Consolidated Financial Statements

Shionogi & Co., Ltd.

Year ended March 31, 2021 with
Independent Auditor's Report

Shionogi & Co., Ltd.

Consolidated Financial Statements

Year ended March 31, 2021

Contents

EY
Building a better working world

Independent Auditor's Report

The Board of Directors
Shionogi & Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Shionogi & Co., Ltd. and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2021, and the consolidated statements of profit or loss, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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 the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

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Fair value measurement of unlisted shares (ViiV Healthcare Ltd.)	
Description of Key Audit Matter	Auditor's Response
As described in Note 17 of the Consolidated Financial Statements, the Company has recorded the shares of ViiV Healthcare Ltd. (hereinafter "ViiV") in the amount of ¥154,138 million, which are classified as financial assets measured at fair value through other comprehensive income. As described in Note 30 of the Consolidated Financial Statements, the fair value of ViiV shares is measured using valuation techniques based on discounted future cash flows. The significant assumptions used in the fair value measurement are the sales growth rate of products, the profit ratio, the probability of obtaining marketing approval from regulatory authorities for products before launch and the discount rate. The fair value measurement for financial assets using valuation techniques based on discounted future cash flows is complex and management's judgement is required as there is uncertainty in each assumption mentioned above. Therefore, we determined this matter to be a key audit matter.	• In order to evaluate the reasonableness of the fair value measurement of ViiV shares, we performed the following audit procedures among others: • We involved a valuation expert from our network firm to verify the valuation techniques of fair value measurement related to financial assets. • Regarding the sales growth rate of products and the profit ratio, we made an evaluation following discussions with the management and considering actual results. • Regarding the probability of obtaining marketing approval from regulatory authorities, we made an evaluation following discussions on the current development status of the products and the probability of success with the management and considering the actual results and available external data supporting the probability of success for each stage of research and development process. • Regarding the discount rate and the outcome of fair value measurement, we made an evaluation by comparing that used by the management with the estimates made by the valuation expert from our network firm using available external data. • We evaluated management's assessment of estimation uncertainties related to the assumption with high sensitivity resulting the outcome of fair value measurement.

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Acquisition-date fair value measurement of intangible assets identified by making Tetra Therapeutics Inc. a subsidiary	
Description of Key Audit Matter	Auditor's Response
As described in Note 33 of the Consolidated Financial Statements, the Company completed the acquisition of Tetra Therapeutics Inc. (hereinafter "Tetra") on May 26, 2020. The Company finalized the purchase price allocation during the fiscal year ended March 31, 2021 and as a result, the fair value of intangible assets as of the acquisition date were recognized in the amount of ¥26,247 million. The fair value of the in-process research and development associated with products as of the acquisition date recognized as intangible assets in the acquisition of Tetra is measured using the excess earnings method based on discounted future cash flows. The significant assumptions used in the fair value measurement are the probability of obtaining marketing approval from regulatory authorities for products before launch, the sales prices and volumes of products and the discount rate. The fair value measurement for in-process research and development using the excess earnings method based on discounted future cash flows is complex and the management's judgement is required as there is uncertainty in each assumption mentioned above. Therefore, we determined this matter to be a key audit matter.	In order to evaluate the fair value measurement of the in-process research and development, as of acquisition date recognized in the acquisition of Tetra, we performed the following audit procedures among others: • We involved a valuation expert from our network firm to verify the valuation techniques of fair value measurement related to in-process research and development. • Regarding the probability of obtaining marketing approval from regulatory authorities, we evaluated it by holding discussions on the current development status of the products and the probability of success with the management and the employees responsible for the products and considering actual results and available external data supporting the probability of success for each stage of research and development status. • Regarding the sales prices and volumes of products, we evaluated them by holding discussions with the management and the employees responsible for the products and considering actual results and available external data. • Regarding the discount rate, we made an evaluation by comparing that used by the management with the estimates made by the valuation expert from our network firm using available external data.

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Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, 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 and disclosing, as required by IFRSs, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing 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. 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 an 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.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing 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 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 in accordance with IFRSs.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

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

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Osaka, Japan

June 22, 2021

林　由佳

Yuka Hayashi
Designated Engagement Partner
Certified Public Accountant

神前　泰洋

Yasuhiro Kozaki
Designated Engagement Partner
Certified Public Accountant

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Profit or Loss

	Notes	Millions of yen Year ended March 31, 2020	Millions of yen Year ended March 31, 2021	Thousands of U.S. dollars Year ended March 31, 2021
Revenue	5	333,371	297,177	2,684,290
Cost of sales		(56,782)	(52,523)	(474,426)
Gross profit		276,589	244,654	2,209,864
Selling, general and administrative expenses		(95,094)	(91,902)	(830,122)
Research and development expenses	6	(47,949)	(54,249)	(490,018)
Amortization of intangible assets associated with products	13	(3,255)	(3,209)	(28,987)
Other income	7,14	4,291	26,403	238,490
Other expenses	7	(3,951)	(4,257)	(38,456)
Operating profit		130,628	117,438	1,060,772
Finance income	8,17	30,504	26,522	239,564
Finance costs	8	(2,616)	(941)	(8,504)
Profit before tax		158,516	143,018	1,291,833
Income tax expense	9	(36,322)	(30,956)	(279,622)
Profit		122,194	112,061	1,012,210

Profit attributable to				
Owners of parent		122,193	111,858	1,010,377
Non-controlling interests		1	203	1,834
Profit		122,194	112,061	1,012,210

	Notes	Yen	Yen	U.S. dollars
Earnings per share				
Basic earnings per share	10	395.71	365.03	3.30
Diluted earnings per share	10	395.28	364.89	3.30

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Notes	Millions of yen Year ended March 31, 2020	Millions of yen Year ended March 31, 2021	Thousands of U.S. dollars Year ended March 31, 2021
Profit		122,194	112,061	1,012,210
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	17,22	(62,544)	(4,677)	(42,253)
Remeasurements of defined benefit plans	22,25	503	(96)	(871)
Total of items that will not be reclassified to loss		(62,040)	(4,774)	(43,124)
Items that may be reclassified to profit or loss				
Exchange differences on translation of foreign operations	22	(26,247)	36,049	325,624
Effective portion of cash flow hedges	22,30	2,474	(5,828)	(52,644)
Total of items that may be reclassified to profit or loss		(23,772)	30,221	272,980
Total other comprehensive (loss) income, net of tax		(85,813)	25,447	229,856
Comprehensive income		36,381	137,509	1,242,066

Comprehensive income attributable to				
Owners of parent		36,594	137,407	1,241,150
Non-controlling interests		(213)	101	916
Comprehensive income		36,381	137,509	1,242,066

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Financial Position

		Millions of yen		Thousands of U.S. dollars
	Notes	As of March 31, 2020	As of March 31, 2021	As of March 31, 2021
Assets				
Non-current assets				
Property, plant and equipment	11,15	71,350	90,883	820,918
Goodwill	12	7,854	9,357	84,525
Intangible assets	13,15	51,705	76,558	691,522
Right-of-use assets	16	4,657	4,827	43,605
Investment property	14,15	2,496	26,759	241,704
Other financial assets	17,30	202,161	217,437	1,964,028
Deferred tax assets	9	3,048	11,729	105,952
Other non-current assets	21	14,394	5,200	46,978
Total non-current assets		357,669	442,754	3,999,232
Current assets				
Inventories	18	33,818	38,003	343,271
Trade receivables	19,30	79,804	78,047	704,969
Other financial assets	17,30	171,157	142,151	1,284,002
Income taxes receivable		192	164	1,487
Other current assets	21	22,191	21,697	195,984
Cash and cash equivalents	20	208,861	276,173	2,494,567
Total current assets		516,026	556,238	5,024,280
Total assets		873,695	998,992	9,023,512

	Notes	Millions of yen As of March 31, 2020	Millions of yen As of March 31, 2021	Thousands of U.S. dollars As of March 31, 2021
Equity and liabilities				
Equity				
Share capital	22	21,279	21,279	192,212
Capital surplus	22,26	21,025	13,733	124,046
Treasury shares	22	(77,292)	(57,989)	(523,796)
Retained earnings	22	708,291	752,248	6,794,764
Other components of equity	22,25,30	91,848	116,836	1,055,340
Equity attributable to owners of parent		765,152	846,108	7,642,566
Non-controlling interests		51	18,442	166,583
Total equity		765,203	864,550	7,809,149
Liabilities				
Non-current liabilities				
Lease liabilities	16,30	4,791	4,608	41,631
Other financial liabilities	24,30	4,179	5,242	47,353
Retirement benefit liability	25	16,089	16,318	147,400
Deferred tax liabilities	9	1,949	7,749	69,998
Other non-current liabilities	28,29	362	341	3,088
Total non-current liabilities		27,372	34,261	309,471
Current liabilities				
Lease liabilities	16,30	3,361	3,379	30,523
Trade payables	27,30	10,763	9,902	89,450
Other financial liabilities	24,30	17,557	21,383	193,148
Income taxes payable		21,886	28,033	253,211
Other current liabilities	29	27,551	37,481	338,559
Total current liabilities		81,119	100,180	904,891
Total liabilities		108,492	134,442	1,214,363
Total equity and liabilities		873,695	998,992	9,023,512

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity

Millions of yen

	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of April 1, 2019		21,279	21,277	(28,882)	613,483	181,616	808,774	4,313	813,087
Profit		–	–	–	122,193	–	122,193	1	122,194
Total other comprehensive income, net of tax	22	–	–	–	–	(85,598)	(85,598)	(214)	(85,813)
Comprehensive income		–	–	–	122,193	(85,598)	36,594	(213)	36,381
Purchase of treasury shares	22	–	–	(50,012)	–	–	(50,012)	–	(50,012)
Disposal of treasury shares	22	–	(509)	1,602	–	–	1,092	–	1,092
Dividends	23	–	–	–	(31,134)	–	(31,134)	–	(31,134)
Increase by business combination	33	–	–	–	–	–	–	662	682
Changes in ownership interest in subsidiaries		–	(162)	–	–	–	(162)	(4,779)	(4,942)
Transfer from other components of equity to retained earnings	22	–	–	–	4,169	(4,169)	–	–	–
Other		–	420	–	(420)	–	0	49	49
Balance as of March 31, 2020		21,279	21,025	(77,292)	708,291	91,848	765,152	51	765,203
Profit		–	–	–	111,858	–	111,858	203	112,061
Total other comprehensive income, net of tax	22	–	–	–	–	25,548	25,548	(101)	25,447
Comprehensive income		–	–	–	111,858	25,548	137,407	101	137,509
Purchase of treasury shares	22	–	–	(50,013)	–	–	(50,013)	–	(50,013)
Disposal of treasury shares	22	–	(4,705)	38,404	–	–	33,698	–	33,698
Cancellation of treasury shares	22	–	(30,912)	30,912	–	–	–	–	–
Dividends	23	–	–	–	(32,543)	–	(32,543)	–	(32,543)
Changes in scope of consolidation		–	–	–	–	–	–	10,696	10,696
Changes in ownership interest in subsidiaries	31	–	(7,593)	–	–	–	(7,593)	7,593	–
Transfer from other components of equity to retained earnings	22	–	–	–	71	(71)	–	–	–
Other		–	35,919	–	(35,430)	(488)	(0)	–	(0)
Balance as of March 31, 2021		21,279	13,733	(57,989)	752,248	116,836	846,108	18,442	864,550

Thousands of U.S. dollars

	Notes	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	Equity attributable to owners of parent	Non-controlling interests	Total equity
Balance as of March 31, 2020		192,212	189,911	(698,152)	6,397,723	829,628	6,911,322	463	6,911,785
Profit		–	–	–	1,010,377	–	1,010,377	1,834	1,012,210
Total other comprehensive income, net of tax	22	–	–	–	–	230,774	230,774	(918)	229,856
Comprehensive income		–	–	–	1,010,377	230,774	1,241,150	916	1,242,066
Purchase of treasury shares	22	–	–	(451,753)	–	–	(451,753)	–	(451,753)
Disposal of treasury shares	22	–	(42,506)	346,893	–	–	304,388	–	304,388
Cancellation of treasury shares	22	–	(279,216)	279,216	–	–	–	–	–
Dividends	23	–	–	–	(293,952)	–	(293,952)	–	(293,952)
Changes in scope of consolidation		–	–	–	–	–	–	96,616	96,616
Changes in ownership interest in subsidiaries	31	–	(68,588)	–	–	–	(68,588)	68,588	–
Transfer from other components of equity to retained earnings	22	–	–	–	645	(645)	–	–	–
Other		–	324,445	–	(320,029)	(4,416)	(1)	–	(1)
Balance as of March 31, 2021		192,212	124,046	(523,796)	6,794,764	1,055,340	7,642,566	166,583	7,809,149

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Notes	Millions of yen Year ended March 31, 2020	Year ended March 31, 2021	Thousands of U.S. dollars Year ended March 31, 2021
Cash flows from operating activities				
Profit before tax		158,516	143,018	1,291,833
Depreciation and amortization		14,115	14,779	133,494
Impairment losses		100	825	7,452
Finance income and finance costs		(29,233)	(25,836)	(233,370)
Decrease in trade and other receivables		21,371	2,993	27,036
Decrease (increase) in inventories		1,158	(3,435)	(31,032)
Decrease in trade and other payables		(5,747)	(2,380)	(21,506)
Other		(9,202)	(16,524)	(149,258)
Subtotal		151,078	113,438	1,024,649
Interest and dividends received		29,565	28,111	253,917
Interest paid		(348)	(256)	(2,314)
Income taxes paid		(48,354)	(32,254)	(291,341)
Net cash provided by operating activities		131,940	109,039	984,911
Cash flows from investing activities				
Payments into time deposits		(200,827)	(230,468)	(2,081,732)
Proceeds from withdrawal of time deposits		174,672	269,696	2,436,059
Purchase of property, plant and equipment		(8,945)	(28,182)	(254,559)
Proceeds from sale of property, plant and equipment		3,427	45	408
Purchase of intangible assets		(2,823)	(4,762)	(43,015)
Payments for acquisition of subsidiaries	33	(4,525)	(3,636)	(32,849)
Purchase of investments in associates		(4,252)	–	–
Purchase of investments		(99,630)	(120,478)	(1,088,237)
Proceeds from sale of investments		119,485	116,265	1,050,178
Other		(5,725)	(3,739)	(33,780)
Net cash used in investing activities		(29,144)	(5,261)	(47,528)

	Notes	Millions of yen Year ended March 31, 2020	Year ended March 31, 2021	Thousands of U.S. dollars Year ended March 31, 2021
Cash flows from financing activities				
Repayments of lease liabilities	30	(3,544)	(3,648)	(32,957)
Purchase of treasury shares	22	(50,159)	(50,134)	(452,847)
Proceeds from sale of treasury shares	22	–	33,534	302,902
Dividends paid	23	(31,122)	(32,529)	(293,829)
Payments for acquisition of interests in subsidiaries from non-controlling interests		(3,367)	(1,575)	(14,233)
Capital contribution from non-controlling interests		49	10,464	94,519
Other		(30)	(0)	(7)
Net cash used in financing activities		(88,174)	(43,891)	(396,452)
Effect of exchange rate changes on cash and cash equivalents		(1,560)	7,425	67,075
Net increase in cash and cash equivalents		13,060	67,312	608,007
Cash and cash equivalents at beginning of period	20	195,800	208,861	1,886,560
Cash and cash equivalents at end of period	20	208,861	276,173	2,494,567

See accompanying notes to consolidated financial statements.

Shionogi & Co., Ltd and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

1. Reporting Entity

Shionogi & Co., Ltd. (hereinafter the “Company”) is a public company incorporated in Japan. Its registered head office is located in Osaka.

The Company and its subsidiaries (collectively, the “Group”) engages in research, development, purchasing, manufacturing, distribution and other operations associated with the prescription drug business.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (hereinafter “IFRS”) issued by the International Accounting Standards Board (“IASB”). As the Company meets the requirements of a “Specified Company applying Designated International Financial Reporting Standards” pursuant to Article 1-2 of the “Ordinance on Terminology, Forms and Preparation Methods of Consolidated Financial Statements” (Ordinance of the Ministry of Finance of Japan No. 28 of 1976), it has adopted the provision of Article 93 of said ordinance.

