributions amounting to ¥2,356 million in the year ending March 31, 2023.

4. Components of plan assets

The details of plan assets by category are as follows:

(Millions of yen)

	As of March 31, 2021			As of March 31, 2022		
	With quoted prices in active markets	Without quoted prices in active markets	Total	With quoted prices in active markets	Without quoted prices in active markets	Total
Equity securities	22,002	—	22,002	19,272	—	19,272
Debt securities	32,419	—	32,419	30,136	—	30,136
General accounts of life insurance companies	—	9,084	9,084	—	9,288	9,288
Cash and cash equivalents	3,120	—	3,120	2,680	—	2,680
Others	—	17,633	17,633	—	23,307	23,307
Total	57,541	26,717	84,258	52,088	32,595	84,683

(Note) The retirement benefit trusts set for defined benefit pension plans consist of 7.6% and 8.3% in the total plan assets as of March 31, 2021 and 2022 respectively. For general accounts of life insurance companies, a certain level of interest rate and principal are guaranteed by life insurance companies.

5. Significant actuarial assumptions

The key actuarial assumptions used for calculating the present value of defined benefit obligations are as follows:

	As of March 31, 2021	As of March 31, 2022
Discount rate (%)	0.7	0.8

6. Sensitivity analysis

The effects of changes in the significant actuarial assumptions on the defined benefit obligations as of March 31, 2021 and 2022 are as follows:

The sensitivity analysis is performed under the assumption that other parameters remain unchanged. The analysis is performed on the same basis with calculation of defined benefit obligation recognized in the Consolidated Statement of Financial Position.

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
In case that the discount rate increases by 0.5%	(6,615)	(6,209)
In case that the discount rate decreases by 0.5%	7,419	6,945

7. Investment strategy and operating policy of plan assets

The Company's basic policy of plan asset management is aimed to generate a required long-term comprehensive return within an acceptable range of risk exposure in order to provide sufficient funding for future pension payments and lump-sum payments that are stipulated in the Group's regulations on retirement benefits and regulations on corporate pension funds.

The targeted rate of return is the required return rate to operate and maintain a sound defined benefit plan in the future. Concretely, the objective is to achieve a mid-to-long term expected rate of return that exceeds the discount rate. In order to achieve the objective, the Group establishes the basic policy for plan asset management. Such policy is subject to change according to the changes of the Group's status and systems or operating environment surrounding the Group.

8. Impact of the defined benefit plan on future cash flows

In relation to the defined benefit corporate pension plan, 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.

(3) Defined contribution plan

The expenses recognized for defined contribution plans were ¥2,734 million and ¥3,412 million for the years ended March 31, 2021 and 2022, respectively.

(4) Other Employee benefit expenses

The employee benefit expenses for the years ended March 31, 2021 and 2022 are as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Salaries	79,251	90,059
Bonuses	30,679	38,043
Retirement benefit expenses	7,268	8,094
Others	14,241	16,354
Total	131,439	152,550

27. Share-based payments

Myovant Sciences Ltd., the Company's consolidated subsidiary, has introduced Stock Compensation Plans for its directors and employees and granted stock options to them.

1. Stock Option Plans

Stock options that Myovant Sciences Ltd. has issued are equity-settled share-based compensation and the vesting conditions are mainly based on service period.

Information related to stock options of Myovant Sciences Ltd. for the years ended March 31, 2021, and 2022 are as follows:

(i) Year ended March 31, 2021

	Number of stock options (shares)	Weighted average exercise price (USD)	Weighted average remaining contractual years (year)
Outstanding balance as of April 1, 2020	7,723,302	9.25	8.08
Granted	1,985,765	10.88	—
Exercised	(905,776)	7.41	—
Expired	(509,960)	8.32	—
Outstanding balance as of March 31, 2021	8,293,331	9.90	6.48
Exercisable balance as of March 31, 2021	5,219,403	9.77	5.26

(Note) 1. The weighted average share prices at the time of exercising is $20.82 USD.

2. The range of exercise prices for outstanding as of March 31, 2021 is from $2.38 to $26.17 USD.

(ii) Year ended March 31, 2022

	Number of stock options (shares)	Weighted average exercise price (USD)	Weighted average remaining contractual years (year)
Outstanding balance as of April 1, 2021	8,293,331	9.90	6.48
Granted	1,178,625	18.93	—
Exercised	(827,389)	17.07	—
Expired	(2,513,887)	9.80	—
Outstanding balance as of March 31, 2022	6,130,680	10.71	6.98
Exercisable balance as of March 31, 2022	3,754,020	8.41	6.08

(Note) 1. The weighted average share price at the time of exercising is $19.07 USD.

2. The range of exercise prices for outstanding as of March 31, 2022 is from $2.38 to $26.17 USD.

The Black-Scholes model was used for the purpose of valuation of the fair value of the stock options. As for the granted stock options during the year ended March 31, 2021 and 2022, the assumptions used for the Black-Scholes model are as follows. Also, expected weighted average fair value per one stock option is $12.12 USD.

