

Consolidated Financial Results for the First Quarter of the Fiscal Year Ending December 31, 2022 [IFRS]

May 13, 2022

Company name : **Otsuka Holdings Co., Ltd.**
 Stock exchange listing : Tokyo Stock Exchange
 Code number : 4578
 URL : <https://www.otsuka.com/en/>
 Representative : Tatsuo Higuchi
 President and Representative Director, CEO
 Contact : Yuji Kogure
 Director, Investor Relations Department
 Telephone: +81-3-6361-7411
 Scheduled date of quarterly securities report submission : May 13, 2022
 Scheduled date of dividend payment commencement : –
 Supplementary materials for quarterly financial results : Yes
 Earnings announcement for quarterly financial results : Yes (for institutional investors, analysts and the press)

(Figures are rounded down to the nearest million unless otherwise stated)

1. Consolidated Financial Results for the First Quarter of the Year Ending December 31, 2022 (January 1, 2022 to March 31, 2022)

(1) Consolidated Operating Results (cumulative)

(% indicates percentage of change from the same period of the previous fiscal year)

	Revenue		Business profit		Operating profit		Profit for the period		Profit attributable to owners of the Company		Total comprehensive income for the period	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2022 Q1	380,308	12.9	42,467	(13.2)	20,749	(58.6)	24,184	(47.1)	23,255	(48.0)	86,686	(15.4)
FY2021 Q1	336,789	(0.8)	48,907	(3.1)	50,092	(7.1)	45,735	18.7	44,682	18.5	102,474	–

* Business profit is an indicator of ordinary earnings power calculated as follows:

Revenue – Cost of sales – Selling, general and administrative expenses – Research and development expenses + Share of profit of investments accounted for using the equity method

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2022 Q1	42.87	42.71
FY2021 Q1	82.38	81.61

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity attributable to owners of the Company per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of March 31, 2022	2,886,028	2,103,931	2,069,078	71.7	3,814.72
As of December 31, 2021	2,820,915	2,045,189	2,010,994	71.3	3,707.64

2. Dividends

	Annual dividend per share				
	First Quarter end	Second Quarter end	Third Quarter end	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2021	–	50.00	–	50.00	100.00
FY2022	–	–	–	–	–
FY2022 (forecast)	–	50.00	–	50.00	100.00

* Revisions to dividends forecast most recently announced: None

3. Forecast of Consolidated Operating Results for the Year Ending December 31, 2022 (January 1, 2022 to December 31, 2022)
 (% indicates percentage of change from the previous fiscal year)

	Revenue		Business profit		Operating profit		Profit for the year		Profit attributable to owners of the Company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Q2 (YTD)	767,000	6.7	111,000	6.5	112,500	1.2	87,500	(6.6)	86,000	(5.9)	158.55
FY2022	1,550,000	3.5	190,000	20.9	192,000	24.3	149,000	15.3	146,000	16.4	269.17

* Revisions to financial forecast most recently announced: None

4. Others

- (1) Changes in significant subsidiaries during the three-month period ended March 31, 2022 (changes in specified subsidiaries resulting in a change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
- 1) Changes in accounting policies required by IFRS: None
 - 2) Changes in accounting policies due to other reasons: None
 - 3) Changes in accounting estimates: None
- (3) Number of shares issued and outstanding (common stock)
- 1) Number of shares issued and outstanding as of the end of the reporting period (including treasury shares):

March 31, 2022	557,835,617 shares
December 31, 2021	557,835,617 shares
 - 2) Number of shares of treasury shares as of the end of the reporting period:

March 31, 2022	15,443,722 shares
December 31, 2021	15,443,722 shares
 - 3) Average number of shares outstanding during the reporting period:

Three-month period ended March 31, 2022	542,391,895 shares
Three-month period ended March 31, 2021	542,334,793 shares

* This report is out of scope of reviews by the external auditor.

*** Note to ensure appropriate use of forecasts, and other comments in particular**

Forecasts and other forward-looking statements included in this report are based on information currently available and certain assumptions that Otsuka Holdings Co., Ltd. (hereinafter referred to as the "Company") deems reasonable. Actual performance and other results may differ significantly due to various factors. Please refer to "1. Qualitative Information (3) Forecast for Consolidated Operating Results" on page 8 for details with regard to the assumptions and other matters concerning the financial forecast.

The Company plans to hold an earnings release conference call for institutional investors, analysts and the press on May 13, 2022. Presentation materials and the webcast of the call will be available on the Company's website promptly after the call.

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1. Qualitative Information

(1) Consolidated Operating Results

The forward-looking statements in this report were prepared based on information available as of March 31, 2022.