The consolidated financial statements of the Group were approved on June 22, 2021 by Isao Teshirogi, Representative Director and President and CEO.

(2) Basis of Measurement

The Group’s consolidated financial statements have been prepared on a historical cost basis except for financial instruments measured at fair value, etc. as described in Note “3. Significant Accounting Policies.”

(3) Functional Currency and Presentation Currency

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

For the convenience of readers outside Japan, the consolidated financial statements are also presented in U.S. dollars by translating Japanese yen amounts at the exchange rate of ¥110.71 to U.S. $1, the approximate rate of exchange as of March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at the above or any other rate. Amounts less than one thousand U.S. dollars have been rounded to the nearest thousand U.S. dollars in the presentation of the consolidated financial statements.

As a result, the totals in yen and U.S. dollars do not necessarily agree with the sum of the individual amounts.

(4) Significant Accounting Judgments, Estimates, and Assumptions

The preparation of the Group’s consolidated financial statements requires management to make certain judgments, estimates, and assumptions that affect the reported amount of revenue, expenses, assets and liabilities. Actual results could differ from these estimations due to uncertainties of these estimations and assumptions. In addition, these estimates and underlying assumptions are reviewed on a continuous basis. The effects of these revisions to accounting estimates and assumptions are recognized in the accounting period in which the estimates and assumptions are revised and in any future accounting periods affected by the revision.

Significant items on which management makes its estimates and judgments are as follows:

- Impairment of non-financial assets (See Note “3. Significant Accounting Policies (5) Property, Plant and Equipment, (6) Goodwill, (7) Intangible Assets, (10) Impairment of Non-Financial Assets,” Note “11. Property, Plant and Equipment,” Note “12. Goodwill,” and Note “13. Intangible Assets”)
  Calculating the recoverable amount of property, plant and equipment and intangible assets including goodwill involves assumptions about sales forecast in the business plan and discount rates, etc. These assumptions could be affected by changes in future economic conditions and if the recoverable amount decreases, impairment loss could be recorded.

- Fair value of unlisted shares (ViiV Healthcare Ltd.) (See Note “3. Significant Accounting Policies” (17) Financial Instruments, Note “17. Other Financial Assets,” and Note “30. Financial Instruments”)

The fair value of ViiV Healthcare Ltd. shares is measured using valuation techniques based on inputs that are not based on observable market data such as future cash flows and discount rates. The significant assumptions used in the fair value measurement are the sales growth rate of products, the profit ratio, the probability of obtaining marketing approval from regulatory authorities for products before launch and the discount rate. These assumptions are affected by changes in future economic conditions and could affect total assets and equity.

- Fair value measurement of intangible assets identified by making Tetra Therapeutics Inc. a subsidiary (See 2) Business Combinations under Note "3. Significant Accounting Policies" (1) Basis of Consolidation and Note "33. Business Combinations")
  On May 26, 2020, Tetra Therapeutics Inc. (hereinafter "Tetra") became a subsidiary, and the fair value of intangible assets was measured to be ¥26,247 million as of the acquisition date. The fair value of intangible assets in the acquisition of Tetra is measured using the excess earnings method based on future cash flows and discount rates. The significant assumptions used in the fair value measurement are the probability of obtaining marketing approval from regulatory authorities for products before launch, the sales prices and volumes of products and the discount rate. An impairment loss on intangible assets could be recorded if the probability of obtaining marketing approval from regulatory authorities for products before launch decreases.

- Impact of COVID-19
  An expanded of COVID-19 pandemic could result in delays of business activities such as production, sales, and research and development. It is difficult to predict when the pandemic is to be fully controlled and contained. At present, the impact on business activities is minor, and the Group assumes that COVID-19 pandemic will have a limited impact on accounting estimates such as impairment tests of goodwill, etc. Changes in these assumptions could significantly affect amounts in the consolidated financial statements.

(5) New or Amended Accounting Standards and Interpretations Not Yet Adopted
None of the standards and interpretations that have been newly established or revised by the approval date of the consolidated financial statements have a significant impact on the Group.

(6) Changes in Accounting Policies
The Group has applied the following standard from the current fiscal year. The application of this standard will not have a significant impact on the consolidated financial statements.

IFRS		Overview of new standards and revisions
IFRS 3	Business Combinations	Amendment to definition of "business" in relation to business combinations

(7) Changes in Presentation Method
(Consolidated Statement of Financial Position)
"Investment property," which was included in "Other non-current assets" in the consolidated statement of financial position as of March 31, 2020, is presented as a separate item as of March 31, 2021, as the amount has become more material. In order to reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2020 have been reclassified.
As a result, ¥16,890 million indicated in "Other non-current assets" in the consolidated statement of financial position as of March 31, 2020 is reclassified as "Investment property" in the amount of ¥2,496 million and "Other non-current assets" in the amount of ¥14,394 million.

(Consolidated Statement of Cash Flows)
"Capital contribution from non-controlling interests," which was included in "Other" of cash flows from financing activities in the consolidated statement of cash flows for the fiscal year ended March 31, 2020, is presented as a separate item for the fiscal year ended March 31, 2021, as the amount has become more material. In order to reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2020 have been reclassified.
As a result, ¥18 million indicated in "Other" of cash flows from financing activities in the consolidated statement of cash flows for the fiscal year ended March 31, 2020 is reclassified as "Capital contribution from non-controlling interests" in the amount of ¥49 million and "Other" in the amount of ¥(30) million.

3. Significant Accounting Policies

The Group has consistently applied the following accounting policies for all periods presented in the consolidated financial statements, unless otherwise stated.

(1) Basis of Consolidation

1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group is considered to control an entity that is an investee when it is exposed, or has rights, to variable returns from involvement with the investee and has an ability to affect those returns through power over the investee.

The financial statements of subsidiaries are included in the consolidated financial statements from the date the Group obtains control of a subsidiary until the date when it loses control of the subsidiary.

The financial statements of subsidiaries with different reporting dates are prepared provisionally as of the consolidated reporting date.

Changes in ownership interest in subsidiaries that do not result in loss of control are accounted for as equity transactions. Any difference between the adjustment to non-controlling interests and the fair value of consideration transferred or received, is recognized directly in equity as equity attributable to owners of parent.

All intragroup balances, transactions, and unrealized gains and losses resulting from intragroup transactions have been eliminated in consolidation.

2) Business Combinations

Business combinations are accounted for using the acquisition method.

The identifiable assets acquired and the liabilities assumed of the acquiree are measured in principle at the fair value at the acquisition date.

Goodwill is measured as the excess of the aggregate of the consideration transferred in a business combination, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously-held equity interest in the acquiree, over the acquisition-date fair value of the identifiable net assets acquired. The consideration transferred in a business combination is calculated as the sum of the acquisition-date fair values of the assets transferred by the acquirer, the liabilities incurred by the acquirer to former owners of the acquiree, and the equity interests issued by the acquirer.

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

Acquisition-related costs incurred in connection with business combinations, such as finder's fees and advisory fees are recognized as expenses in the period they are incurred.

In addition, any additional acquisition of non-controlling interests after the Group obtains the control of a subsidiary is accounted for as an equity transaction, for which no goodwill is recognized.

(2) Foreign Currency Translations

1) Foreign Currency Transactions

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

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using the spot rates of exchange at the end of each reporting period. Non-monetary assets and liabilities measured at fair value in foreign currencies are translated into the functional currency using the exchange rates in effect on the date when the fair value was determined.

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

2) Translation of Foreign Operations

Assets and liabilities of foreign operations are translated at the spot rates of exchange at the end of each reporting period, and income and expenses are translated at the exchange rates at the dates of the transactions or rates that approximate the exchange rates at the dates of the transactions. Exchange differences arising from translation are recognized in other comprehensive income.

On the disposal of the interest in a foreign operation, the cumulative amount of exchange differences on translation of foreign operations is reclassified to profit or loss.

(3) Revenue

The Group recognizes revenue in an amount that reflects the consideration to which it expects to be entitled in exchange for a good or service to a customer using the five-step approach below, except for interest and dividend income, etc. as defined in IFRS 9.

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 separate performance obligations in the contract

Step 5: Recognize revenue when, or as, the performance obligations are satisfied

In addition, in terms of a promise to grant a license as a separate performance obligation, the Group considers whether the nature of the promise in granting the license to a customer is to provide the customer with either of the following benefits in determining whether the transfer to the customer occurs at a point in time or over time:

1) A right to access the Group's intellectual property as it exists throughout the license period; or

2) A right to use the Group's intellectual property as it exists at the point in time at which the license is granted.

If the Group determines that the nature of its promise to transfer the license is to provide the customer with a right to access the Group's intellectual property as it exists throughout the license period, the Group accounts for the promise to grant the license as the performance obligation satisfied over time.

If the Group determines that the nature of its promise to transfer the license is to provide the customer with a right to use the Group's intellectual property as it exists at the point in time at which the license is granted, the Group accounts for the promise to grant the license as a performance obligation satisfied at a point in time.

Notwithstanding the above, revenue in the form of sales-based or usage-based royalties is recognized when (or as) the later of following events occurs:

1) the subsequent sale or usage occurs; and

2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated has been satisfied (or partially satisfied).

(4) Income Taxes

Income taxes consist of current taxes and deferred taxes.

1) Current Taxes

Current tax is measured at the expected amount to be paid to or received from the tax authorities, applying the tax rates and tax laws and regulations that have been enacted or substantively enacted by the end of the reporting period. Current tax recognized in profit or loss does not include taxes arising from items directly recognized in other comprehensive income or equity and taxes arising from business combinations.

2) Deferred Taxes

Deferred taxes are calculated based on the temporary differences determined by comparing the carrying amounts of assets and liabilities for financial reporting purposes with the tax base at the end of the reporting period. Deferred tax assets are recognized for deductible temporary differences, unused tax credits and tax loss carryforwards to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Deferred tax liabilities are generally recognized for all taxable temporary differences. However, deferred tax assets and liabilities arising from the following temporary differences are not recognized:

- Temporary differences arising from the initial recognition of goodwill;
- Temporary differences arising from the initial recognition of an asset or liability in a transaction that is not a business combination and affects neither the accounting profit nor taxable profit (tax loss) at the time of the transaction;
- Deductible temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, when it is probable that the temporary difference will not reverse in the foreseeable future or it is not probable that there will not be taxable profits against which the deductible temporary differences can be utilized; or
- Taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint arrangements, when the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

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

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

(5) Property, Plant and Equipment

The Group uses the cost model to measure property, plant and equipment after recognition. Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses.

Acquisition cost includes costs directly attributable to the acquisition and asset dismantlement, removal, and restoration costs.

Property, plant and equipment other than land and construction in progress are depreciated using the straight-line method over the estimated useful life of the respective asset.

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

- Buildings and structures 2 to 60 years
- Machinery and vehicles 2 to 17 years

Depreciation methods, useful lives and residual values are reviewed at the end of each fiscal year and revised if necessary.

(6) Goodwill

Goodwill is stated at acquisition cost less accumulated impairment losses.

Goodwill is not amortized and is tested for impairment at least annually regardless of any indication of impairment, and whenever there is an indication of impairment.

(7) Intangible Assets

The Group uses the cost model to measure intangible assets after recognition. Intangible assets are stated at cost less accumulated amortization and accumulated impairment losses.

Intangible assets acquired separately are measured at acquisition cost. Acquisition cost of intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Internally generated development expenditures are recognized as intangible assets only when they satisfy all criteria for recognizing them as assets. However, internally generated development expenditures incurred before the acquisition of marketing and manufacturing approval, such as clinical trial costs, etc., are recognized as expenses when incurred as they do not satisfy capitalization criteria due to uncertainties related to length and other factors in development.

Product or technology in-license agreements, and products or research and development rights acquired through business combinations which are still in the research and development phase and have not yet received marketing approval from regulatory authorities (regulatory approval) are recognized as in-process research and development and are included in “Intangible assets associated with products.”

Expenditures associated with acquired in-process research and development are capitalized only when they are expected to bring future economic benefits to the Group and are identifiable. These include upfront payments to third parties and milestone payments when the milestone is achieved.

Intangible assets with finite useful lives are amortized by the straight-line method over their estimated useful lives from the date when they are available for their intended use.

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

- Intangible assets associated with products 8-15 years
- Software 5 years

Amortization methods, residual values and useful lives are reviewed annually and revised as necessary.

Intangible assets not yet available for use are not amortized, and are tested for impairment at least annually, and whenever there is an indication of impairment.

(8) Leases

1) Identifying leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease.

A contract is a lease, or contains a lease, if it conveys the right to use an identified asset for a period of time in exchange for consideration.

2) As lessee

The Group recognizes the right-of-use asset and lease liability at the commencement date of the lease. For short-term leases and leases for which the underlying asset is of low value, the Group has elected to recognize the lease payments as an expense over the lease term using the straight-line method or other systematic basis.

Right-of-use assets are measured using the cost model and are stated at cost less accumulated depreciation and accumulated impairment loss. If the lease transfers ownership of the underlying asset to the lessee by the end of the lease term or if the cost of the right-of-use asset is calculated based on the assumption that the lessee is reasonably certain to exercise a purchase option, the Group depreciates the right-of-use asset from the commencement date to the end of the useful life of the underlying asset. Otherwise, the Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. In subsequent periods, the Group reduces the carrying amount of the lease liability to reflect the interest on the lease liability and lease payments made.

3) As lessor

The Group classifies leases as operating leases if they do not transfer substantially all the risks and rewards incidental to ownership of the underlying assets.

Lease payments from operating leases are recognized as revenue using the straight-line method or other systematic basis.

(9) Investment Property

Investment property is held to earn rentals or capital appreciation or both. Investment property is measured similarly to property, plant and equipment.

(10) Impairment of Non-Financial Assets

For non-financial assets other than inventories and deferred tax assets, the Group assesses whether there is any indication that an asset or cash-generating unit may be impaired. If any indication of impairment exists, the Group estimates the recoverable amount of the asset or cash-generating unit and tests for impairment.

Goodwill and intangible assets not yet available for use are tested for impairment at least annually regardless of any indication of impairment. In addition, the Group tests for impairment when any indication of impairment exists.

The recoverable amount is determined at the higher of its fair value less costs of disposal, or its value in use. In determining value in use, estimated future cash flows from the asset or cash-generating unit are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset.

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

An asset or a cash-generating unit other than goodwill, for which impairment losses were recognized in prior years, is assessed for any indication that the impairment loss may have reversed. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, the impairment loss is reversed up to the carrying amount less depreciation that would have been determined if no impairment loss had been recognized in prior years, and is recognized in profit or loss. Impairment loss is not reversed for goodwill.

(11) Inventories

Inventories consist primarily of finished products and merchandise, work in progress, and raw materials and supplies.

Inventories are measured at the lower of acquisition cost and net realizable value. The acquisition cost of inventories is determined using the weighted-average cost formula and includes raw materials, direct labor and other direct costs, and related manufacturing overhead costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs required for sales.

(12) Cash and Cash Equivalents

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

(13) Equity

1) Ordinary Shares

Proceeds from the issuance of ordinary shares by the Company are recognized in share capital and capital surplus. Transaction costs (post-tax) directly attributable to the issuance of ordinary shares are recognized as a deduction from equity.

2) Treasury Shares

When the Company acquires treasury shares, direct acquisition cost (post-tax) is recognized as a deduction from equity.
When the Company sells treasury shares, the consideration received is recognized as an increase in equity.