	Year ended March 31, 2021	Year ended March 31, 2022
Expected weighted average share price (USD)	$18.82	$18.95
Expected exercise price (USD)	$10.88	$18.93
Expected volatility	75.7%	71.9%
Expected stock option period	6.2 years	6.2 years
Expected dividends	—	—
Risk-free interest rate	0.5%	1.0%

(Note) 1. The estimate of expected volatility is based on the historical volatility of Myovant Sciences Ltd., and similar listed companies that and comparable with Myovant Sciences Ltd., corresponding to the expected remaining period of stock options.

2. The assumptions used for measuring the fair value of the stock options granted after the date of acquisition of Myovant Sciences Ltd. are described as above.

2. Stock Compensation Expenses

Stock compensation expenses recorded in the Consolidated Statement of Profit or Loss were as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Selling, general and administrative expenses	7,338	3,627
Research and development expenses	2,299	1,912
Total	9,637	5,539

28. Share Capital and Other Equity Items

(1) Share capital

The numbers of shares authorized and the changes in shares issued are as follows:

(Thousands of shares)

	Year ended March 31, 2021	Year ended March 31, 2022
Number of shares authorized	1,500,000	1,500,000
Number of issued shares		
Balance at the beginning of the year	397,900	397,900
Changes during the year	—	—
Balance at the end of the year	397,900	397,900

(Note) All the shares issued by the Company are ordinary shares with no par value which have no limitations on any rights. The issued shares are fully paid.

(2) Treasury shares

The changes of number of treasury shares are as follows:

(Thousands of shares)

	Year ended March 31, 2021	Year ended March 31, 2022
Balance at the beginning of the year	605	606
Changes during the year	1	1
Balance at the end of the year	606	607

(Note) The treasury shares held by the Company are all ordinary shares. The changes during the year mainly represents the increase due to the request for purchases of shares less than one unit, and the decrease due to the request for sales of shares less than one unit.

(3) Surplus

1. Capital surplus

Out of the amount generated from the equity transactions, capital surplus consists of the amount which is not included in share capital.

2. Retained earnings

Retained earnings consist of net profit (loss) recognized in the current year and prior years, and the amount reclassified from other components of equity.

(4) Other components of equity

1. Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income

It represents the cumulative amount of net gain (loss) arising from the changes in the fair value of financial assets measured at fair value through other comprehensive income.

2. Remeasurements of net defined benefit liability (asset)

It represents the effects of differences between the actuarial assumptions at the beginning of the year and actual result, and the effects of changes in actuarial assumptions, and the income derived from changes in fair value on plan assets other than interest income.

3. Foreign differences on translation of foreign operations

It represents the cumulative translation differences arising from consolidating financial statements of foreign operations prepared using foreign currencies.

4. Cash flow hedges

It represents the effective portion of the cumulative amount of net gain (loss) in fair value of cash flow hedges relating to hedge transactions that have not yet been realized.

(5) Dividends

1. Dividends paid and dividends per share

The total dividends paid and dividends per share are as follows:

(i) For the year ended March 31, 2021

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Declaration date	Effective date of distribution
Annual shareholders meeting (June 23, 2020)	Ordinary share	5,562	14.00	March 31, 2020	June 24, 2020
Meeting of the Board of directors (October 28, 2020)	Ordinary share	5,562	14.00	September 30, 2020	December 1 ,2020

(ii) For the year ended March 31, 2022

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Declaration date	Effective date of distribution
Annual shareholders meeting (June 24, 2021)	Ordinary share	5,562	14.00	March 31, 2021	June 25, 2021
Meeting of the Board of directors (October 27, 2021)	Ordinary share	5,562	14.00	September 30, 2021	December 1 ,2021

2. Dividends with record date in the current fiscal year but whose effective date in the following years

Dividends with record date in the current fiscal year but whose effective date in the following years are as follows:

(i) For the year ended March 31, 2021

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Declaration date	Effective date of distribution
Annual shareholders meeting (June 24, 2021)	Ordinary share	5,562	14.00	March 31, 2021	June 25, 2021

(ii) For the year ended March 31, 2022

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Declaration date	Effective date of distribution
Annual shareholders meeting (June 23, 2022)	Ordinary share	5,562	14.00	March 31, 2022	June 24, 2022

29. Financial Instruments

(1) Capital management

In order to achieve sustainable and integrative increase of corporate value and shareholder value, the Group conducts capital management under the policy of introducing merchandise and developed products and making investments in domestic business, North America business, and new business, etc., and also positioning return on profits to shareholders as a key management priority. There are no significant capital restrictions applicable to the Group.

(2) Overview of financial risk management

Risk management policy

In order to reduce financial risks (such as credit risk, liquidity risk, and market risks, etc.) arising from business operations, the Group performs risk management. Derivatives are used to mitigate part of such risks and are not used for speculative purposes.

(3) Credit risk

1. Summary

Credit risk is the risk of financial loss to the Group if a customer or a counterparty of financial instrument fails to meet its contractual obligations. It mainly arises from the debtors, such as trade receivables due from the Group's customers.

As for the customers' credit risk arising from trade receivables and etc., the Group monitors the status of overdue balances, reviews outstanding balances of each customer according to the Group's internal credit management policies and assesses the credibility of major customers on a regular basis in order to reduce credit risks.

2. Maximum credit risk exposures

The maximum exposures related to the credit risk of financial assets held by the Group are the carrying amount of financial assets presented in the Consolidated Statements of Financial Position.