Summary of operating results for the three-month period ended March 31, 2022

The Company and its subsidiaries (hereinafter referred to as the “Group”) adopted “Business profit” as an indicator of ordinary earnings power, which is calculated as follows:

Revenue – Cost of sales – Selling, general and administrative expenses – Research and development expenses + Share of profit of investments accounted for using the equity method

(Millions of yen)

	Three-month period ended March 31, 2021	Three-month period ended March 31, 2022	Change	% Change
Revenue	336,789	380,308	43,519	12.9 %
Business profit before research and development expenses	97,511	101,815	4,304	4.4 %
Business profit	48,907	42,467	(6,439)	(13.2) %
Operating profit	50,092	20,749	(29,343)	(58.6) %
Profit before tax	58,001	30,985	(27,016)	(46.6) %
Profit for the period	45,735	24,184	(21,550)	(47.1) %
Profit attributable to owners of the Company	44,682	23,255	(21,426)	(48.0) %
Research and development expenses	48,603	59,347	10,743	22.1 %
Impairment losses	51	23,831	23,780	–

Based on the concept of total health care, the Group has been promoting corporate activities to maintain and promote health and to diagnose and treat disease. To respond to social issues brought about by a highly uncertain world amid a changing social environment due to the impact of the spread of COVID-19, geopolitical risks, etc., the Group will incorporate new technologies and needs arising from changes in the environment and harness the opportunities presented by a growing awareness of health in order to demonstrate the Group’s true value as a total healthcare company, especially now, and continue to move toward the realization of sustainable growth.

For the three-month period ended March 31, 2022, the Group recorded consolidated revenue of ¥380,308 million (up 12.9% over the same period of the previous fiscal year) as revenue grew steadily in the pharmaceutical business, which includes the four global products (the long acting antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI/RXULTI*, the V₂-receptor antagonist *JINARC/JYNARQUE* and the anti-cancer agent *LONSURF*), nutraceutical business, consumer product business and other businesses. In the pharmaceutical business, business performance was driven by sales growth of the four global products and clinical nutrition. In the nutraceutical business, revenue increased due to a recovery in sales of *POCARI SWEAT*, and growth in sales of *Nature Made*, *EQUELLE*, etc. in line with a rising awareness toward self-management of health.

However, as a result of an increase in co-promotion expenses accompanying sales growth of *ABILIFY MAINTENA* and *REXULTI/RXULTI*, an increase in selling, general and administrative expenses due to the impact of exchange rate fluctuations, etc., and a decrease in share of profit of investments accounted for using the equity method, business profit before research and development expenses was ¥101,815 million (up 4.4%).

Moreover, mainly due to an increase in development expenses based on a collaboration and license agreement executed with Sumitomo Pharma Co., Ltd. and Sunovion Pharmaceuticals Inc. for joint development and commercialization related to antipsychotic agent with a novel mechanism of action, an increase in development expenses related to centanafadine due to the launch of a new clinical trial for the treatment of attention-deficit hyperactivity disorder (ADHD) in pediatric patients and binge-eating disorder, and an increase in development expenses for sibeprenlimab/VIS649 under development for the treatment of IgA nephropathy, as well as the impact of exchange rate fluctuations, research and development expenses totaled ¥59,347 million (up 22.1%). As a result, although business profit was ¥42,467 million (down 13.2%), the results were solid compared to the forecast if the impact of exchange rate fluctuations is excluded.

Due to recording impairment losses of ¥23,831 million related to vadadustat and others, the Group recorded operating profit of ¥20,749 million (down 58.6%), profit for the period of ¥24,184 million (down 47.1%), and profit attributable to owners of the Company of ¥23,255 million (down 48.0%).

Revenue and business profit by business segment during FY2022 Q1

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Revenue	252,058	90,340	7,673	39,048	(8,813)	380,308
Business profit (loss)	40,819	11,175	(234)	2,432	(11,725)	42,467

Reference (FY2021 Q1)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Revenue	225,322	76,854	6,830	35,871	(8,090)	336,789
Business profit	44,696	9,010	2,143	4,045	(10,988)	48,907

1) Pharmaceuticals

Revenue for the three-month period ended March 31, 2022 totaled ¥252,058 million (up 11.9%), with business profit of ¥40,819 million (down 8.7%).

Main products

• Four global products

The Company positions the long acting antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI*^{*1}/*RXULTI*^{*2}, the V₂-receptor antagonist *Samsca*/*JINARC*^{*3}/*JYNARQUE*^{*4} and the anti-cancer agent *LONSURF* as its four global products. Sales of those products totaled ¥135,602 million (up 18.0%).