(14) Employee Benefits

1) Post-employment Benefits

(i) Defined Benefit Plans

The present value of defined benefit plan obligations and related current service cost and past service cost are calculated for each individual plan using the projected unit credit method. The discount rate is determined with reference to the market yields on high-quality corporate bonds at the end of the reporting period corresponding to the expected future benefit payment date. The net defined benefit liabilities or assets are calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligations. When a defined benefit plan has a surplus, the net defined benefit asset is limited to the asset ceiling, which is the present value of future economic benefits available in the form of refunds or reductions in future contributions to the plan. Remeasurements of defined benefit plans are recognized in full in other comprehensive income and immediately transferred to retained earnings in the period in which they are recognized.

(ii) Defined Contribution Plans

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

2) Short-term Employee Benefits

Short-term employee benefits are recognized as expenses when the associated services are rendered by employees at undiscounted amounts. Bonuses and expenses for paid absences are recognized as liabilities for the expected benefit payment when the Group has a present legal or constructive obligation to pay for employee benefits and a reliable estimate is available for the obligation.

(15) Share-based Remuneration

The Group has implemented a share option plan and a restricted share-based remuneration plan as equity-settled share-based payment plans.
No share options have been granted through the share option plans since 2018, and all share options granted had already vested before the date of transition to IFRS. The Group does not retrospectively apply IFRS 2 “Share-based Payments” to equity instruments that vested before the date of transition to IFRS under the exemption of IFRS 1 “First-time Adoption of International Financial Reporting Standards.”
The restricted share-based remuneration plan is recognized as an expense over the period from the grant date to vesting, and the same amount is recognized as an increase in equity. The fair value of restricted share-based remuneration is measured with reference to the fair value of the Company’s ordinary shares on the grant date.
In addition, the Group has implemented a cash-settled share-based payment plan linked to share price.
The Group recognizes the fair value of cash-settled share-based payments in liabilities, and recognizes any changes in fair value in profit or loss until the date of settlement.

(16) Government Grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with the conditions attached to them and receive the grants.
Government grants related to assets are recognized as deferred income and are systematically recognized in profit or loss over the estimated useful lives of the assets.
Government grants related to income are systematically recognized in profit or loss over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

(17) Financial Instruments

1) Non-derivative Financial Assets

(i) Initial Recognition and Measurement

Trade receivables included in financial assets are recognized on the date when they are incurred. All other financial assets are initially recognized on the date the Group becomes party to the contractual provisions of the instrument.

At initial recognition, financial assets are classified into financial assets measured at amortized cost or financial assets measured at fair value.

This classification is carried out as follows, depending on whether the financial asset is a debt instrument or an equity instrument.

(a) Financial Assets Classified into Debt Instruments

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

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

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

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

Debt instruments not held in one of the two business models above are classified as financial assets measured at fair value through profit or loss.

(b) Financial Assets Classified into Equity Instruments

In principle, equity instruments are classified as financial assets measured at fair value through profit or loss.

However, on initial recognition, an equity instrument that is not held for trading is permitted to be classified individually as financial assets measured at fair value through other comprehensive income.

In principle, financial assets are measured at fair value plus directly attributable transaction costs.

However, trade receivables that do not include a significant financing component are measured at the transaction price.

In addition, transaction costs for financial assets measured at fair value through profit or loss are expensed as incurred and recorded in profit or loss.

(ii) Subsequent Measurement

(a) Financial Assets Measured at Amortized Cost

These assets are subsequently measured at amortized cost using the effective interest method. Interest is recognized in profit or loss as “Finance income.” The amortized cost is reduced if impairment loss is necessary to be recognized.

(b) Financial Assets Measured at Fair Value

These assets are subsequently measured at fair value.

For equity instruments the Group has elected to measure at fair value through other comprehensive income, subsequent changes in fair value are recognized in other comprehensive income, and cumulative gain or loss is transferred to retained earnings when the financial asset is derecognized. Dividends from these financial assets are recognized in profit or loss as “Finance income.”

In addition, for debt instruments classified as financial assets measured at fair value through other comprehensive income, change in fair value is recognized in other comprehensive income until derecognition or a change in classification, excluding impairment losses (or reversals) and foreign exchange gains or losses. Upon derecognition of the financial assets, cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss.

For assets other than the above, changes in fair value are recognized in profit or loss.

(iii) Impairment

Financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income included in debt instruments are assessed at the end of each reporting period to determine if the credit risk of the assets has increased significantly since initial recognition. The Group recognizes the following amounts as allowance for doubtful accounts, depending on whether there is a significant increase in credit risk since initial recognition.

(a) Credit risk has not increased significantly since initial recognition
--An amount equal to the 12-month expected credit losses

(b) Credit risk has increased significantly since initial recognition
--An amount equal to the lifetime expected credit losses

Notwithstanding the above, allowance for doubtful accounts for trade receivables and lease receivables is always recognized in an amount equal to lifetime expected credit losses since initial recognition.

Expected credit loss is calculated as the present value of the difference between the contractual cash flows the Group should receive and the cash flows the Group expects to receive.

Provision for allowance for doubtful accounts is recognized in profit or loss. If an event occurs that reduces the allowance for doubtful accounts, the reversal of allowance for doubtful accounts is recognized in profit or loss.

(iv) Derecognition

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all risks and rewards of ownership of the asset to another entity.

2) Non-derivative Financial Liabilities

(i) Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities measured at amortized cost and financial liabilities measured at fair value through profit or loss. Financial liabilities are initially recognized on the transaction date when the Group becomes party to contractual provisions of the financial liabilities.

Financial liabilities are initially measured at fair value. However, directly attributable transaction costs are deducted from the fair value of financial liabilities measured at amortized cost.

(ii) Subsequent Measurement

Financial liabilities are subsequently measured after initial recognition according to their classification, as follows:

(a) Financial Liabilities Measured at Amortized Cost

These liabilities are subsequently measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains and losses on derecognition are recognized in profit or loss as “Finance costs” or “Finance income.”

(b) Financial Liabilities Measured at Fair Value through Profit or Loss

These liabilities are subsequently measured at fair value. Changes in fair value are recognized in profit or loss.

(iii) Derecognition

The Group derecognizes a financial liability when the obligation specified in the contract is discharged, cancelled, or expires.

3) Derivatives and Hedge Accounting

The Group hedges risks arising from exposure to fluctuations in foreign currency exchange rates using derivative financial instruments such as forward foreign exchange contracts.

Derivatives are initially recognized at fair value at the contract inception date, and are subsequently measured at fair value. In principle, changes in the fair value of derivatives are recognized in profit or loss.

However, the Group designates certain derivatives as cash flow hedges. The effective portion of changes in the fair value of derivatives designated is recognized in other comprehensive income if qualifying criteria for hedge accounting are met. The gain or loss relating to the ineffective portion is recognized immediately in profit or loss.

Gain or loss related to hedging instruments previously recognized in other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss.

However, when the hedged forecasted transactions subsequently result in the recognition of a non-financial asset or a non-financial liability, the gain or loss previously recognized in other comprehensive income is recognized as an adjustment to the initial carrying amount of the asset or liability.

4. Segment Information

(1) Outline of Reportable Segments

The Group operates as a single business segment related to research, development, purchasing, manufacturing, distribution and other operations associated with the prescription drug business. While the Group analyzes sales by product and evaluates earnings by Group companies, it makes decisions about business strategy and allocates resources, especially research and development expenditures, on a Group-wide basis. Therefore, disclosure of segment information is omitted.

(2) Information by Product and Service

Revenue from external customers for each product and service is described in Note “5. Revenue.”

(3) Geographical Information

Revenue and non-current assets by region are as follows:

1) Revenue

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Japan	125,834	118,589
Europe	176,824	154,516
United Kingdom	154,943	145,457
North America	11,457	8,963
United States of America	11,452	8,951
Other	19,254	15,108
Total	333,371	297,177

Notes:

1. Revenue information is classified by country or region based on customer location.
2. The main countries and regions included in each geographic category other than Japan are as follows:
   (1) Europe: United Kingdom, Switzerland, and others
   (2) North America: United States of America and others
   (3) Other: Asia and others

2) Non-current Assets

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Japan	132,862	170,384
Europe	726	1,492
United States of America	10,052	33,595
Other	8,818	8,115
Total	152,459	213,587

Notes:

1. Non-current assets are classified by country or region based on asset location and exclude financial instruments and deferred tax assets

2. The main countries and regions included in each geographic category other than Japan are as follows:
   (1) Europe: United Kingdom and others
   (2) Other: Asia and others
3. During the fiscal year ended March 31, 2021, the Company finalized the provisional accounting treatment for the business combination involving UMN Pharma Inc., and the figures for the fiscal year ended March 31, 2020 have been retrospectively revised.

(4) Information Related to Major Customers

The following customers accounted for 10% or more of Group revenue for the fiscal years ended March 31, 2020 and 2021.

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
ViiV Healthcare Ltd.	128,107	123,361

5. Revenue

(1) Breakdown of Revenue

The breakdown of revenue for the fiscal years ended March 31, 2020 and 2021 is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Prescription drugs in Japan	106,261	94,684
Exports and overseas subsidiaries	30,796	24,645
Contract manufacturing	17,585	19,744
Over-the-counter drugs	9,701	11,713
Royalty income	166,867	144,629
Other revenue	2,158	1,760
Total	333,371	297,177

“Revenue” in the consolidated statement of profit or loss is revenue recognized from contracts with customers. Revenue recognized from other sources is included in “Other income,” described in Note “7. Other Income and Other Expenses,” and “Finance income,” described in Note “8. Finance Income and Finance Costs.”

In addition, the Group omits disclosure of segment information as described in Note “4. Segment Information.”

Group revenue comprises the following. Revenue from prescription drugs in Japan includes prescription drug sales in Japan and compensation associated with co-promotion agreements. Revenue from exports and overseas subsidiaries includes income from export transactions, sales and royalty income recognized by overseas subsidiaries. Revenue from contract manufacturing includes income associated with contract manufacturing of active pharmaceutical ingredients (API). Revenue from sales of over-the-counter drugs includes sales revenue and royalty income from over-the-counter drugs of the Company and its domestic subsidiaries. Royalty income includes royalty income recognized by the Company and domestic subsidiaries. Other revenue includes sales of diagnostics and revenue recognized by domestic subsidiaries.

In prescription drug and over-the-counter drug sales in Japan and overseas, revenue from sales within the same country is recognized when the product is delivered to the customer, unless otherwise specified by contract, while revenue from export sales is recognized at the point in time when the performance obligation is satisfied, which is when the customer is deemed to obtain control over the product based on terms and conditions of trade, etc. Consideration for the transaction is generally received within three months after the satisfaction of the performance obligation.

Some transactions involve variable consideration in the form of rebates to customers based on the sales volume of related products to promote sales of Group products. However, significant reversals of cumulative revenue recognized will generally not occur since the Group can reasonably estimate rebates payable to customers. Therefore, the Group has determined that its estimates of variable consideration are not constrained.
In addition, the Group sells products for which the customer has a right of return. The Group calculates expected returns for these products based on the estimated rate of return, deducts this amount from sales revenue, and recognizes a refund liability in the same amount. Furthermore, since the Group's products are difficult to resell due to their nature, the Group does not recognize an asset for its right to recover products from customers on settling the refund liability.
For contract API manufacturing, the Group generally determines that its performance obligation is satisfied when the customer takes delivery of the API and recognizes revenue at that time. Consideration for the transaction is generally received within two months after the satisfaction of the performance obligation.
The Group out-licenses the use of intellectual property such as patents the Group owns to the counterparties of licensing contracts. The Group considers the performance obligation of these contracts to be satisfied at a point in time, as it does not plan to undertake any activities that significantly affect the intellectual property provided under the contract. The Group recognizes revenue at the point in time when the performance obligation is satisfied by granting the license to the licensee.
Consideration for out-licensing consists mainly of upfront payments when an agreement is concluded; milestone payments when the prescribed research and development, sales and other milestones are achieved; and royalties based on sales or sales volume. Receipt of consideration is generally within two months after the requisite conditions have been satisfied.
The Group receives the milestone payments, included in the consideration for out-licensing, if a pre-determined milestone is achieved. As the achievement of specified milestones is uncertain, however, the amount of consideration to which the Group will be entitled is variable. The Group estimates entitlement to consideration that includes a variable component, and only includes it in the transaction price and recognizes it as revenue when the uncertainty regarding the variable consideration is subsequently resolved to the extent that it is highly probable that a material reversal of cumulative revenue recognized will not occur. As the receipt of milestone payments is contingent on the decisions and actions of the licensee, and uncertainties may not have been resolved for a long term, there is a possibility that a significant reversal of revenue occurs when uncertainties are resolved. As a result, variable consideration estimates are constrained in licensing transactions that involve the receipt of milestone payments.
However, revenue in the form of sales-based or usage-based royalties is recognized at the later of when (1) the subsequent sale or usage occurs, or (2) the performance obligation to which some or all of the sales-based or usage-based royalty has been allocated is satisfied (in whole or in part).
Significant financing components are not included in the consideration the Group receives. The Group has elected not to adjust significant financing components, at contract inception, if a period between when the Group provides its products or services to customers and when the customers pay for the products or services is expected to be one year or less.
In addition, the Group does not sell products with warranties or similar rights.

(2) Contract Balances
Contract balances are as follows:

Millions of yen

	Receivables arising from contracts with customers			Contract liabilities	
	Notes receivable	Accounts receivable	Total	Advances received	Total
As of April 1, 2019	502	100,493	100,996	545	545
As of March 31, 2020	459	79,417	79,877	452	452
As of March 31, 2021	869	77,249	78,118	439	439

The Group had no contract balances as of March 31, 2020 and 2021.
Impairment losses recognized for receivables arising from contracts with customers are described in Note "30. Financial Instruments."
Revenue recognized in the reporting period included in the contract liability balance at the beginning of the fiscal year was ¥545 million and ¥449 million for the years ended March 31, 2020 and 2021, respectively.

Revenue recognized in the reporting period from performance obligations satisfied in previous years was ¥168,040 million and ¥147,286 million for the years ended March 31, 2020 and 2021, respectively. These were arising from milestone payments fulfilled and receivable when the pre-determined milestones were achieved by the Group in the years ended March 31, 2020 and 2021 and royalties included as a component of consideration for the performance obligation at the time of granting a license.

(3) Transaction Price Allocated to Remaining Performance Obligations
The Group has no material transactions for which the original expected contract duration exceeds one year. In addition, there are no material amounts not included in transaction prices in a consideration arising from contracts with customers.

(4) Assets Recognized from the Costs to Obtain or Fulfill a Contract with a Customer
No assets were recognized from the costs to obtain or fulfill a contract with a customer as of March 31, 2020 and 2021. The Group has elected to recognize these costs as expenses when incurred if the amortization period for the assets recognized from the costs to obtain or fulfill a contract with a customer is one year or less.

6. Selling, General and Administrative Expenses
The breakdown of selling, general and administrative expenses is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Salaries and bonuses	32,169	31,592
Retirement benefit expenses	2,406	2,254
Sales promotion expenses	15,406	13,044
Royalties of intellectual property rights and others	9,352	10,144
Outsourcing expenses	7,657	5,716
Depreciation and amortization	3,292	3,515
Other	24,810	25,635
Total	95,094	91,902

7. Other Income and Other Expenses

(1) Other Income

The breakdown of other income is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Gain on land and building exchange	–	22,937
Gain on step acquisition	1,331	2,958
Gain on sale of property, plant and equipment	2,470	3
Other	489	504
Total	4,291	26,403

Notes:

1. “Gain on land and building exchange” for the year ended March 31, 2021 was due to the redevelopment of the Shionogi Shibuya Building.
2. “Gain on step acquisition” for the year ended March 31, 2020 and 2021 is described in Note “33. Business Combinations.”
3. “Gain on sale of property, plant and equipment” for the year ended March 31, 2020 was mainly the result of the sale of a training center and investment properties by the Company.

(2) Other Expenses

The breakdown of other expenses is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Donations	1,065	1,069
Impairment losses	100	825
Leakage response costs	–	663
Litigation expenses	453	464
Compensation expense	684	–
Other	1,647	1,234
Total	3,951	4,257

Notes:

1. “Impairment losses” for the years ended March 31, 2020 and 2021 are presented in Note “13. Intangible Assets.”
2. “Leakage response costs” for the year ended March 31, 2021 is related to the leakage response of dichloromethane at the Kanegasaki Plant.
3. “Compensation expense” for the year ended March 31, 2020 represents relocation compensation paid to a corporate tenant of an investment property that was redeveloped.