As there are no financial assets or credit-impaired financial assets of which significant credit risk has increased significantly after the initial recognition, the carrying amount by credit risk category of financial instruments at the end of each fiscal year is not presented.

3. Changes in allowance for doubtful accounts

An allowance for doubtful accounts is recognized for expected credit losses for trade receivables and other receivables.

(i) Trade receivables

Allowance for doubtful accounts related to trade receivables that do not contain a significant financing component is recognized at the amount equal to the lifetime expected credit loss by similar receivables.

(ii) Other receivables

For assets of which credit risk significantly increases, in principle, an allowance for doubtful accounts is recognized at the amount equal to the 12-month expected credit loss, and calculated by multiplying the carrying amount by the provision rate calculated by considering prospects of future economic conditions, etc. in addition to the historical rate of credit losses of similar assets. For assets of which credit risk is considered significantly increased, and credit-impaired financial assets, the allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses, and is calculated based on the difference between recoverable amount that is individually determined by considering the prospects of future economic conditions, in addition to the financial conditions of counterparty and total carrying amount.

Any financial asset will be treated as credit-impaired financial assets, if there is a request to change terms and conditions for repayment from the debtor, serious financial difficult of the debtor, or commencement of legal liquidation procedures due to bankruptcy and others of the debtor, etc. In addition, if a financial asset is impaired, the impairment loss is recognized in the account of allowance for doubtful accounts rather than deducted directly from the carrying amount of the asset.

Changes in the allowance for doubtful accounts of the Group are not presented, as they are immaterial.

(4) Liquidity risk

1. Overview

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages the liquidity risk by preparing monthly funding plan by each company and etc.

2. Maturity analysis

The balance of financial liabilities of each contractual maturity is as follows:

The interest is represented by the amount of estimated payment in future.

(i) As of March 31, 2021

(Millions of yen)

	Carrying amount	Total contractual cash flow	Due within one year or less	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years	Due after five Years
Borrowings	154,826	156,493	10,333	20,410	323	60,289	65,138	—
Bonds	118,993	134,256	1,764	1,764	1,764	1,764	1,764	125,436
Total	273,819	290,749	12,097	22,174	2,087	62,053	66,902	125,436

(Note) The principal amount of publicly offered hybrid bonds (publicly offered subordinated bonds) is included in "Due after five years" based on the contractual maturity date, but may be redeemed early due to special provisions. The details are presented in Notes to Consolidated Financial Statements, Note 21. Bonds and Borrowings

(ii) As of March 31, 2022

(Millions of yen)

	Carrying amount	Total contractual cash flow	Due within one year or less	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years	Due after five Years
Borrowings	149,932	151,161	25,429	317	60,284	65,131	—	—
Bonds	119,116	132,492	1,764	1,764	1,764	1,764	1,764	123,672
Total	269,048	283,653	27,193	2,081	62,048	66,895	1,764	123,672

(Note) The principal amount of publicly offered hybrid bonds (publicly offered subordinated bonds) is included in "Due after five years" based on the contractual maturity date, but may be redeemed early due to special provisions. The details are presented in Notes to Consolidated Financial Statements, Note 21. Bonds and Borrowings.

(5) Market risk

1. Overview

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates, and equity prices - will affect the Group's income or the value of its holdings of the financial instruments. The Group implements certain measures for each kind of risks.

2. Foreign exchange risk

(i) Foreign exchange risk exposure

A summary of the quantitative data regarding the Group's foreign exchange risk exposure provided to the Management of the Group which is prepared according to the risk management policy is as follows.

(Thousands of USD)

	As of March 31, 2021	As of March 31, 2022
Receivables	2,171,497	2,346,473
Payables	107,801	98,947
Net exposures of the Consolidated Statement of Financial Position	2,063,696	2,247,526
Forward foreign exchange contracts	(119,589)	(153,410)
Net exposures	1,944,107	2,094,116

Receivables are mainly foreign currency deposit, trade receivables and loan receivables. Payables are mainly trade payables and other payables.

Forward foreign exchange contracts are used for trade receivables recorded with a certain export transactions.

(ii) Foreign exchange sensitivity analysis

The Group is exposed mainly to the foreign exchange risks against US dollars.

If the Japanese yen depreciates by 5% against the US dollar, the impact on profit or loss arising from the financial instruments held by the Group would be ¥7,477 million and ¥8,898 million as of March 31, 2021 and 2022, respectively.

The analysis includes neither the impact arising from the translation of financial instruments denominated in functional currencies, nor the translation of assets, liabilities, revenue and expenses of foreign operations into Japanese yen. It is assumed that other variable factors are constant.

3. Interest rate risk

A part of interest-bearing debts held by the Group are variable interest rates. The impact of interest rate risk on the Group's net profit or loss is immaterial because part of its variable interest rates is less than 0.1% as of March 31, 2022. Therefore, the sensitivity analysis of interest rate risk is not presented as it is immaterial.

(6) Fair value of financial instrument

1. Fair value hierarchy levels

For financial instruments measured at fair value, the fair value developed observability of the inputs into the valuation techniques used in measurement are categorized within the following three levels.

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 price included in Level 1 that are observable price for the assets or liabilities, either directly or indirectly.