8. Finance Income and Finance Costs

(1) Finance Income

The breakdown of finance income is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Interest income		
Financial assets measured at amortized cost	2,783	1,157
Subtotal	2,783	1,157
Dividend income		
Financial assets measured at fair value through other comprehensive income	27,619	24,316
Financial assets measured at fair value through profit or loss	15	15
Subtotal	27,634	24,331
Foreign exchange gain	–	923
Other	86	109
Total	30,504	26,522

(2) Finance Costs

The breakdown of finance costs is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Interest expenses		
Financial liabilities measured at amortized cost	279	195
Lease liabilities	71	60
Subtotal	350	256
Loss on valuation		
Financial liabilities measured at fair value through profit or loss	136	–
Subtotal	136	–
Foreign exchange loss	564	–
Other	1,565	685
Total	2,616	941

9. Deferred Taxes and Income Taxes

(1) Deferred Taxes

1) Major items and changes in deferred tax assets and deferred tax liabilities are as follows:

(i) Year ended March 31, 2020

Millions of yen

	As of April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	As of March 31, 2020
Deferred tax assets					
Research and development expenses	3,650	(609)	–	–	3,040
Inventories	2,295	2,918	–	–	5,214
Accrued bonuses	2,173	(181)	–	–	1,992
Temporary differences associated with investments in subsidiaries	–	1,915	(483)	–	1,432
Accrued enterprise taxes	1,786	(645)	–	–	1,140
Intangible assets associated with products	1,703	(1,703)	–	–	–
Accrued paid absences	793	(43)	–	–	749
Other payables and accrued expenses	412	32	–	–	444
Retirement benefit asset and liability	9,396	(2,623)	(222)	–	6,551
Other	4,834	(529)	–	–	4,305
Subtotal	27,047	(1,470)	(705)	–	24,871
Deferred tax liabilities					
Trade receivables	10,793	56	–	–	10,849
Intangible assets associated with products	–	476	–	1,576	2,053
Reserve for advanced depreciation of property, plant and equipment	1,684	(18)	–	–	1,665
Gain on exchange for investments in securities	1,282	(317)	–	–	965
Financial assets measured at fair value through other comprehensive income	9,519	–	(5,854)	–	3,665
Cash flow hedges	269	–	1,091	–	1,360
Other	3,406	(189)	–	(5)	3,212
Subtotal	26,956	7	(4,763)	1,571	23,772
Net deferred tax (liabilities) assets	90	(1,478)	4,057	(1,571)	1,098

Note:

1. Exchange differences on translation of foreign operations is included in Other.
2. During the fiscal year ended March 31, 2021, the Company finalized the provisional accounting treatment for the business combination involving UMN Pharma Inc., and the figures for the fiscal year ended March 31, 2020 have been retrospectively revised.

(ii) Year ended March 31, 2021

Millions of yen

	As of April 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income	Other (Note)	As of March 31, 2021
Deferred tax assets					
Research and development expenses	3,040	2,840	–	–	5,880
Inventories	5,214	1,305	–	–	6,519
Accrued bonuses	1,992	(235)	–	–	1,757
Temporary differences associated with investments in subsidiaries	1,432	3,419	24	–	4,876
Accrued enterprise taxes	1,140	312	–	–	1,453
Accrued paid absences	749	54	–	–	803
Other payables and accrued expenses	444	(94)	–	–	349
Retirement benefit asset and liability	6,551	(1,237)	42	–	5,355
Cash flow hedges	–	–	1,209	–	1,209
Other	4,305	(478)	–	563	4,389
Subtotal	24,871	5,885	1,276	563	32,595
Deferred tax liabilities					
Trade receivables	10,849	(10,849)	–	–	–
Intangible assets associated with products	2,053	1,994	–	6,426	10,474
Reserve for advanced depreciation of property, plant and equipment	1,665	(58)	–	–	1,607
Gain on exchange for investments in securities	965	–	–	–	965
Gain on land and building exchange	–	7,018	–	–	7,018
Financial assets measured at fair value through other comprehensive income	3,665	–	1,823	–	5,488
Cash flow hedges	1,360	–	(1,360)	–	–
Other	3,212	452	–	(604)	3,060
Subtotal	23,772	(1,441)	462	5,822	28,615
Net deferred tax assets (liabilities)	1,098	7,327	813	(5,258)	3,980

Note: The amount of deferred tax assets and deferred tax liabilities recognized mainly as a result of the acquisition of Tetra through a business combination is shown. Other in “Intangible assets associated with products” in the section of deferred tax liabilities include deferred tax liabilities of ¥6,756 million, which increased due to business combinations. Also, exchange differences on translation of foreign operations is included in Other.

2) Unrecognized Deferred Tax Assets

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

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Tax loss carryforwards	134,960	145,815
Deductible temporary differences	66,473	130,509
Unused tax credits	1,985	2,001

3) Expiration of Unrecognized Deferred Tax Assets

(i) Expiration of Tax Loss Carryforwards for Which Deferred Tax Assets Were Not Recognized

Tax loss carryforwards for which deferred tax assets were not recognized will expire as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
1st year	471	1,834
2nd year	1,526	1,083
3rd year	2,048	1,035
4th year	1,403	781
5th year	1,236	11,755
After 5th year	13,156	2,409
Indefinite	115,117	126,915
Total	134,960	145,815

(ii) Expiration of Unused Tax Credits for Which Deferred Tax Assets Were Not Recognized

Unused tax credits for which deferred tax assets were not recognized will expire as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
1st year	17	–
2nd year	–	–
3rd year	–	4
4th year	–	0
5th year and thereafter	1,967	1,996
Total	1,985	2,001

4) Unrecognized Deferred Tax Liabilities

In principle, the Company does not recognize deferred tax liabilities for temporary differences related to investments in subsidiaries because the Company is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. As of March 31, 2020 and 2021, taxable temporary differences associated with investments in the subsidiaries for which deferred tax liabilities were not recognized were ¥194,337 million and ¥244,815 million, respectively.

(2) Income Taxes

1) Income Tax Expenses

The breakdown of income tax expenses is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Current income taxes		
Current fiscal year	34,844	38,284
Subtotal	34,844	38,284
Deferred income taxes		
Origination and reversal of temporary differences	1,478	(7,327)
Subtotal	1,478	(7,327)
Total	36,322	30,956

Current income taxes include the tax benefits arising from tax losses, tax credits and temporary differences of prior periods whose tax effect was previously unrecognized. As a result, current income taxes decreased by ¥85 million and ¥330 million for the years ended March 31, 2020 and 2021, respectively.

Deferred income taxes include the tax benefit arising from previously unrecognized tax losses, tax credits and temporary differences of prior periods, and expense from write-downs or reversal of previous write-downs of deferred tax assets. As a result, deferred income taxes decreased by ¥415 million and ¥149 million for the years ended March 31, 2020 and 2021, respectively.

2) Reconciliation of Effective Tax Rate

The following is a reconciliation from the Company's statutory tax rate to the effective tax rate for the years ended March 31, 2020 and 2021.

The Company is mainly subject to income taxes, inhabitant tax and enterprise tax in Japan. The statutory tax rate calculated based on these taxes for the years ended March 31, 2020 and 2021 was 30.6%, respectively. Overseas subsidiaries are subject to the income taxes on their income in their respective countries of domicile.

(%)

	Year ended March 31, 2020	Year ended March 31, 2021
Statutory tax rate	30.6	30.6
Expenses not deductible for income tax purposes	0.1	0.1
Dividends not taxable for income tax purposes	(3.1)	(4.5)
Tax credits	(2.1)	(2.5)
Differences in applicable tax rates of subsidiaries	(1.3)	0.0
Changes in unrecognized deferred tax assets	(0.9)	(1.3)
Other	(0.4)	(0.8)
Effective tax rate	22.9	21.6

10. Earnings per Share

The basis for calculating basic and diluted earnings per share is as follows:

	Year ended March 31, 2020	Year ended March 31, 2021
Basis for calculating basic and diluted earnings per share:		
Profit attributable to owners of parent (Millions of yen)	122,193	111,858
Profit not attributable to ordinary shareholders of the parent (Millions of yen)	–	–
Profit used for calculating basic earnings per share (Millions of yen)	122,193	111,858
Weighted-average number of ordinary shares outstanding during the year (Thousands of shares)	308,798	306,441
Basis for calculating diluted earnings per share:		
Profit used for calculating basic earnings per share (Millions of yen)	122,193	111,858
Adjustments to profit (Millions of yen)	(0)	–
Profit for the year used for calculating diluted earnings per share (Millions of yen)	122,193	111,858
Weighted-average number of ordinary shares outstanding during the year (Thousands of shares)	308,798	306,441
Increase in number of ordinary shares from exercise of share options (Thousands of shares)	186	112
Increase in number of ordinary shares from conversion of convertible bonds with share subscription rights (Thousands of shares)	143	–
Weighted-average number of diluted ordinary shares outstanding during the period (Thousands of shares)	309,127	306,554
Earnings per share:		
Basic earnings per share (Yen)	395.71	365.03
Diluted earnings per share (Yen)	395.28	364.89

Note: No financial instruments are excluded from the calculation of diluted earnings per share because they are not dilutive.

11. Property, Plant and Equipment

(1) Movement of Acquisition Cost, Accumulated Depreciation and Accumulated Impairment Losses and Carrying Amount

The movement of the acquisition cost, accumulated depreciation and accumulated impairment losses, and the carrying amount of property, plant and equipment is as follows:

1) Acquisition Cost

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2019	111,199	84,970	7,142	4,546	38,731	246,589
Acquisitions	56	0	–	8,897	107	9,061
Acquisitions through business combinations	–	–	80	–	–	80
Reclassification from construction in progress	6,258	1,738	–	(10,584)	2,263	(324)
Sales or disposals	(815)	(672)	(100)	(3)	(2,403)	(3,995)
Foreign exchange differences on translations	(183)	(4)	–	(1)	(41)	(231)
Other	(58)	(313)	(0)	(191)	(42)	(606)
As of March 31, 2020	116,455	85,718	7,121	2,663	38,614	250,574
Acquisitions	220	22	–	27,741	59	28,043
Acquisitions through business combinations	808	339	292	57	299	1,796
Reclassification from construction in progress	1,317	1,792	–	(6,088)	2,415	(562)
Sales or disposals	(7,073)	(9,275)	–	(191)	(1,672)	(18,213)
Foreign exchange differences on translations	76	0	–	1	30	109
Other	(3,573)	3	(628)	(268)	(5)	(4,472)
As of March 31, 2021	108,233	78,601	6,785	23,915	39,741	257,276

Note: “Acquisitions through business combinations” for the years ended March 31, 2020 and 2021 are described in Note “33. Business Combinations.”

2) Accumulated Depreciation and Accumulated Impairment Losses

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2019	(67,521)	(73,793)	–	(638)	(33,649)	(175,603)
Depreciation expenses	(3,090)	(2,554)	–	–	(2,041)	(7,686)
Sales or disposals	537	666	–	–	2,395	3,598
Foreign exchange differences on translations	69	3	–	–	30	103
Other	19	301	–	–	43	363
As of March 31, 2020	(69,986)	(75,376)	–	(638)	(33,222)	(179,223)
Depreciation expenses	(3,264)	(2,658)	–	–	(2,184)	(8,107)
Sales or disposals	7,030	9,255	–	49	1,623	17,959
Foreign exchange differences on translations	(42)	(0)	–	–	(18)	(60)
Other	3,043	(7)	–	–	2	3,039
As of March 31, 2021	(63,218)	(68,787)	–	(588)	(33,798)	(166,392)

3) Carrying Amount

Millions of yen

	Buildings and structures	Machinery and vehicles	Land	Construction in progress	Other	Total
As of April 1, 2019	43,677	11,176	7,142	3,908	5,081	70,986
As of March 31, 2020	46,469	10,342	7,121	2,025	5,392	71,350
As of March 31, 2021	45,015	9,813	6,785	23,327	5,942	90,883

Notes:

1. Expenditures for property, plant and equipment under construction are stated as construction in progress above.
2. Depreciation of property, plant and equipment is included in “Cost of sales,” “Selling, general and administrative expenses” and “Research and development expenses” in the consolidated statement of profit or loss.

(2) Impairment Losses

Property, plant and equipment are generally grouped by the smallest cash-generating unit that generates independent cash inflows. The Group tests idle assets for impairment individually.

The Group did not recognize impairment losses on property, plant and equipment for the years ended March 31, 2020 and 2021.

12. Goodwill

(1) Movement of Acquisition Cost, Accumulated Impairment Losses and Carrying Amount of Goodwill

The movement of the acquisition cost and accumulated impairment losses, and the carrying amount of goodwill is as follows:

1) Acquisition Cost

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of period	3,358	7,854
Acquisitions through business combinations	4,523	1,669
Foreign exchange differences on translations	(26)	(167)
Balance at end of period	7,854	9,357

Notes:

1. During the fiscal year ended March 31, 2021, the Company finalized the provisional accounting treatment for the business combination involving UMN Pharma Inc., and the figures for the fiscal year ended March 31, 2020 have been retrospectively revised.
2. "Acquisitions through business combinations" for the year ended March 31, 2020 and 2021 are described in Note "33. Business Combinations."

2) Accumulated Impairment Losses

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of period	–	–
Balance at end of period	–	–

3) Carrying Amount

Millions of yen

As of April 1, 2019	3,358
As of March 31, 2020	7,854
As of March 31, 2021	9,357

(2) Impairment Test of Goodwill

The carrying amount of principal goodwill allocated to cash-generating units is as follows:

Millions of yen

Cash-generating Unit	As of March 31, 2020	As of March 31, 2021
Pharmaceutical business centered on Shionogi & Co., Ltd. (Note)	4,523	6,185
Pharmaceutical business in China	3,157	2,997

Note: Goodwill arising from the acquisition of shares of UMN Pharma Co., Ltd. (balance at the end of the current fiscal year of ¥4,523 million), which had been provisionally accounted for as of March 31, 2020 was finalized during the fiscal year ended March 31, 2021. The Company has completed the purchase price allocation and retrospectively adjusted the provisional fair value of acquired assets and assumed liabilities.

1) Pharmaceutical business centered on Shionogi & Co., Ltd.

The recoverable amount was calculated based on value in use.

The value in use was calculated as the present value of the estimated cash flow based on a 1-year business plan approved by management prepared by reflecting past knowledge and external information using the pre-tax discount rates (8.5% for the year ended March 31, 2021) calculated based on the pre-tax weighted average cost of capital. Cash flows beyond the period of the business plan are calculated based on the long-term average growth rate of the market to which the cash-generating unit belongs. (0% for the year ended March 31, 2021).

The value in use is sufficiently higher than the book value of the cash-generating unit, and it is unlikely that the value in use will fall below the book value even if the significant assumptions used in calculating the value in use fluctuate within a reasonable range.

2) Pharmaceutical business in China

The recoverable amount was calculated based on value in use.

The value in use was calculated as the present value of the estimated cash flow based on a 5-year business plan approved by management created by reflecting past knowledge and external information using the pre-tax discount rates (14.3% and 12.1% for the years ended March 31, 2020 and 2021, respectively) calculated based on the pre-tax weighted average cost of capital. Cash flows beyond the period of the business plan are calculated based on the long-term average growth rate of the market to which the cash-generating unit belongs. (5.5% for the years ended March 31, 2020 and 2021)

The value in use is sufficiently higher than the book value of the cash-generating unit, and it is unlikely that the value in use will fall below the book value even if the significant assumptions used in calculating the value in use fluctuate within a reasonable range.