Level 3: Fair value measured using inputs that are not based on observable market data.

2. Financial instruments at amortized cost

The carrying amount and fair value of financial instruments at amortized cost are as follows：

The financial instruments of which the carrying amounts are reasonable approximation of their fair value or financial instrument that are not material, are not included in the below table.

(Millions of yen)

	As of March 31, 2021		As of March 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds	118,993	122,646	119,116	121,560
Borrowings	154,826	154,849	149,932	149,362
Total	273,819	277,495	269,048	270,922

Fair value measurement of main financial instruments at amortized cost are as follows:

(i) Bonds

The fair value of bonds is measured at market prices for the same debt in inactive markets at the reporting date. Fair value hierarchy of the bonds is classified as Level 2.

(ii) Borrowings

The fair value of the borrowings is measured at the present value of remaining principal and interest discounted using an interest rate that would be used for new borrowings. Fair value hierarchy of the borrowings is classified as Level 3.

3. Financial instruments at fair value in the Consolidated Statement of Financial Position

The fair value hierarchy of financial instruments at fair value in the Consolidated Statement of Financial Position is as follows:

Transfers of financial instruments among levels of fair value hierarchy are recognized at each year-end. There was a transfer from Level 3 to Level 1 in the year ended March 31, 2022. The Group holds investment securities which were not listed on an exchange and there were no observable transactions in an active market as of March 31, 2021. However, such investment securities were listed on an exchange in the year ended March 31, 2022 and the equity shares are currently actively traded in that market. Because the investment securities now have a trading price in an active market, the fair value hierarchy was transferred from Level 3 to Level 1 for fair value measurement in the year ended March 31, 2022. Except for the above, there were no transfers among levels of fair value hierarchy for significant financial assets and liabilities occurred in the years ended March 31, 2021 and 2022.

(i) As of March 31, 2021

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss				
Investment securities, etc.	32	—	—	32
Financial assets measured at fair value through other comprehensive income				
Investment securities, etc.	52,048	—	138,875	190,923
Bonds	—	1,155	—	1,155
Derivative assets	—	112	—	112
Total	52,080	1,267	138,875	192,222
Financial liabilities measured at fair value through profit or loss				
Contingent consideration	—	—	8,337	8,337
Derivative liabilities	—	539	—	539
Others	32	—	—	32
Total	32	539	8,337	8,908

(ii) As of March 31, 2022

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss				
Investment securities, etc.	176	—	—	176
Financial assets measured at fair value through other comprehensive income				
Investment securities, etc.	87,905	—	23,950	111,855
Bonds	—	3,364	—	3,364
Derivative assets	—	177	—	177
Total	88,081	3,541	23,950	115,572
Financial liabilities measured at fair value through profit or loss				
Contingent consideration	—	—	4,419	4,419
Derivative liabilities	—	816	—	816
Others	178	—	—	178
Total	178	816	4,419	5,413

The movement of the financial instruments of which fair value is classified as Level 3 is as follows:

(i) Financial assets

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Balance at the beginning of the year	155,651	138,875
Purchase	2,689	11,042
Changes in financial assets measured at fair value through other comprehensive income	(19,180)	(73,318)
Sales/settlement	(173)	(27)
Transfer to Level 1	—	(52,227)
Transfer to investment in associates accounted for by using the equity method	—	(395)
Others	(112)	—
Balance at the end of the year	138,875	23,950

(ii) Financial liabilities

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Balance at the beginning of the year	31,228	8,337
Changes in fair value of contingent consideration (Note)	(22,463)	(3,282)
Settlement of contingent considerations	—	(1,124)
Foreign currency translation differences	(428)	488
Balance at the end of the year	8,337	4,419

(Note) The changes in fair value of contingent consideration is recognized in selling, general and administrative expenses in the Consolidated Statement of Profit or Loss.

The financial assets classified as Level 3 of fair value hierarchy mainly consist of unlisted securities. For unlisted securities for which fair value approximates their net asset value, the fair value is mainly calculated by valuation techniques based on the net asset value.

The financial liabilities classified as Level 3 of fair value hierarchy mainly consist of contingent consideration arising from business combination. Contingent consideration is determined by development milestones for which payment will be required upon achievement of the development progress in a specific development product, and commercial milestones for which payment will be required based on revenue earned since commencement of sales, etc. The fair value of the contingent consideration is measured by taking account of possibility of achievement of milestones and time value of money.

These fair value measurements are determined in accordance with the Group’s valuation policies and procedures. The valuation models are determined so that they most appropriately reflect each financial instrument’s nature, characteristics and risks. The Group examines the changes in important metrics that could affect the changes in fair value, on an ongoing basis.

The Group considers there are no material changes in fair values of financial instruments classified as Level 3, in case the unobserved inputs are replaced by alternative assumptions that are considered reasonable.

4. Contingent consideration

As for the acquisitions of Elevation Pharmaceuticals, Inc. (currently known as Sunovion Respiratory Development Inc., hereinafter “Elevation”), and Tolero Pharmaceuticals, Inc. (currently known as Sumitomo Dainippon Pharma Oncology, Inc., hereinafter “Tolero”), the contingent considerations are to be additionally paid to former shareholders upon the achievement of predetermined milestone.