13. Intangible Assets

(1) Movement of Acquisition Cost, Accumulated Amortization and Accumulated Impairment Losses and Carrying Amount

The movement of the acquisition cost, accumulated amortization and accumulated impairment losses, and the carrying amount of intangible assets is as follows:

1) Acquisition Cost

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2019	96,800	13,760	6,005	116,567
Individual acquisitions	841	1,222	1,083	3,147
Acquisitions through business combinations	5,169	–	511	5,680
Sales or disposal	(1,032)	(898)	(570)	(2,501)
Foreign exchange differences on translations	(626)	(28)	(16)	(671)
Other	–	29	–	29
As of March 31, 2020	101,152	14,087	7,013	122,252
Individual acquisitions	2,761	2,688	0	5,450
Acquisitions through business combinations	26,247	86	58	26,393
Sales or disposal	(103)	(596)	(477)	(1,177)
Foreign exchange differences on translations	(806)	6	(61)	(860)
Other	504	(47)	(955)	(497)
As of March 31, 2021	129,755	16,225	5,578	151,560

Notes:

1. During the fiscal year ended March 31, 2021, the Company finalized the provisional accounting treatment for the business combination involving UMN Pharma Inc., and the figures for the fiscal year ended March 31, 2020 have been retrospectively revised.
2. “Acquisitions through business combinations” for the years ended March 31, 2020 and 2021 are described in Note “33. Business Combinations.”

2) Accumulated Amortization and Accumulated Impairment Losses

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2019	(54,214)	(10,761)	(3,786)	(68,762)
Amortization	(3,255)	(881)	(233)	(4,370)
Impairment losses	(100)	–	–	(100)
Sales or disposal	1,032	716	570	2,319
Foreign exchange differences on translations	398	24	5	428
Other	(61)	–	–	(61)
As of March 31, 2020	(56,201)	(10,902)	(3,443)	(70,547)
Amortization	(3,209)	(1,103)	(221)	(4,535)
Impairment losses	(825)	–	–	(825)
Sales or disposal	103	586	477	1,167
Foreign exchange differences on translations	(396)	0	27	(368)
Other	12	–	93	105
As of March 31, 2021	(60,516)	(11,418)	(3,067)	(75,001)

3) Carrying Amount

Millions of yen

	Intangible assets associated with products	Software	Other	Total
As of April 1, 2019	42,585	2,999	2,218	47,804
As of March 31, 2020	44,950	3,184	3,570	51,705
As of March 31, 2021	69,239	4,807	2,511	76,558

Notes:

1. Amortization of intangible assets is included in “Cost of sales,” “Selling and general administrative expenses,” “Research and development expenses,” and “Amortization of intangible assets associated with products” in the consolidated statement of profit or loss.
2. No significant internally generated intangible assets were recognized for the years ended March 31, 2020 and 2021.
3. During the fiscal year ended March 31, 2021, the Company finalized the provisional accounting treatment for the business combination involving UMN Pharma Inc., and the figures for the fiscal year ended March 31, 2020 have been retrospectively revised. (See Note “33. Business Combinations.”)

(2) Significant Intangible Assets

As of March 31, 2021, the Group recognizes ¥24,966 million of intangible assets related to BPN14770 identified from the business combination of Tetra, which became a consolidated subsidiary during the fiscal year ended March 31, 2021. In addition, the Group had capitalized costs associated with the in-licensing of products and technologies of ¥9,933 million as of March 31, 2020 and 2021, respectively, related to S-812217 which was acquired from Sage Therapeutics. These intangible assets are included in intangible assets associated with products.

(3) Impairment Losses

Intangible assets are generally grouped by the smallest cash-generating unit that produces independent cash inflows. Capitalized development costs, an intangible asset recognized as in-process research and development, and separately recognized marketing rights are tested for impairment individually.

The Group recognized impairment losses in the amounts of ¥100 million and ¥825 million for the years ended March 31, 2020 and 2021, respectively, which were included in “Other expenses” in the consolidated statement of profit or loss.

14. Investment Property

(1) Movement of Acquisition Cost and Accumulated Depreciation and Accumulated Impairment Losses

The movement of the acquisition cost, accumulated depreciation and accumulated impairment losses of investment property is as follows:

1) Acquisition Cost

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of period	6,775	6,376
Acquisitions	–	69
Reclassification from construction in progress	–	33
Sales or disposals	(414)	–
Foreign exchange differences on translations	(6)	2
Other	22	24,258
Balance at end of period	6,376	30,740

Note: “Other” for the year ended March 31, 2021 includes the impact of a rights conversion related to the redevelopment of the Shionogi Shibuya Building. Since this rights conversion corresponds to an exchange transaction under IFRS, the rights to the land and buildings after the exchange are measured at fair value, and the exchange gain of ¥22,937 million is included in “Other income” in the consolidated statement of profit or loss for the fiscal year ended March 31, 2021.

2) Accumulated Depreciation and Accumulated Impairment Losses

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of period	(3,988)	(3,880)
Depreciation expenses	(75)	(70)
Sales or disposals	183	–
Foreign exchange differences on translations	0	(0)
Other	–	(30)
Balance at end of period	(3,880)	(3,981)

(2) Book Value and Fair Value

The book value and fair value of investment property are as follows.

Millions of yen

	As of March 31, 2020		As of March 31, 2021	
	Book value	Fair value	Book value	Fair value
Investment property	2,496	5,382	26,759	29,642

The fair value of investment properties is mainly the amount based on the valuation by an external real estate appraiser (including those adjusted internally using indicators, etc.).
The fair value hierarchy of investment properties is classified as Level 3 because it contains non-observable inputs. The fair value hierarchy is described in Note "30. Financial Instruments."

(3) Income and Expenses from Investment Properties

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Rental income	417	465
Direct operating expenses	220	216

In the years ended March 31, 2020 and 2021, the amount of direct operating expenses arising from investment properties that did not generate rental income is immaterial.

15. Capital Expenditure Commitments

The breakdown of Commitments for acquisition of assets is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Property, plant and equipment	7,353	30,069
Intangible assets (Note)	96,111	99,998
Investment property	5,281	4,895
Total	108,747	134,962

Note: The Group has entered into research and development collaborations and in-license agreements of products and technologies with a number of third parties. Under these agreements, the Group is obliged to make milestone payments upon the achievement of agreed objectives or when certain conditions are met as defined in the agreements.
The amounts shown in the table above represent the maximum payments to be made when all milestones are achieved, but impact of discount and other risks are not considered. The possibility of occurrence for all payment obligations is low and actual payment could differ significantly because the achievement of milestones includes high uncertainty.

16. Leases

The Group has lease contracts for real estate including offices and employee housing, equipment including office automation and security equipment, commercial vehicles, and warehouse facilities in order to replace assets flexibly, reduce asset management administration, and manage capital efficiently. If a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, the contract is considered to be or contain a lease, and the Group recognizes a right-of-use asset and lease liability at the commencement date of the lease. However, for short-term leases and leases for which the underlying asset is of low value, the Group expenses lease payments over the lease term using the straight-line method.
Some lease contracts mainly related to real estate include the option to extend or cancel the lease to give the Group flexibility in managing floor space and personnel.
The Group makes decisions to exercise the contractual option to extend a lease after comprehensively considering the operational necessity of the leased asset, difficulties in obtaining an alternative asset, and the conditions for exercising the option, and determining that it is necessary to exercise the option. The extended lease term as a result of exercising the option, and the lease payments during that term, are generally the same as or closely approximate the original lease term and payments.
In addition, the Group makes decisions to exercise the contractual option to terminate a lease in a manner similar to its decisions concerning the contractual option to extend a lease.
The Group annually reassesses the possibility of exercise of both the option to extend a lease and the option to cancel a lease at the end of each reporting period. The financial impact of this reassessment was immaterial for the years ended March 31, 2020 and 2021.

The Group's lease contracts with variable lease payments or residual value guarantees and the lease contracts that have not yet commenced notwithstanding the Group's been contracted are immaterial.

The breakdown of right-of-use assets as of March 31, 2020 and 2021 is as follows:

Millions of yen

	Underlying asset			Total
	Buildings and structures	Vehicles	Other	
As of March 31, 2020	3,973	91	593	4,657
As of March 31, 2021	3,995	120	711	4,827

The movement of right-of-use assets, expenses related to leases, and cash outflows for the years ended March 31, 2020 and 2021 are as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Increase in right-of-use assets	2,446	3,885
Depreciation of right-of-use assets		
Buildings and structures	1,669	1,752
Vehicles	56	63
Other	256	246
Total depreciation of right-of-use assets	1,982	2,062
Interest expenses on lease liabilities	71	60
Expenses relating to short-term leases	87	27
Expenses relating to leases of low-value assets	448	407
Total expenses relating to leases	2,589	2,558
Cash outflows for leases	4,151	4,143

A maturity analysis of lease liabilities as of March 31, 2020 and 2021 is described in Note "30. Financial Instruments."

17. Other Financial Assets

(1) Breakdown

The breakdown of other financial assets is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Financial assets measured at amortized cost		
Time deposits (over 3 months)	111,047	80,573
Bonds	40,556	50,060
Receivables	18,023	17,680
Other	7,296	4,114
Subtotal	176,923	152,428
Financial assets measured at fair value through profit or loss		
Derivative assets	6,670	–
Other	3,413	2,067
Subtotal	10,084	2,067
Financial assets measured at fair value through other comprehensive income		
Equities and investments	185,114	204,291
Other	1,196	801
Subtotal	186,311	205,092
Total	373,319	359,589
Non-current assets	202,161	217,437
Current assets	171,157	142,151

(2) Equity Instruments Designated as Measured at Fair Value through Other Comprehensive Income

The Group designates investments in equities and other instruments held primarily to maintain and strengthen business relationships or transactions with investees as equity instruments designated as measured at fair value through other comprehensive income.

1) Fair Value

The fair value by major issuers is as follows:

(i) As of March 31, 2020

Issuer	Millions of yen
ViiV Healthcare Ltd.	141,617
Suzuken Co., Ltd.	12,815
Toho Holdings Co., Ltd.	7,934
Sumitomo Mitsui Financial Group, Inc.	4,311
Medipal Holdings Corporation	2,566
Kissei Pharmaceutical Co., Ltd.	2,541
StemRim Inc.	1,585
Ono Pharmaceutical Co., Ltd.	855
AnGes, Inc.	820
Kaneka Corporation	690
Vital KSK Holdings Inc.	521
OncoTherapy Science, Inc.	452
Other	9,598

(ii) As of March 31, 2021

Issuer	Millions of yen
ViiV Healthcare Ltd.	154,138
Suzuken Co., Ltd.	14,085
Toho Holdings Co., Ltd.	7,105
Sumitomo Mitsui Financial Group, Inc.	6,586
StemRim Inc.	3,845
Medipal Holdings Corporation	2,700
Kissei Pharmaceutical Co., Ltd.	2,239
Other	14,391

2) Derecognition of Equity Instruments Designated as Measured at Fair Value through Other Comprehensive Income

In the years ended March 31, 2020 and 2021, the Group derecognized certain equity instruments designated as measured at fair value through other comprehensive income due to following disposal for the main purpose of improving capital efficiency.

The fair value and cumulative gain or loss at disposal are as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Fair value at disposal date	14,195	305
Cumulative gain (loss)	5,281	242

On derecognition of equity instruments designated as measured at fair value through other comprehensive income, the accumulated gain or loss recognized in “Other components of equity” in the consolidated statement of financial position is transferred to “Retained earnings.”

3) Dividend Income

The breakdown of dividend income from equity instruments designated as measured at fair value through other comprehensive income is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Investments held at year-end	27,241	24,309
Investments derecognized during the fiscal year	377	6
Total	27,619	24,316

18. Inventories

The breakdown of inventories is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Merchandise and Finished goods	14,806	19,577
Work in process	9,994	7,813
Raw materials and Supplies	9,017	10,613
Total	33,818	38,003

The amounts of inventories recognized as expenses were ¥56,286 million and ¥51,860 million for the years ended March 31, 2020 and 2021, respectively.

Write-downs of inventories were ¥495 million and ¥662 million for the years ended March 31, 2020 and 2021, respectively.

19. Trade Receivables

The breakdown of trade receivables is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Notes receivable – trade	459	869
Accounts receivable – trade	79,417	77,249
Allowance for doubtful accounts	(72)	(71)
Total	79,804	78,047

20. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Cash and cash equivalents	117,861	196,173
Short-term investments	91,000	80,000
Total	208,861	276,173

21. Other Assets

The breakdown of other assets is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Long-term prepaid expenses	2,340	2,758
Consumption tax receivable	3,298	3,373
Advance payments to suppliers	5,228	9,549
Prepaid expenses	6,530	6,914
Other	19,187	4,302
Total	36,585	26,898
Non-current assets	14,394	5,200
Current assets	22,191	21,697

22. Equity and Other Equity Items

(1) Share Capital

The movement of authorized shares and issued shares is as follows:

(Shares)

	Year ended March 31, 2020	Year ended March 31, 2021
Authorized shares	1,000,000,000	1,000,000,000
Issued shares		
Number of shares at beginning of period	316,786,165	316,786,165
Changes during the year	–	(5,200,000)
Number of shares at end of period	316,786,165	311,586,165

Notes:

1. All shares issued by the Company are ordinary shares with no par value. They have no restrictions on any rights, and are fully paid up.
2. The change in issued shares during the year ended March 31, 2021 year was due to the cancellation of treasury shares.

(2) Treasury Shares

The movement of treasury shares is as follows:

(Shares)

	Year ended March 31, 2020	Year ended March 31, 2021
Number of shares at beginning of period	5,498,751	13,002,082
Changes during the year	7,503,331	(2,879,638)
Number of shares at end of period	13,002,082	10,122,444

Notes:

1. The changes in the number of treasury shares during the year ended March 31, 2020 consisted of the increases of 7,792,500 shares and 2,081 shares due to the purchase of treasury shares based on a resolution of the Board of Directors meeting and the purchase of fractional shares of less than one voting unit, respectively, and the decreases of 217,050 shares, 40,900 shares and 33,300 shares due to the conversion of convertible bonds with share subscription rights, the exercise of share options and grants under the restricted share-based remuneration, respectively.

2. The changes in the number of treasury shares during the year ended March 31, 2021 consisted of the increases of 8,777,500 shares, 5,000 shares and 2,362 shares due to the purchase of treasury shares based on a resolution of the Board of Directors meeting, free acquisition under the restricted share-based remuneration and the purchase of fractional shares of less than one voting unit respectively, and the decreases of 6,356,000 shares, 5,200,000 shares, 85,300 shares and 23,200 shares due to third-party allotment, the cancellation of treasury shares, the exercise of share options and grants under the restricted share-based remuneration, respectively.

(3) Surplus

1) Capital Surplus

Capital surplus is as follows:

(i) Capital Reserve

The Companies Act of Japan ("Companies Act") requires that one-half or more of the proceeds from the issuance of shares shall be credited to share capital, and the remaining proceeds shall be credited to capital reserve incorporated in capital surplus.

(ii) Other Capital Surplus

The surplus arising from certain equity transactions and reversals of share capital and capital reserve are recognized in other capital surplus.

2) Retained Earnings

Retained earnings are as follows:

(i) Legal Reserve

The Companies Act provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals to 25% of share capital. Some overseas subsidiaries are also subject to similar reserve regulations in their country of domicile.

(ii) Other Retained Earnings

Other retained earnings represent accumulated profit for the Group.

(4) Other Components of Equity

The breakdown and movement of other components of equity are as follows:

Millions of yen

	Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Exchange differences on translation of foreign operations	Effective portion of cash flow hedges	Total
As of April 1, 2019	188,451	–	(7,447)	611	181,616
Amounts arising during the year	(66,781)	725	(25,764)	12,002	(79,817)
Reclassification adjustments to profit or (loss)	–	–	–	(8,436)	(8,436)
Tax effects	4,236	(222)	(483)	(1,091)	2,440
Total other comprehensive income (loss), net of tax	(62,544)	503	(26,247)	2,474	(85,813)
Attributable to non-controlling interests	(0)	–	(214)	–	(214)
Total other comprehensive income (loss), net of tax attributable to owners of parent	(62,544)	503	(26,032)	2,474	(85,598)
Transfer to retained earnings	(3,665)	(503)	–	–	(4,169)
As of March 31, 2020	122,241	–	(33,479)	3,086	91,848
Amounts arising during the year	(2,780)	(138)	36,025	(8,896)	24,208
Reclassification adjustments to profit or (loss)	–	–	–	498	498
Tax effects	(1,897)	42	24	2,569	739
Total other comprehensive income (loss), net of tax	(4,677)	(96)	36,049	(5,828)	25,447
Attributable to non-controlling interests	–	–	(101)	–	(101)
Total other comprehensive income (loss), net of tax attributable to owners of parent	(4,677)	(96)	36,151	(5,828)	25,548
Transfer to retained earnings	(167)	96	–	–	(71)
Other	–	–	(488)	–	(488)
As of March 31, 2021	117,395	–	2,182	(2,741)	116,836

23. Dividends

1) Total Dividends and Dividends per Share

(i) Year ended March 31, 2020

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 18, 2019	Ordinary shares	15,564	50.00	March 31, 2019	June 19, 2019
Board of Directors meeting held on October 30, 2019	Ordinary shares	15,570	50.00	September 30, 2019	December 2, 2019

(ii) Year ended March 31, 2021

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 23, 2020	Ordinary shares	16,100	53.00	March 31, 2020	June 24, 2020
Board of Directors meeting held on October 30, 2020	Ordinary shares	16,442	53.00	September 30, 2020	December 1, 2020

2) Dividends Declared for Which the Effective Date was in the Following Fiscal Year

(i) Year ended March 31, 2020

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 23, 2020	Ordinary shares	16,100	53.00	March 31, 2020	June 24, 2020

(ii) Year ended March 31, 2021

Resolution	Class of shares	Total Dividends (Millions of yen)	Dividends per Share (Yen)	Record Date	Effective Date
Shareholders' meeting held on June 22, 2021	Ordinary shares	16,580	55.00	March 31, 2021	June 23, 2020

24. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Financial liabilities measured at amortized cost:		
Other payables	17,513	16,413
Other	3,770	3,476
Subtotal	21,283	19,890
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	452	6,014
Contingent consideration	–	720
Subtotal	452	6,734
Total	21,736	26,625
Non-current liabilities	4,179	5,242
Current liabilities	17,557	21,383

25. Employee Benefits

(1) Retirement Benefits

The Company has a defined benefit pension plan known as a cash balance plan under which the pension benefits are determined in accordance with market interest rates, and the Company also has a lump-sum payment plan and a defined contribution pension plan (with optional prepaid retirement benefits). Certain domestic consolidated subsidiaries have lump-sum payment plans and defined contribution pension plans. In addition, other certain consolidated subsidiaries have defined contribution pension plans.

Plan assets are managed under the assumption of sound management but are exposed to investment risks related to financial instruments. In addition, defined benefit obligations are measured based on various actuarial assumptions such as the discount rate, etc. and are therefore exposed to the risk of changes in those assumptions.

The defined contribution pension plan is a retirement benefit plan in which the employer contributes specified amounts to independent entities and does not bear any legal or presumptive liability for payments in excess of the contributed amount.

1) Defined Benefit Plans

(i) Retirement Benefit Liability and Asset

The breakdown of retirement benefit liability and asset is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Funded plans:		
Present value of defined benefit plan obligations	63,369	60,917
Fair value of plan assets	(81,973)	(82,480)
Subtotal	(18,603)	(21,562)
Effect of the asset ceiling (Note)	32,746	35,674
Subtotal	14,142	14,111
Unfunded plans:		
Present value of defined benefit plan obligations	1,946	2,207
Subtotal	1,946	2,207
Net amount of retirement benefit (asset) liability	16,089	16,318
Amounts in the consolidated statement of financial position		
Retirement benefit liability	16,089	16,318
Retirement benefit asset	–	–

Note: Some of the Group's defined benefit plans set an asset ceiling and calculate liabilities because future economic benefits will not be available in the form of refunds from or reductions in future contributions to the defined benefit plans.

(ii) Defined Benefit Plan Obligations

The movement of the present value of defined benefit plan obligations is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of period	72,905	65,315
Current service cost	1,897	1,725
Interest cost	301	352
Remeasurements of defined benefit plans:		
Actuarial gains and losses arising from changes in financial assumptions	(659)	(163)
Experience adjustments	(1,489)	1,096
Benefits paid	(7,640)	(5,564)
Other	–	361
Balance at end of period	65,315	63,124

Significant actuarial assumptions used to determine the present value of defined benefit plan obligations are as follows:

	As of March 31, 2020	As of March 31, 2021
Discount rate (%)	0.5 – 0.6%	0.4 – 0.6%

The effect of changes in significant actuarial assumptions (discount rates) on the defined benefit plan obligations at the end of the reporting period are as follows. This sensitivity analysis assumes that all other assumptions are held constant.

Millions of yen

	As of March 31, 2020	As of March 31, 2021
0.5% increase in discount rate	(3,223)	(2,925)
0.5% decrease in discount rate	3,525	3,188

In addition, the weighted average durations of defined benefit plan obligations were 16.2 years at March 31, 2020 and 2021.

(iii) Plan Assets

The movement of the fair value of plan assets is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of period	86,554	81,973
Interest income	354	442
Benefits paid	(5,511)	(4,453)
Contributions to the plans by employer	1,037	972
Remeasurements of defined benefit plans:		
Return on plan assets	(460)	3,545
Balance at end of period	81,973	82,480

Note: The Group plans to contribute ¥2,138 million to the defined benefit plans for the fiscal year ending March 31, 2022.

The breakdown of fair value of plan assets by asset class is as follows:

Millions of yen

	As of March 31, 2020			As of March 31, 2021		
	Quoted Prices in Active Markets			Quoted Prices in Active Markets		
	Yes	No	Total	Yes	No	Total
Equities	7,973	–	7,973	5,853	–	5,853
Bonds	30,959	–	30,959	19,602	–	19,602
General accounts	–	18,913	18,913	–	17,976	17,976
Other	–	24,126	24,126	–	39,048	39,048
Total	38,932	43,040	81,973	25,455	57,024	82,480

Notes:

1. A retirement benefit trust established for the defined benefit pension plan comprises 6% and 1% of plan assets as of March 31, 2020 and 2021, respectively.

2. General accounts are accounts with guaranteed expected interest rates and capital by life insurance companies.
3. The defined benefit pension plan stipulates regular contributions at least once annually. Contributions are calculated to enable the financial balance between expected future benefit expenses and expected returns on plan assets at a rate determined on the basis of expected interest rates, expected mortality rates, expected withdrawal rates, and the calculation of expected expenses for other required benefits. Also, contributions are recalculated every five years. In addition, an additional contribution is required if the reserve fund for benefits is less than the minimum reserve criteria.
   Plan assets are legally independent from the Group. The asset management trustee is responsible for the plan assets, has a fiduciary obligation to pension plan members, and has fund management obligations that include diversified investment. Conflicts of interest are prohibited.
   Plan assets are managed to secure the necessary total returns over the long-term within acceptable risk levels to ensure payments of pension benefits in the future. The acceptable risk level in the return rate on the plan assets is derived from a detailed study considering the mid- to long-term trends and the changes in income such as contributions and payments. Based on policies and studies, after consideration of issues such as the expected rate of return and risks, the asset management trustee formulates a basic asset mix which aims at an optimal portfolio on a long-term basis with the selection of appropriate investment assets.

(iv) Effect of the Asset Ceiling

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of period	31,785	32,746
Interest income	129	176
Remeasurement of asset ceiling:		
Changes in the effect of asset ceiling on net defined benefit plans	832	2,750
Balance at end of period	32,746	35,674

2) Defined Contribution Plans

The Group recognized defined contribution costs in the amount of ¥5,110 million and ¥4,946 million for the years ended March 31, 2020 and 2021, respectively.

(2) Other Employee Benefit Expenses

Personnel expenses included in the consolidated statement of profit or loss totaled ¥65,084 million and ¥65,783 million for the years ended March 31, 2020 and 2021, respectively.

26. Share-based Payment

The Company has implemented a share option plan and a restricted share-based remuneration plan. The Company has also implemented a cash-settled share-based payment linked to the Company's share price for corporate officers who reside overseas.

(1) Share Option Plan

The Company issued share acquisition rights in the form of share options to directors and corporate officers as incentives for them to enhance corporate value and improve medium- to long-term business performance because they share with shareholders of the Company both the benefits of share price appreciation and the risk of share price declines. The Company replaced the share options plan with a restricted share-based remuneration plan in 2018 and did not issue share options during the years ended March 31, 2020 and 2021.

(a) Outline of Share Option Plan

	Options Granted (Shares)	Exercise Price (Yen)	Recipients	Grant Date	Exercise Period
Share acquisition rights granted in 2011	52,200	1	3 directors 9 corporate officers	July 11, 2011	From July 12, 2011 to July 11, 2041
Share acquisition rights granted in 2012	79,100	1	2 directors 11 corporate officers	July 12, 2012	From July 13, 2012 to July 12, 2042
Share acquisition rights granted in 2013	43,900	1	2 directors 12 corporate officers	July 11, 2013	From July 12, 2013 to July 11, 2043
Share acquisition rights granted in 2014	42,400	1	2 directors 11 corporate officers	July 10, 2014	From July 11, 2014 to July 10, 2044
Share acquisition rights granted in 2015	21,100	1	3 directors 11 corporate officers	July 9, 2015	From July 10, 2015 to July 9, 2045
Share acquisition rights granted in 2016	17,300	1	3 directors 10 corporate officers	July 8, 2016	From July 9, 2016 to July 8, 2046
Share acquisition rights granted in 2017	19,300	1	3 directors 12 corporate officers	July 7, 2017	From July 8, 2017 to July 7, 2047

Note: Options granted are presented as converted into number of shares.

The plan has no vesting conditions.

During the exercise period, recipients can only exercise granted share acquisition rights at one time within 10 days from the date directors lose their position, the date corporate officers retire or their employment contracts with the Company terminate.

The number of shares to be issued per share acquisition rights is 100 shares. However, when the Company conducts its ordinary shares split (including gratis allotment of ordinary shares of the Company) or a reverse stock split, the number of granted shares will be adjusted according to a specified formula.

(b) Movement of the number of share options and their weighted average exercise prices is as follows:

	Year ended March 31, 2020		Year ended March 31, 2021	
	Number of Options	Weighted Average Exercise Price (Yen)	Number of Options	Weighted Average Exercise Price (Yen)
Outstanding at the beginning of the year	2,270	1	1,861	1
Granted	–	–	–	–
Exercised	(409)	1	(853)	1
Forfeited or expired	–	–	–	–
Outstanding at the end of the year	1,861	1	1,008	1
Exercisable at the end of the year	1,861	1	1,008	1

Note: The weighted average share price on the exercise date of share options exercised during the reporting period was ¥6,852 and ¥6,226 for the years ended March 31, 2020 and 2021, respectively. The weighted average remaining contractual terms as of March 31, 2020 and 2021 were 23.6 years and 22.8 years, respectively.

(c) Measurement of Fair Value of Share Options Granted during the Reporting Period

No share options were granted during the years ended March 31, 2020 and 2021.

(2) Restricted Share-based Remuneration Plan

The Company has implemented a restricted share-based remuneration plan, granting incentives to directors other than outside directors and to corporate officers of the Company (collectively, eligible officers) with the aim of achieving medium- to long-term performance targets and participating in shareholder value.

(a) Outline of Restricted Share-based Remuneration Plans

This plan consists of “Long-term share-based remuneration,” which is conditional on eligible officers remaining in the Company for a specified period of time as a director or corporate officer not concurrently serving as a director, and “Medium-term performance-linked share-based remuneration,” which is conditional on the achievement of performance conditions aimed at improving the corporate value of the Company over the medium to long term in addition to the vesting condition described above.

Eligible officers make contributions in kind, with all the monetary compensation receivables awarded by the Company, and in turn receive ordinary shares in the Company that are newly issued or disposed of from treasury.

In addition, when issuing or disposing of the Company’s ordinary shares under this plan, it is conditional on the agreement on allotment of restricted shares between the Company and the eligible officers, which includes the following items 1) to 4) and so on.

1) The transfer, pledge or other disposal of shares to a third-party is prohibited for a specified period of time.
2) Under certain circumstances, the Company will acquire all or part of the restricted shares without payment of consideration.
3) Eligible officer has held any of the positions of director or corporate officer who does not concurrently serve as director throughout the restriction period.
4) As for the ”Medium-term performance-linked share-based remuneration,” adding to the condition of 3) above, the Company shall lift the transfer restriction for vested shares of which the number is determined based on the level of achievement of the performance conditions, originally set by the Board of Directors meeting, such as Return on Equity (ROE), etc., at the end of the restriction period.

The transfer restriction period is 30 years for “Long-term share-based remuneration” for which the primary objective is to allow eligible officers to participate in shareholder value, and 3 years for “Medium-term performance-linked share-based remuneration” for which the primary objective is to incentivize eligible officers to achieve the performance targets of medium-term management plans.

The transfer restrictions are lifted immediately when a director, or corporate officer who does not concurrently serve as director, steps down or retires due to the expiration of their term of office, compulsory retirement or any other legitimate reasons.

(b) Shares Granted during the Reporting Period and Fair Value

	Year ended March 31, 2020	Year ended March 31, 2021
Grant date	July 18, 2019	July 22, 2020
Shares granted:		
Long-term share-based remuneration	19,300 shares	14,200 shares
Medium-term share-based remuneration	14,000 shares	9,000 shares
Fair value at grant date	¥6,110	¥7,087

(3) Share-based Remuneration Expenses

The breakdown of share-based remuneration expenses is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Equity-settled	164	265
Cash-settled	6	7
Total	170	272

Note: Cash-settled share-based remuneration pays the difference between exercise price and share price on the date of exercise in cash to corporate officers who reside overseas. During the exercise period, the corporate officer can only exercise at one time, up to 10 days subsequent to the day after the retirement of the corporate officer.

The carrying amount of liabilities arising from cash-settled remuneration plans were ¥34 million and ¥41 million as of March 31, 2020 and 2021, respectively.

27. Trade Payables

The breakdown of trade payables is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Trade payables	10,763	9,902

28. Government Grants

Government grants related to assets recognized as deferred income included in “Other non-current liabilities” in the consolidated statement of financial position are as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Other non-current liabilities	303	282

Government grants related to assets are mainly received for the purchase of property, plant and equipment.

No outstanding conditions or other contingencies are associated with these above government grants.

Government grants related to income are mainly related to R&D activities. The amounts of ¥16 million and ¥1,158 million were deducted from R&D expenses for the years ended March 31, 2020 and 2021, respectively.

29. Other Liabilities

The breakdown of other liabilities is as follows:

Millions of yen

	As of March 31, 2020	As of March 31, 2021
Accrued bonuses	8,478	8,093
Accrued paid absences	2,547	2,765
Refund liabilities	962	884
Accrued expenses	6,504	5,776
Taxes and dues payables	4,271	2,698
Deposits	2,159	1,616
Other	2,990	15,987
Total	27,913	37,823
Non-current liabilities	362	341
Current liabilities	27,551	37,481

30. Financial Instruments

(1) Capital Management

The fundamental principles of the Group's capital risk management are to build and retain a steady financial base for the purpose of maintaining soundness and efficiency of operations and achieving sustainable growth.

According to these principles, the Group conducts business investment, profit distribution such as dividends, and repayment of borrowings based on steady operating cash flows through the development and sales of competitive products.

The Group uses the following primary indicators for capital management:

	Year ended March 31, 2020	Year ended March 31, 2021
Return on equity attributable to owners of parent (ROE)	15.5%	13.9%
Ratio of equity attributable to owners of parent to total assets	87.6%	84.7%
Ratio of fair value of equity attributable to owners of parent to total assets	184.9%	179.6%

(2) Financial Risk Management

The Group is exposed to financial risks including credit risk, liquidity risk, foreign exchange risk, and market price fluctuation risk, etc. in the course of conducting its business activities, and manages risks based on its policy to avoid or mitigate these risks.