As for the acquisition of Elevation, consideration for acquisition amounting to $189 million (¥17,800 million) has been paid till March 31, 2022, and it is possible to pay a maximum amount of $210 million (¥25,706 million), before considering time value of money, on achievement of the commercial milestones determined based on revenue earned .

As for the acquisition of Tolero, consideration for acquisition amounting to $205 million (¥23,289 million) has been paid till March 31, 2022, and it is possible to pay a maximum amount of $420 million (¥51,412 million) on achievement of the development milestones for chemical compounds under development by Tolero. In addition, it is possible to pay a maximum amount of $150 million (¥18,362 million), before considering time value of money, on achievement of the commercial milestones determined based on revenue earned after commencement of sales.

The Group recognize these contingent considerations in other financial liabilities in the Consolidated Statement of Financial Position after considering the time value of the money.

The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy. The fair value of contingent consideration is measured by taking account of probability of achievement of development milestones of a specific developed product and revenue to be earned since commencement of sales and time value of money. The development milestones in a specific developed product, forecast on future sales, and discount rates and etc may be affected by uncertain future events.

The changes in the fair value are recognized in Selling, general and administrative expenses in the Consolidated Statement of Profit or Loss.

The total amount of future payments that the Group may be required to make is ¥87,461 million (undiscounted) and ¥95,480 million (undiscounted) as of March 31, 2021 and 2022, respectively. The amounts payable by due date of contingent consideration are not presented because of the uncertainty.

The impact on fair value of contingent considerations due to changes in significant assumptions which affect the fair value of contingent considerations is as follows:

(Millions of yen)

		As of March 31, 2021	As of March 31, 2022
Revenue	Increase by 5%	111	122
	Decrease by 5%	(111)	(122)
Discount rate	Increase by 0.5%	(111)	(122)
	Decrease by 0.5%	111	122

30. Capital Expenditure Commitments

Capital expenditure commitments of acquisition of assets are as follows:

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Property, plant and equipment	4,631	2,936
Intangible assets	71,765	76,446
Total	76,396	79,382

Commitments in place to purchase intangible assets are mainly related to purchase of rights on contracts signed with third parties regarding introduction of technology. These contracts have terms related to payment achievement of a development milestone depend upon the progress of development, in addition to the lump-sum payment executed upon signing the contract. The above amount is pre-discounted amount, and includes all potential payments for milestones, assuming that all products in process would be successful, without adjustments made on success probability. Because it is highly uncertain whether a milestone will be achieved, actual payments may be significantly different from these commitment amounts.

31. Subsidiaries and Associates

(1) The significant subsidiaries and associates

The significant subsidiaries and associates of the Group as of March 31, 2022 are as follows:

Major Consolidated Subsidiaries

Name	Location	Amount of Stated Capital	Principal Businesses (Operating Segment)	Ratio of Voting Rights
Sumitomo Dainippon Pharma America, Inc. (Note)	Marlborough, MA, U.S.	$1 thousand	Holding company Shared service for general management operations (North America)	100%
Sunovion Pharmaceuticals Inc.	Marlborough, MA, U.S.	$0 thousand	Manufacturing and sales of pharmaceuticals (North America)	100%
Sumitomo Dainippon Pharma Oncology, Inc. (Note)	Cambridge, MA, U.S.	$0 thousand	R&D in the oncology area (North America)	100%
Sumitovant Biopharma Ltd.	London, U.K.	$0 thousand	Management of Sumitovant group companies, and formulation and promotion of business strategies, etc. (North America)	100%
Myovant Sciences Ltd.	London, U.K.	$2 thousand	Manufacturing and sales of pharmaceuticals in the women's health and prostate cancer area (North America)	52.75%
Urovant Sciences Ltd.	London, U.K.	$1 thousand	Manufacturing and sales of pharmaceuticals in the urology area (North America)	100%
Enzyvant Therapeutics Ltd.	London, U.K.	$0 thousand	Manufacturing and sales of pharmaceuticals in the pediatric rare diseases area (North America)	100%
Altavant Sciences Ltd.	London, U.K.	$1 thousand	R&D in the respiratory rare diseases area (North America)	100%
Spirovant Sciences Inc.	Philadelphia, PA, U.S.	$0 thousand	R&D in the cystic fibrosis gene therapy area (North America)	100%
Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.	Suzhou, Jiangsu, China	$35,000 thousand	Manufacturing and sales of pharmaceuticals (China)	100%
DS Pharma Animal Health Co., Ltd. (Note)	Chuo-ku, Osaka	¥200 million	Manufacturing and sales of veterinary medicines, etc. (Other Business)	100%
DSP GOKYO FOOD & CHEMICAL Co., Ltd. (Note)	Kita-ku, Osaka	¥200 million	Manufacturing and sales of food ingredients, food additives, chemical product materials, etc.(Other Business)	100%
DS Pharma Promo Co., Ltd. (Note)	Suita, Osaka	¥480 million	Manufacturing and sales of pharmaceuticals, etc. (Japan)	100%

(Note) The trade names of the following subsidiaries have been changed as described below as of April 1, 2022.