In addition, the Group obtains necessary funding primarily through bank borrowings and bond issuance based on its business plan for its main business, the production and sales of pharmaceuticals. Temporary surplus funds are managed through the investment in lower-risk financial assets. Derivatives are utilized for mitigating the risks described in latter part of this note, and not utilized for speculative purpose.

(3) Credit Risk

Notes and accounts receivable included in trade receivables are exposed to the credit risk of customers. In accordance with the internal procedures determined by the Company, the Finance & Accounting Department and related departments of the Company periodically monitor the conditions of major customers, manage the collection due dates and balances for each customer and try to identify credit risk of customers with worsening financial conditions at the early stage and mitigate the risk. Consolidated subsidiaries perform the similar credit risk management in accordance with the internal rules of the Company. The amount of trade receivables due from the largest customers comprises 50.2% and 51.8% as of March 31, 2020 and 2021, respectively.

Derivative transactions are also exposed to the credit risk of counterparty. The Company enters into derivative transactions with only financial institutions with high credit ratings to mitigate the counterparty risk.
The Group's maximum exposure to credit risk as of March 31, 2020 and 2021 is represented by the carrying amount after impairment of financial assets exposed to credit risk shown in the consolidated statement of financial position.

1) Recognition and Measurement of Allowance for Doubtful Accounts
The Group calculates the allowance for doubtful accounts for trade receivables, lease receivables and other financial assets. A financial asset is treated as credit-impaired if terms and conditions for repayment stipulated by contract cannot be fulfilled.
(i) Trade Receivables and Lease Receivables
Allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses, and is estimated based on past credit loss experience for similar assets.

(ii) Other Financial Assets
Allowance for doubtful accounts is generally recognized at an amount equal to the 12-month expected credit losses, and is estimated based on past credit loss experience for similar assets.
However, in principle, credit risk is considered to have increased significantly since initial recognition if repayment is overdue more than 30 days, and allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses. Allowance for doubtful accounts is estimated based on the recoverability of each individual asset.
All financial assets with particular collection risk due to extended default or insolvency or legal and formal bankruptcy proceedings on the part of the debtor are treated as credit-impaired financial assets. The allowance for doubtful accounts is recognized at an amount equal to lifetime expected credit losses for the entire period and is estimated based on the recoverability of each individual asset.
For any amount that is clearly unrecoverable in the future, the carrying amount of the financial asset is directly reduced, and the corresponding amount of allowance for doubtful accounts is also reversed.

2) Movement of Allowance for Doubtful Accounts
The movement of allowance for doubtful accounts during the years ended March 31, 2020 and 2021 is as follows:
(i) Allowance for Doubtful Accounts on Trade Receivables and Lease Receivables

Millions of yen

	Allowance for Doubtful Accounts on Trade Receivables and Lease Receivables		
	Credit Unimpaired	Credit Impaired	Total
As of April 1, 2019	(43)	(0)	(44)
Increases during the period	(71)	–	(71)
Decreases during the period (Utilized)	–	–	–
Decreases during the period (Reversed)	43	0	43
As of March 31, 2020	(71)	(0)	(72)
Increases during the period	(71)	–	(71)
Decreases during the period (Utilized)	–	0	0
Decreases during the period (Reversed)	71	–	71
As of March 31, 2021	(71)	(0)	(71)

(ii) Allowance for Doubtful Accounts for Other Financial Assets

Disclosure of allowance for doubtful accounts for other financial assets is omitted because it is not material.

In the years ended March 31, 2020 and 2021, no significant increases or decreases occurred in the gross carrying amount of any assets that could affect the changes in allowance for doubtful accounts.

(4) Liquidity Risk

Liquidity risk is the risk that the Group will be unable to fulfill repayment obligations for financial liabilities due. The Company manages liquidity risk by having the Finance & Accounting Department prepare and update a timely cash flow plan based on reports from business units.

Major financial liabilities by contractual maturities are as follows:

(i) As of March 31, 2020

Millions of yen

	Carrying Amount	Contractual Cash Flow	Within 1 Year	After 1 Year but Not More than 2 Years	After 2 Years but Not More than 3 Years	After 3 Years but Not More than 4 Years	After 4 Years but Not More than 5 Years	More than 5 Years
Non-derivative financial liabilities:								
Other financial liabilities	21,283	21,283	17,104	–	–	–	–	4,179
Trade payables	10,763	10,763	10,763	–	–	–	–	–
Lease liabilities	8,153	8,153	3,361	2,893	982	332	259	323
Derivative liabilities	452	452	452	–	–	–	–	–
Total	40,653	40,653	31,682	2,893	982	332	259	4,502

(ii) As of March 31, 2021

Millions of yen

	Carrying Amount	Contractual Cash Flow	Within 1 Year	After 1 Year but Not More than 2 Years	After 2 Years but Not More than 3 Years	After 3 Years but Not More than 4 Years	After 4 Years but Not More than 5 Years	More than 5 Years
Non-derivative financial liabilities:								
Other financial liabilities	20,611	20,611	15,979	224	138	0	0	4,268
Trade payables	9,902	9,902	9,902	–	–	–	–	–
Lease liabilities	7,988	7,988	3,379	2,811	677	537	498	84
Derivative liabilities	6,014	6,014	5,403	611	–	–	–	–
Total	44,517	44,517	34,665	3,646	815	538	498	4,352

The cash flows included in the maturity analysis are not expected to occur significantly earlier or in significantly different amounts.

(5) Market Risk

1) Foreign Exchange Risk

The Group operates internationally, and therefore has trade receivables and payables, forecasted transactions, and loans receivable to Group companies denominated in foreign currencies that are exposed to the risks arising from changes in foreign exchange rates. The Company hedges trade receivables and payables denominated in foreign currencies by using forward foreign exchange contracts and currency option contracts to mitigate the risk of foreign exchange fluctuations identified by currency.

(i) Exposure to Currency Risk

Exposure to currency risk (net) is as follows. The amount of currency risk hedged with derivative transactions is excluded.

	As of March 31, 2020	As of March 31, 2021
USD (thousands of USD)	276,204	134,255
EUR (thousands of EUR)	(90)	6,865
CNY (thousands of CNY)	110,173	110,577
GBP (thousands of GBP)	64,027	36,056
TWD (thousands of TWD)	191,804	166,345

(ii) Foreign Exchange Sensitivity Analysis

The following sensitivity analysis for financial instruments denominated in foreign currencies held as of the end of each fiscal year shows the impact from a ¥1.00 appreciation on profit before income taxes. This sensitivity analysis assumes that all other assumptions are held constant.

Millions of yen

	As of March 31, 2020	As of March 31, 2021
USD	(276)	(134)
EUR	0	(6)
CNY	(110)	(110)
GBP	(64)	(36)
TWD	(191)	(166)

2) Market Price Fluctuation Risk

The Group holds bonds and the equity instruments of business partners, and is therefore exposed to the risk of market price fluctuations. The Group manages the fair value and financial status of issuers (business partners) on a regular basis, and continuously reviews the status of equity holdings.

(6) Fair Values of Financial Instruments

1) Comparison between Fair Value and Carrying Amount

Millions of yen

	As of March 31, 2020		As of March 31, 2021	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Financial instruments measured at amortized cost:				
Debt securities (non-current)	12,555	13,125	8,559	8,981

The fair value of debt securities (non-current) is mainly determined by quoted market price or price offered by financial institutions. The fair value of financial assets and financial liabilities other than the above approximates carrying amount.

2) Fair Value Hierarchy

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

Level 1: Fair value measured at quoted market prices in an active market without adjustment;

Level 2: Fair value measured at directly or indirectly observable prices other than the quoted prices included in Level 1;

Level 3: Fair value measured using valuation techniques that include unobservable inputs

Transfers between levels are recognized on the date when the event or change in circumstances that caused the transfer occurred.

(i) As of April 1, 2020

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at amortized costs:				
Debt securities (non-current)	12,581	–	544	13,125
Financial assets measured at fair value through profit or loss:				
Derivative assets	–	6,670	–	6,670
Other	1,947	–	1,465	3,413
Subtotal	1,947	6,670	1,465	10,084
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	36,387	–	148,727	185,114
Other	–	–	1,196	1,196
Subtotal	36,387	–	149,924	186,311
Total	50,916	6,670	151,934	209,521
Financial Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	–	452	–	452
Total	–	452	–	452

(ii) As of March 31, 2021

Millions of yen

	Level 1	Level 2	Level 3	Total
Financial Assets				
Financial assets measured at amortized costs:				
Debt securities (non-current)	8,428	–	553	8,981
Financial assets measured at fair value through profit or loss:				
Derivative assets	–	–	–	–
Other	142	–	1,924	2,067
Subtotal	142	–	1,924	2,067
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	43,061	–	161,229	204,291
Other	–	–	801	801
Subtotal	43,061	–	162,030	205,092
Total	51,633	–	164,509	216,142
Financial Liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	–	6,014	–	6,014
Contingent consideration	–	–	720	720
Total	–	6,014	720	6,734

Notes:

1. Level 1 financial assets include interest-bearing government bonds and listed shares.
2. Level 2 financial assets and financial liabilities are derivative financial assets and derivative financial liabilities such as forward foreign exchange contracts. Fair values of these financial assets and liabilities are calculated based on the prices offered by financial institutions.
3. Level 3 financial assets are mainly unlisted shares and investments. Fair values of these assets are calculated using valuation techniques based on net asset value, discounted future cash flows or other valuation techniques. Fair value is calculated after a responsible person(s) determines the valuation technique that can appropriately reflect the risk, characteristics, and nature of the asset in accordance with the relevant internal regulations or using an external valuation expert. Unobservable inputs such as future cash flows and discount rates, etc. are used to measure fair value. The weighted-average cost of capital is utilized to measure fair value based on discounted future cash flows; it was 8.0% to 13.1% for the year ended March 31, 2020 and 7.2% to 12.4% for the year ended March 31, 2021. Fair value decreases or increases when the weighted-average cost of capital increases or decreases.

   The effects on fair value as of March 31, 2020 and 2021 when the weighted-average cost of capital is increased or decreased by 1% are as follows:

Millions of yen

	Weighted-average Cost of Capital	
	+1%	-1%
As of March 31, 2020	(4,667)	4,933
As of March 31, 2021	(4,413)	4,869

4. The contingent consideration is a milestone payments based on the status of research and development at the acquired company, and its fair value is calculated in consideration of the possibility of success of the research and development and the time value of money. Fair value increases when research and development, a significant non-observable input, is more likely to succeed.

3) Reconciliation of Level 3 Financial Instruments at the Beginning and End of the Reporting Period

A reconciliation of fair value at the beginning and end of the reporting period of financial instruments classified as Level 3 in the fair value hierarchy is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Balance at beginning of period	218,558	151,390
Total gain or loss:		
Profit (loss)	20	(47)
Other comprehensive income (loss)	(68,085)	10,515
Purchases	1,780	506
Sales	(3)	(9)
Transfers from Level 3	(800)	(299)
Other	(81)	1,900
Balance at end of period	151,390	163,955

Changes in unrealized gains and losses recognized in profit or loss for assets held at the end of reporting period	20	(47)

Notes:

1. Net gain or loss included in total gain or loss is included in "Finance income" and "Finance costs" in the consolidated statement of profit or loss.
2. Other comprehensive income included in total gain or loss is included in "Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income" and "Exchange differences on translation of foreign operations".
3. Transfers from Level 3 are due to the listing of the shares held.

(7) Derivatives and Hedge Accounting

The Company uses forward foreign exchange contracts and currency option contracts to hedge foreign exchange fluctuation risk associated with monetary claims and forecasted transactions denominated in foreign currencies. The maximum period for which cash flow fluctuations due to foreign exchange fluctuation risk are hedged is approximately 14 months.

Regarding derivative transactions, the Company enters into forward foreign exchange contracts and currency option contracts within the normal scope of transactions in accordance with internal procedures. The Finance & Accounting Department conducts the transactions, and regularly reports results to the Board of Directors meeting to manage transaction information. Consolidated subsidiaries do not engage in derivative transactions.

When applying hedge accounting, in principle, the Company confirms the existence of an economic relationship between the hedged item and the hedging instrument, through qualitative assessment of whether significant terms and conditions of the hedged item match or conform closely to those of the hedging instrument, in order to ensure that the hedged item and the hedging instrument have an economic relationship in which changes in the fair value or cash flows of the hedged item that is attributable to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. The Company performs highly effective hedging, and therefore generally expects that no significant ineffective portion should arise.
In addition, the Company sets an appropriate hedging ratio in light of the economic relationship between the hedging instrument and the hedged item and the risk management strategy.

1) Effect of Hedge Accounting on the Consolidated Statement of Financial Position

Significant derivatives designated as hedging instruments as of March 31, 2020 and 2021 are as follows:

(i) As of March 31, 2020

Hedged Risk	Hedging Instrument	Contract Amount (Total)	Expected Rate (Average)	Carrying Amount (Millions of yen)	
				Derivative Assets	Derivative Liabilities
Foreign Exchange Rate Fluctuation Risk	Forward Foreign Exchange Contracts:				
	USD sell/JPY buy	USD 134,000 thousand	JPY 110.1/USD	370	57
	GBP sell/JPY buy	GBP 450,000 thousand	JPY 145.8/GBP	6,300	394
	Total			6,670	452

(ii) As of March 31, 2021

Hedged Risk	Hedging Instrument	Contract Amount (Total)	Expected Rate (Average)	Carrying Amount (Millions of yen)	
				Derivative Assets	Derivative Liabilities
Foreign Exchange Rate Fluctuation Risk	Forward Foreign Exchange Contracts:				
	GBP sell/JPY buy	GBP 795,000 thousand	JPY 144.3/GBP	–	6,014
	Total			–	6,014

Derivative assets and derivative liabilities are included in “Other financial assets” or “Other financial liabilities”, respectively, in the consolidated statement of financial position.
“Effective portion of cash flow hedges” related to ongoing hedging as of March 31, 2020 and 2021 is as follows:

Millions of yen

Hedged Risk	As of March 31, 2020	As of March 31, 2021
Foreign Exchange Rate Fluctuation Risk	3,086	(2,741)

Information on changes in fair value of hedged items and hedging instruments used as the basis for recognition of the ineffective portion of hedges has been omitted because the amounts of the ineffective portion of hedges recognized in profit or loss for the years ended March 31, 2020 and 2021 were not material.

2) Effect of Hedge Accounting on the Consolidated Statement of Profit or Loss and the Consolidated Statement of Comprehensive Income

The effects of applying hedge accounting on profit or loss and other comprehensive income for the years ended March 31, 2020 and 2021 are as follows. The amounts of the ineffective portion of hedges recognized in profit or loss for the years ended March 31, 2020 and 2021 were not material.

(i) Year ended March 31, 2020

Millions of yen

Hedged Risk	Gain (Loss) Recognized in Other Comprehensive Income	Reclassification Adjustments from Other Components of Equity into Profit or Loss	Line Item of the Consolidated Statements of Profit or Loss for Reclassification Adjustments
Foreign Exchange Rate Fluctuation Risk	12,002	(8,436)	Revenue and Foreign exchange gain (loss)

(ii) Year ended March 31, 2021

Millions of yen

Hedged Risk	Gain (Loss) Recognized in Other Comprehensive Income	Reclassification Adjustments from Other Components of Equity into Profit or Loss	Line Item of the Consolidated Statements of Profit or Loss for Reclassification Adjustments
Foreign Exchange Rate Fluctuation Risk	(8,896)	498	Revenue and Foreign exchange gain (loss)

(8) Movement of Liabilities Arising from Financing Activities

The movement of liabilities arising from financing activities is as follows:

Millions of yen

	Bonds	Lease liabilities	Total
As of March 31, 2019	918	9,313	10,231
Cash flows from financing activities			
Repayments of lease liabilities	–	(3,544)	(3,544)
Other	(30)	–	(30)
Changes in non-cash items:			
New leases	–	2,506	2,506
Cancellation of leases	–	(23)	(23)
Conversion of bonds with share acquisition rights	(889)	–	(889)
Other	1	(99)	(97)
As of March 31, 2020	–	8,153	8,153
Cash flows from financing activities			
Repayments of lease liabilities	–	(3,648)	(3,648)
Changes in non-cash items:			
New leases	–	3,905	3,905
Cancellation of leases	–	(445)	(445)
Other	–	23	23
As of March 31, 2021	–	7,988	7,988

31. Principal Subsidiaries

(1) Principal subsidiaries

Principal subsidiaries of the Company as of March 31, 2021 are as follows:

No non-controlling interests in a company are material to the Company.

Company name	Location	Main business status	Ownership (%)
Shionogi Pharma Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Healthcare Co., Ltd.	Osaka, Japan	Pharmaceuticals	51
Shionogi Techno Advance Research Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Administration Service Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Career Development Center Co., Ltd.	Hyogo, Japan	Pharmaceuticals	100
Shionogi Digital Science Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Business Partner Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Pharmacovigilance Center Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
Shionogi Marketing Solutions Co., Ltd.	Osaka, Japan	Pharmaceuticals	100
UMN Pharma Inc.	Akita, Japan	Pharmaceuticals	100
Nagase Medicals Co., Ltd.	Hyogo, Japan	Pharmaceuticals	100
Shionogi Inc.	New Jersey, U.S.A.	Pharmaceuticals	100
Tetra Therapeutics Inc.	Michigan, U.S.A.	Pharmaceuticals	100
Shionogi B.V.	Amsterdam, Netherlands	Pharmaceuticals	100
C&O Pharmaceutical Technology (Holdings) Ltd.	Shenzhen, China	Pharmaceuticals	100
Taiwan Shionogi & Co., Ltd.	Taipei, Taiwan, R.O.C.	Pharmaceuticals	100
Beijing Shionogi Pharmaceutical Technology Limited	Beijing, China	Pharmaceuticals	100
Ping An-Shionogi (Hong Kong) Limited	Hong Kong China	Pharmaceuticals	51
Ping An-Shionogi Co., Ltd.	Shanghai, China	Pharmaceuticals	51

(2) Changes in the ownership interest of the parent company in the subsidiary that does not result in loss of control

On January 29, 2021, the Company transferred the shares of Shionogi Healthcare Co., Ltd. to Ping An-Shionogi (Hong Kong) Co., Ltd. Also, on March 31, 2021, the shares of the operating companies owned by C&O Pharmaceutical Technology (Holdings) Ltd. were transferred to Ping An-Shionogi Co., Ltd. As a result, non-controlling interests increased by ¥7,593 million and capital surplus decreased by the same amount.

32. Related Parties

(1) Transactions with Related Parties

Transactions, payables and receivables with related parties have been omitted because they were not material in the years ended March 31, 2020 and 2021.

(2) Remuneration for Key Management Personnel

Remuneration for key management personnel is as follows:

Millions of yen

	Year ended March 31, 2020	Year ended March 31, 2021
Basic remuneration	374	331
Bonuses	51	60
Share-based remuneration	104	207
Total	529	599

33. Business Combinations

Year ended March 31, 2020

(Acquisition through Business Combination)

UMN Pharma Inc. (Acquisition as a subsidiary)

(1) Outline of Business Combination

1) Name and Business Description of Acquiree

Name of acquiree: UMN Pharma Inc. (hereinafter “UMN Pharma”)

Business description: Research, development, manufacturing and marketing of biopharmaceuticals

2) Primary Reasons for Business Combination

The Company believes that it is essential to further develop infectious diseases as the Company’s focus area in order to deal with the rapid changes in the market environment, to win in the global new drug development race, and to achieve medium- and long-term growth. The Company and UMN Pharma entered into a capital and business alliance agreement on October 31, 2017 (hereinafter the “Capital and Business Alliance Agreement”) and have aimed to improve their corporate value by jointly conducting R&D, the filing of applications for approval, and marketing of drugs for human use, including human infectious disease vaccines, using the UMN Pharma’s knowledge, know-how, and technologies on vaccines against infectious disease. As basic technology improvement and basic research on development candidates related to the Capital and Business Alliance had been positive, the Company and UMN Pharma had started discussions on selecting products for development out of the development candidates for human infectious disease vaccines and began further development and business activities after non-clinical study since July 2019. In such circumstances, the Company concluded that it is essential for it and UMN Pharma to revitalize the project and improve efficiencies by consolidating both companies’ R&D, manufacturing and marketing systems instead of forming a business alliance for each development candidate in order to ensure prompt decision-making and flexible and active investment of management resources.

3) Acquisition Date

December 19, 2019

4) Method of Obtaining Control of Acquiree

The Company acquired shares in exchange for cash consideration.

5) Percentage of Voting Equity Interest Acquired

Voting equity interests prior to the acquisition:	31.08%
Additional voting equity interests acquired at the acquisition date:	52.43%
Percentage of equity voting interests after the acquisition:	83.51%

(2) Fair Value of Purchase Consideration for the Acquisition

Fair value of equity interests in acquiree held by the Company immediately prior to the acquisition date:	¥2,970 million
Fair value of additional equity interests in acquiree acquired on the acquisition date:	¥5,010 million
Consideration for the acquisition:	¥7,980 million

Acquisition-related costs of ¥243 million are included in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

(3) Gain from Remeasurement Due to Business Combination

Gain on step acquisition of ¥1,331 million was recognized in "Other income" in the consolidated statement of profit or loss as a result of remeasurement of equity interests in the acquiree held by the Company immediately prior to the acquisition date.

(4) Fair Value of Purchase Consideration, Assets Acquired and Liabilities Assumed at Acquisition Date

Millions of yen

Fair value of purchase consideration	7,980
Fair value of assets acquired and liabilities assumed:	
Property, plant and equipment	80
Intangible assets (Note 2)	5,169
Inventories	42
Cash and cash equivalents	484
Other assets	52
Deferred tax liabilities	(1,576)
Other liabilities	(113)
Fair value of assets acquired and liabilities assumed, net	4,139
Non-controlling interests	(682)
Goodwill (Note 3)	4,523
Total	7,980

Notes:

1. During the fiscal year ended March 31, 2021, the initial provisional amount has been retrospectively revised due to the completion of the purchase price allocation. As a result, on the acquisition date, intangible assets increased by ¥5,169 million, deferred tax liabilities increased by ¥1,576 million, and goodwill decreased by ¥3,000 million.
2. Intangible assets are in-process research and development associated with products.
3. Goodwill mainly has arisen in connection with expected future profitability. None of the recognized goodwill is expected to be deductible for tax purposes.
4. Non-controlling interests are measured as the share of non-controlling interests in the fair value of the identifiable net assets of the acquiree.

(5) Cash Flow Resulting from Acquisition

Cash consideration:	¥5,010 million
Cash and cash equivalents received at acquisition date:	¥484 million
Purchase of shares of subsidiaries resulting in change in scope of consolidation:	¥4,525 million

(6) Impact on Financial Results

Profit or loss information related to the business combination after the acquisition date and profit or loss information assuming that the business combination took place at the beginning of the reporting period are omitted because the impact on the consolidated statement of profit or loss is not material. Profit or loss information assuming the business combination took place at the beginning of the reporting period has not been audited by the Company's independent auditor.

The extraordinary meeting of shareholders held on February 14, 2020 approved a share consolidation and the acquiree became a wholly owned subsidiary on March 18, 2020. On June 15, 2020, the Company acquired total fractional shares of less than one voting unit arising from the share consolidation.

Year ended March 31, 2021

(Acquisition through Business Combination)

Tetra Therapeutics Inc. (Acquisition as a subsidiary)

On May 26, 2020, the Company acquired additional shares of Tetra Therapeutics Inc. (hereinafter "Tetra"), making Tetra a wholly owned subsidiary.

(1) Outline of Business Combination

1) Name and Business Description of Acquiree

Name of acquiree: Tetra Therapeutics Inc.（Official name: Tetra Discovery Partners Inc.）

Business description: Research and development of pharmaceutical products

2) Primary Reasons for Business Combination

The Company and Tetra entered into a collaboration agreement, granting Shionogi rights to BPN14770, a drug candidate for the treatment of brain disorders associated with cognitive and memory deficits, and made an investment agreement in December 2018, and have been collaborating in research and development of this compound. Tetra has completed a Phase II study in Alzheimer's disease patients in the United States of America. Although the results of the Phase II study did not achieve the primary goal, the Company decided that continued development is warranted, and therefore acquired all the shares of Tetra and made it a wholly owned subsidiary.

3) Acquisition Date

May 26, 2020

4) Method of Obtaining Control of Acquiree

The Company acquired shares in exchange for upfront payments and milestone payments consideration.

5) Percentage of Voting Equity Interest Acquired

Voting equity interests immediately prior to the acquisition:	50.00%
Additional voting equity interests acquired at the acquisition date:	50.00%
Percentage of equity voting interests after the acquisition:	100.00%

(2) Fair Value of Purchase Consideration for the Acquisition

Fair value of equity interests in acquiree held by the Company immediately prior to the acquisition date:	¥11,152 million
Cash consideration for the acquisition of additional equity interests in acquiree acquired on the acquisition date:	¥10,290 million
Fair value of contingent consideration included in purchase consideration on the acquisition date:	¥698 million
Consideration for the acquisition:	¥22,141 million

(3) Contingent Consideration

The contingent consideration is a milestone to be paid depending on the achievement status of future development, etc. Maximum potential future cash outflows associated with the contingent consideration total U.S. $380 million.

(4) Acquisition-related Costs

The cost directly required for acquisition was ¥219 million, which was recorded in "Selling, general and administrative expenses" in the consolidated statement of profit or loss for the years ended March 31, 2020 and 2021.

(5) Gain on Step Acquisition
Gain on step acquisition of ¥2,958 million was recognized in "Other income" in the consolidated statement of profit or loss as a result of remeasurement of equity interests in Tetra held by the Company immediately prior to the acquisition date.

(6) Fair Value of Purchase Consideration, Assets Acquired and Liabilities Assumed at Acquisition Date

Millions of yen

	Provisional fair value	Adjustment	Adjusted fair value
Fair Value of Purchase Consideration for the Acquisition	18,485	3,656	22,141
Fair value of assets acquired and liabilities assumed:			
Intangible assets (Note 2)	–	26,247	26,247
Other non-current assets	58	–	58
Other current assets	282	–	282
Cash and cash equivalents	1,754	–	1,754
Deferred tax liabilities	–	(6,163)	(6,163)
Other liabilities	(193)	–	(193)
Fair value (net) of acquired assets and underwritten liabilities	1,902	20,083	21,985
Goodwill (Note 3)	16,582	(16,426)	155
Total	18,485	3,656	22,141

Notes:
1. The fair value of identifiable assets and liabilities on the acquisition date has been calculated and the purchase price allocation has been completed as of March 31, 2021.
2. Intangible assets are in-process research and development associated with products.
3. Goodwill mainly has arisen in connection with expected future profitability. None of the recognized goodwill is expected to be deductible for tax purposes.

(7) Cash Flow Resulting from Acquisition

Cash consideration:	¥10,290 million
Cash and cash equivalents received at acquisition date:	¥1,754 million
Payments for acquisition of subsidiaries:	¥8,536 million

(Note) Expenditures of ¥5,315 million and ¥3,221 million were recorded in the years ended March 31, 2020 and 2021, respectively

(8) Impact on Financial Results
Profit or loss information related to the business combination after the acquisition date and profit or loss information assuming that the business combination took place at the beginning of the reporting period are omitted because the impact on the consolidated statement of profit or loss is not material. Profit or loss information assuming the business combination took place at the beginning of the reporting period has not been audited by the Company's independent auditor.

Nagase Medicals Co., Ltd. (Acquisition as a subsidiary of Shionogi Pharma Co., Ltd.)
On October 1, 2020, Shionogi Pharma Co., Ltd. (hereinafter "Shionogi Pharma"), a wholly owned subsidiary of the Company, acquired 100% of shares of Nagase Medicals Co., Ltd. (hereinafter "Nagase Medicals"), which manufactures pharmaceutical products.
(1) Outline of Business Combination
1) Name and Business Description of Acquiree
Name of acquiree: Nagase Medicals Co., Ltd.
Business description: Manufacturing of pharmaceutical products

2) Primary Reasons for Business Combination

Shionogi Pharma aims to become the world's most trusted CDMO (Contract Development and Manufacturing Organization) operator, and will promote further CDMO business in the future by mutually utilizing the manufacturing capabilities and know-how possessed by Nagase Medicals. As a result, this is to become a leading company in CDMO.

3) Acquisition Date

October 1, 2020

4) Method of Obtaining Control of Acquiree

Shionogi Pharma acquired shares in exchange for cash consideration

5) Percentage of Voting Equity Interest Acquired

100.00%

(2) Fair Value of Purchase Consideration for the Acquisition

Cash and cash equivalents ¥415 million

In addition to cash payments as consideration for acquisition, Shionogi Pharma has provided a cash loan of ¥4,014 million to the company as a source of funds for repayment of Nagase Medicals's debt.

(3) Acquisition-related Costs

The cost directly required for acquisition was ¥111 million, which was recorded in "Selling, general and administrative expenses" in the consolidated statement of profit or loss.

(4) Fair Value of Purchase Consideration, Assets Acquired and Liabilities Assumed at Acquisition Date

Millions of yen

Fair value of purchase consideration	415
Fair value of assets acquired and liabilities assumed:	
Property, plant and equipment	1,779
Inventories	698
Trade receivables	1,192
Other assets	625
Corporate bonds and borrowings (current)	(4,014)
Trade payables	(194)
Other financial liabilities	(581)
Other liabilities	(603)
Fair value of assets acquired and liabilities assumed, net	(1,099)
Goodwill (Note 2)	1,514
Total	415

Notes:

1. The fair value of identifiable assets and liabilities on the acquisition date has been calculated and the purchase price allocation has been completed as of March 31, 2021.
2. Goodwill mainly has arisen in connection with expected future profitability. None of the recognized goodwill is expected to be deductible for tax purposes.

(5) Cash Flow Resulting from Acquisition

Cash consideration:	¥415 million
Cash and cash equivalents received at acquisition date:	¥0 million
Payments for acquisition subsidiaries:	¥414 million

In addition to the above, Shionogi Pharma has provided a cash loan of ¥4,014 million to the acquired company as a source of debt repayment. The loan is included in “Other” of “Cash flows from investing activities” in the consolidated statement of cash flows. The acquired company pays its liabilities using the loan as a source of repayment.

(6) Impact on Financial Results

Profit or loss information related to the business combination after the acquisition date and profit or loss information assuming that the business combination took place at the beginning of the reporting period are omitted because the impact on the consolidated statement of profit or loss is not material. Profit or loss information assuming the business combination took place at the beginning of the reporting period has not been audited by the Company’s independent auditor.

34. Subsequent Events

(Final and Binding Judgment of the Litigation)

The Company filed a complaint for a rescission of the reassessment included in “Notification of Reassessment of Income Tax, etc., and Notification of Assessment and Determination of Additional Tax” for the fiscal year ended March 31, 2013, received from the Director of the Osaka Regional Taxation Bureau on September 12, 2014, and had contested the claim in the Tokyo High Court. On April 14, 2021, the Tokyo High Court handed down its judgment to accept the Company's claim almost entirely, and because neither a final appeal nor a petition for acceptance of final appeal has been field by the government by April 28, 2021, the end of the final appeal period for the judgment, the judgement has become final and binding.

As a result of this judgment, approximately ¥13.3 billion (including local taxes) is expected to be refunded, which is the sum of the additional back-taxes related to the tax reassessment notice for the fiscal year ended March 31, 2013 and additional income taxes paid for the fiscal year ended March 31, 2014 corresponding to the decrease in the amount of tax loss carryforwards due to the tax reassessment notice above.