Before change	After change
Sumitomo Dainippon Pharma America, Inc.	Sumitomo Pharma America Holdings, Inc.
Sumitomo Dainippon Pharma Oncology, Inc.	Sumitomo Pharma Oncology, Inc.
DS Pharma Animal Health Co., Ltd.	Sumitomo Pharma Animal Health Co., Ltd.
DSP GOKYO FOOD & CHEMICAL Co., Ltd.	Sumitomo Pharma Food & Chemical Co., Ltd.
DS Pharma Promo Co., Ltd.	Sumitomo Pharma Promo Co., Ltd.

(2) Subsidiaries with significant non-controlling interests

The summarized financial information for the subsidiaries that the Company recognizes significant non-controlling interest are as follows:

The amounts in the summarized financial information are before inter-company eliminations.

Myovant Sciences Ltd.

1. Non-controlling interests ratio and accumulated amount of non-controlling interests

(Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Non-controlling interests ratio	46.6%	47.3%
Accumulated amount of non-controlling interests	67,583	65,650

2. Net profit or loss allocated to non-controlling interests and dividends paid to non-controlling interests

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Net profit or loss allocated to non-controlling interests	(13,141)	(15,819)
Dividends paid to non-controlling interests	—	—

3. Summarized financial information

(i) Summary of Consolidated Statement of Profit or Loss and Summary of Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Revenue	6,294	25,961
Net profit (loss)	(28,368)	(33,789)
Comprehensive income (loss)	(30,028)	(33,789)

(ii) Summary of Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2021	As of March 31, 2021
Non-current assets	197,959	208,350
Current assets	78,011	59,754
Total assets	275,970	268,104
Non-current liabilities	106,276	108,931
Current liabilities	30,943	30,708
Total liabilities	137,219	139,638
Total equity	138,751	128,466
Total liabilities and equity	275,970	268,104

(iii) Summary of Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Net cash flows from operating activities	39,327	(30,186)
Net cash flows from investing activities	(977)	(2,026)
Net cash flows from financing activities	25,259	2,912
Effect of exchange rate changes on cash and cash equivalents	—	—
Net increase (decrease) in cash and cash equivalents	66,515	(23,983)
Cash and cash equivalents at end of year	75,004	51,021

(Note) Net increase (decrease) in cash and cash equivalents includes foreign currency translation differences arising from translating local currencies into Japanese yen for the years ended March 31, 2021, and 2022.

32. Related Parties

(1) Parent company

Sumitomo Chemical Company, Limited is the parent company of the Group.

(2) Related party transactions

Transactions and balances with the parent company are as follows:

(Millions of yen)

Type	Company name	Description of transaction	Year ended March 31, 2021		Year ended March 31, 2022	
			Transaction amount	Outstanding balance	Transaction amount	Outstanding balance
Parent company	Sumitomo Chemical Company, Limited	Lending and collection of funds	879	27,678	(1,133)	27,241

Related party transactions are under general terms and conditions that are the same as those of transactions with a third party. Outstanding balances are not secured by any collateral, and are settled by cash. There is no allowance for doubtful accounts on the outstanding balances.

(3) Remuneration of key management personnel

Remuneration of key management personnel is as follows:

(Millions of yen)

	Year ended March 31, 2021	Year ended March 31, 2022
Basic remuneration and bonus	478	481

33. Acquisition of Non-Controlling Interests

(Changes in parent company's ownership interest due to acquisition of non-controlling interests)

The Group acquired 2.1% of the shares of Myovant to strengthen the relationship between the Group and Myovant additionally for the year ended March 31, 2021. As a result, capital surplus was increased by ¥919 million. To provide Urovant Sciences Ltd. optimal support in maximizing the value of vibegron, the Group acquired all of the shares of Urovant Sciences Ltd., which then became a wholly owned subsidiary of the Group for the year ended March 31, 2021. As a result, capital surplus was decreased by ¥2,248 million. Transaction costs incurred from making Urovant Sciences Ltd become a wholly owned subsidiary was ¥494 million, which is deducted from capital surplus.

The Group acquired 1.5% of the shares of Myovant to strengthen the relationship between the Group and Myovant additionally for the year ended March 31, 2022. As a result, capital surplus was decreased by ¥1,772 million.

34. Joint Development and Joint Sales

The Group has entered into a development and commercialization agreement related to the Group's developed products and finished goods with its alliance partner.

(1) Joint development and joint sales with Pfizer Inc.

On December 26, 2020, Myovant which is a Company's subsidiary, and Pfizer Inc. have entered into a development and commercialization agreement on relugolix in oncology and women's health in the U.S. and Canada.

Based on this agreement, Myovant recognizes sales revenue of relugolix monotherapy tablet and relugolix combination tablet (hereinafter, "combination tablet"), and Myovant and Pfizer Inc. will equally share profits and certain expenses necessary for development and sales.

As considerations of this agreement, Myovant received \$650 million (¥67,353 million) as upfront payment and \$100 million (¥10,875 million) as potential regulatory milestones for U.S. Food and Drug Administration approvals for relugolix combination tablet in women's health from Pfizer Inc. Also, Myovant will receive at a maximum of \$4,200 million (¥500,543 million), including \$100 million (¥12,241 million) in potential regulatory milestones for U.S. Food and Drug Administration approvals for relugolix combination tablet in women's health, and tiered sales milestones upon reaching certain thresholds up to \$2,500 million in net sales for prostate cancer and also for women's uterine fibroids and endometriosis.

After this alliance, the Group recognizes sales revenue and cost of sales related to the sale of relugolix. In addition to selling, general and administrative expenses, and research and development expenses related to relugolix incurred in the Group, the Group recognizes expenses paid to Pfizer Inc. for equally sharing profits in cost of sales, selling, general and administrative expenses, and research and development expenses according to the nature as well.

Based on the agreement, the Group received \$650 million (¥67,353 million) as upfront payment from Pfizer Inc. for the year ended March 31, 2021. The Group recognized \$504 million (¥52,224 million) of this payment as other liabilities and subsequently recognizes as revenue for consideration related to joint development in six years. Also, the Group recognized \$146 million (¥15,129 million) of this payment as redemption of research and development expenses afforded by the Group in other financial liabilities.

The Group derecognizes the other financial liabilities whenever research and development expenses related to relugolix afforded by the Group incurs.

The Group received $100 million (¥10,875 million) as accomplishment of milestone at the time of obtaining approvals for relugolix combination tablet in U.S. in the year ended March 31, 2022 and recognized this payment as other liabilities and subsequently recognized as revenue for consideration related to joint development being included in aforementioned upfront payment.

(2) Joint development and joint sales with Otsuka Pharmaceutical Co., Ltd.

On September 30, 2021, the Company, its subsidiary Sunovion Pharmaceuticals Inc. and Otsuka Pharmaceutical Co., Ltd. entered into a collaboration and license agreement for worldwide joint development and commercialization of four novel compounds (SEP-363856 (ulotaront), SEP-4199, SEP-378614, SEP-380135, hereinafter referred to as the "four compounds") currently under development in psychiatry and neurology area by the Company and Sunovion Pharmaceuticals Inc.

Under the terms and conditions of this agreement, Sunovion Pharmaceuticals Inc. grants Otsuka Pharmaceutical Co., Ltd. rights to jointly develop and commercialize the four compounds worldwide. The Group (the Company, Sunovion Pharmaceuticals Inc., Sumitomo Pharma (Suzhou) Co., Ltd. and Sumitomo Pharma Asia Pacific Pte. Ltd.) and Otsuka Pharmaceutical Co., Ltd. will pursue joint development of these compounds. With regard to commercialization, the Group will record sales in the United States, Canada, Japan and Asia (China, Taiwan, Singapore, Thailand, Vietnam and Malaysia) and Otsuka Pharmaceutical Co., Ltd. will record sales in 41 other countries and regions including Europe. The Group and Otsuka Pharmaceutical Co., Ltd. plan to co-promote the four compounds jointly in principle in each of these countries and regions. Sunovion Pharmaceuticals Inc. and Otsuka Pharmaceuticals Co., Ltd. will equally share expenses and profits involved in clinical studies, applications for approval, and commercialization in each of these countries and regions under the agreement.

Upon the completion of this agreement, the Group received $270 million (¥30,227 million) as a lump-sum upfront payment from Otsuka Pharmaceuticals Co., Ltd. and also will receive $620 million (¥75,894 million) as development milestone payments for the four compounds, and potentially more depending on the number of additional indications obtained for them. The Group will potentially receive sales milestone payments from Otsuka Pharmaceuticals Co., Ltd as well.

The Group received $270 million (¥30,227 million) as a lump-sum upfront payment due to the completion of this agreement from Otsuka Pharmaceuticals Co., Ltd. and recognized the entirety of this payment as revenue in the year ended March 31, 2022.

35. Subsequent Events

There are no significant subsequent events.

Independent Auditor's Report

To the Board of Directors of Sumitomo Pharma Co., Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Pharma Co., Ltd. (previously Sumitomo Dainippon Pharma Co., Ltd.) and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of profit or loss, statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the year then ended March 31, 2022, and notes, comprising significant accounting policies and other explanatory information.

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.

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.

Reasonableness of the estimate of the recoverable amount used for the impairment testing on goodwill allocated to the oncology area in North America	
The key audit matter	**How the matter was addressed in our audit**
As described in Note 14. "Goodwill" to the consolidated financial statements, Sumitomo Pharma Co., Ltd. (previously Sumitomo Dainippon Pharma Co., Ltd.) and its subsidiaries (hereinafter, collectively referred to as the "Group") recognized goodwill of ¥26,798 million in the consolidated statement of financial position, which was allocated to the oncology area, a cash generating unit included within the North America segment of the pharmaceutical business (hereinafter, the "oncology area in North America"). The goodwill, representing 2.0% of the total assets in the consolidated financial statements, arose when the Group acquired control of Boston Biomedical, Inc. and Tolero Pharmaceuticals, Inc.	In order to assess whether the estimate of the recoverable amount used for the impairment testing on goodwill allocated to the oncology area in North America was reasonable, we requested the component auditors of Sumitomo Dainippon Pharma America, Inc. (hereinafter, "SDPA"), a consolidated subsidiary that oversees the oncology area in North America, to perform an audit. We evaluated the report of the component auditors and concluded on whether sufficient and appropriate audit evidence was obtained from the following procedures, among others: (1) Internal control testing

<table>
<tr>
<td>The Group presents its consolidated financial statements in accordance with International Financial Reporting Standards (IFRS). Goodwill is tested for impairment annually or whenever there is an impairment indicator. In the impairment testing, when the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss.

In the current fiscal year, the Group used the value in use as the recoverable amount in the impairment testing on goodwill allocated to the oncology area in North America. The future cash flows used for measuring the value in use were estimated based on the business plan of the oncology area in North America prepared by management. Key assumptions underlying the projected revenue from new medicines currently being developed in the oncology area in North America, such as the planned launch schedules, the probability of success of R&D activities and selling prices, among others, involved a high degree of estimation uncertainty. Accordingly, management judgement thereon had a significant effect on the estimated future cash flows. Moreover, selecting the appropriate calculation method and input data for estimating the discount rate used to measure the value in use required a high degree of expertise in valuation. We, therefore, determined that the reasonableness of the estimate of the recoverable amount used for the impairment testing on goodwill allocated to the oncology area in North America 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.</td>
<td>Testing the design and operating effectiveness of certain internal controls relevant to measuring the value in use used for the impairment testing on goodwill allocated to the oncology area in North America with a particular focus on controls relevant to estimating the future cash flows.

(2) Assessment of the reasonableness of the estimated value in use
Inquiry of management and the personnel responsible for the oncology area in North America about the rationale for key assumptions adopted in developing the business plan of the oncology area in North America that formed the basis for the estimated future cash flows; in addition to the assessment of the reasonableness of the estimated value in use by performing the following procedures:

● compared the business plan that formed the basis for estimating the future cash flows with the business plan approved by management, for consistency;

● compared key assumptions underlying the projected revenue from new medicines currently being developed, such as the planned launch schedules, the probability of success of R&D activities, and selling prices, with information obtained from external professional research organizations;

● compared key assumptions used for accounting estimates in the current fiscal year with those in the previous fiscal year to examine whether the reasons for changes in assumptions made during the current fiscal year were appropriate in view of the current year circumstances; and

● involved valuation specialists who assisted in the assessment of the reasonableness of the discount rate by comparing it with a rate independently estimated by the specialists using external information.</td>
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<tr><th colspan="2">Reasonableness of the estimate of reserves for sale rebates under the Medicaid program that cover major products of SDPA within the North America segment of the pharmaceutical business</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
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<td>In the consolidated statement of financial position for the current fiscal year, the Group recognized reserves for sales rebates of ¥104,693 million related to SDPA, a consolidated subsidiary within the North America segment of the pharmaceutical business, which represented 8.0% of the total assets.

As described in Note 24. “Provisions” to the consolidated financial statements, the Group</td>
<td>In order to assess the reasonableness of the estimate of reserves for sales rebates under the Medicaid program that cover major products of SDPA within the North America segment of the pharmaceutical business, we requested the component auditors of SDPA to perform an audit and evaluated the report of the component auditors and concluded on whether sufficient and appropriate audit evidence was</td>
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recognizes reserves for sales rebates at an estimated amount to be paid for sales rebates related to public programs, and wholesale and other contracts. Sales rebates related to various insurance programs (including Medicaid) that cover major products sold in the U.S. are material revenue adjustment items in terms of amount. As the length of time until the settlement can be as long as one year, it takes a long time period to fix the amount. In addition, the rebate rates used as the basis for calculating sales rebates differ depending on distribution channel (wholesalers, pharmacies, and hospitals) and insurance programs. To estimate reserves for sales rebates, the ultimate distribution channel and the insurance program to be applied are required to be estimated. Accordingly, management judgment thereon had a significant effect on the estimate of reserves for sales rebates. We, therefore, determined that the reasonableness of the estimate of reserves for sales rebates under the Medicaid program that cover major products of SDPA within the North America segment of the pharmaceutical business 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.	obtained from the following procedures among others: (1) Internal control testing Testing the design and operating effectiveness of certain internal controls relevant to calculating reserves for sales rebates related to insurance programs including Medicaid for the major products of SDPA. (2) Assessment of the reasonableness of the estimate of reserves for sales rebates under the Medicaid program that cover major products of SDPA Assessment of the reasonableness of the estimate of reserves for sales rebates by performing the following procedures: ● assessed the accuracy of the estimate by comparing the reserves for sales rebates recognized in the past years with actual amounts paid; ● assessed the reasonableness of the estimated quantity of units sold within each distribution channel for each major product considering external information provided by wholesalers and others; and ● involved government pricing specialists who assisted in examining whether the method of calculating sales rebate rates was based on the programs effective at the time of estimation.

Other Information

The other information comprises the information included in the “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 Audit & Supervisory Board Members and Audit & Supervisory Board 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.

Audit & Supervisory Board Members and Audit & Supervisory Board 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 Audit & Supervisory Board Members and Audit & Supervisory Board 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 Audit & Supervisory Board Members and Audit & Supervisory Board 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 Audit & Supervisory Board Members and Audit & Supervisory Board, 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

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Daisuke Harada
Designated Engagement Partner
Certified Public Accountant

Hiroyuki Matano
Designated Engagement Partner
Certified Public Accountant

Masato Tateishi
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
June 23, 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.