*1: Brand name for the antipsychotic agent outside Japan and Europe

*2: Brand name for the antipsychotic agent in Europe

*3: Brand name for autosomal dominant polycystic kidney disease (“ADPKD”) treatment in multiple regions outside Japan

*4: Brand name for ADPKD treatment in the U.S.

• Long acting antipsychotic agent *ABILIFY MAINTENA*

In the U.S., sales increased atop growth in prescriptions, mainly due to promoting the efficacy of the product for bipolar disorder and schizophrenia patients, who have problems adhering to drug regimens, as well as an increase in face-to-face detailing activities. In Japan, sales were solid mainly due to the addition of an indication for the suppression of recurrence and relapse of mood episodes in bipolar I disorder in September 2020. Also in Europe, sales increased, particularly in major markets. As a result, sales of *ABILIFY MAINTENA* totaled ¥35,801 million (up 16.0%).

• Antipsychotic agent *REXULTI/RXULTI*

In the U.S., where antipsychotic agent *REXULTI* is sold as adjunctive therapy in major depressive disorder and a treatment for schizophrenia, prescriptions grew and sales increased, mainly due to the use of direct-to-consumer advertising, and an increase in face-to-face detailing activities. In Japan, sales were solid with the launch of orally disintegrating tablets in November 2021, increasing convenience, and stronger information provision activities. As a result, sales of *REXULTI/RXULTI* totaled ¥34,254 million (up 21.9%).

• V₂-receptor antagonist *Samsca*

In Japan, where the drug is sold as treatment for fluid retention in patients with heart failure and hepatic cirrhosis, ADPKD and another condition, sales increased due to online detailing activities such as web seminars. In the U.S., where the drug is sold as a treatment for hyponatremia, and in Europe, where the drug is sold as a treatment for hyponatremia caused by syndrome of inappropriate antidiuretic hormone secretion (SIADH), generics were launched after the expiry of the exclusive sales period. As a result, sales of *Samsca* totaled ¥23,098 million (up 11.1%).

• V₂-receptor antagonist *JINARC/JYNARQUE*

In the U.S., the number of prescriptions for ADPKD increased mainly due to continued efforts to raise awareness of the disease and provide information about clinical data. As a result, sales of *JINARC/JYNARQUE* totaled ¥28,899 million (up 20.9%).

• Anti-cancer agent *LONSURF*

In the U.S., sales increased since at-home care and the use of oral anti-cancer agents are recommended due to the spread of COVID-19^{*5}. Prescriptions continued to be robust in Japan and Europe. As a result, sales of *LONSURF* totaled ¥13,548 million (up 20.3%).

*5: Pelin Cinar et al., Safety at the Time of the COVID-19 Pandemic: How to Keep our Oncology Patients and Healthcare Workers Safe. *J Natl Compr Canc Netw*, 2020 Apr 15;1-6.

*6: ASCO. COVID-19 Patient Care Information, Cancer Treatment and Supportive Care. <https://www.asco.org/covid-resources/patient-care-info/cancer-treatment-supportive-care> Updated 17 September 2021, Accessed 20 January 2022.

2) Nutraceuticals

Revenue for the three-month period ended March 31, 2022 totaled ¥90,340 million (up 17.5%), with business profit of ¥11,175 million (up 24.0%).

Main products

The Company positions *POCARI SWEAT*, *Nature Made* and the Nutrition & Santé SAS brand as its three major brands. Sales of those brands totaled ¥55,646 million (up 17.2%). Total sales of its three nurture brands, the Daiya Foods Inc. brand, *EQUELLE* and *BODY MAINTÉ*, were ¥7,073 million (up 3.9%).

• Three major brands

Sales of *POCARI SWEAT*, an electrolyte supplement drink, increased in Japan amid the continuing impact of the spread of COVID-19 due to rising awareness among consumers regarding health management in addition to increased recognition of the importance of hydration and replenishment of electrolytes and promotion of consumption in daily life at home, etc. Overseas, sales of *POCARI SWEAT* increased overall for the brand, as a result of conducting education about hydration and replenishment of electrolytes and developing markets in line with the culture and situation in each region.

Amid a more sophisticated awareness of physical conditioning among consumers accompanying the spread of COVID-19, consumers' trust in the brand and quality of *Nature Made* supplements by Pharmavite LLC is further rising, and sales increased.

Although sales decreased slightly for the Nutrition & Santé SAS brand, which sells health food products mainly in Europe, mainly due to stalled growth in the high value-added organic food market^{*7}, etc. accompanying a rapid rise in inflation in Europe and disruptions in product shipping, efforts are being made to expand e-commerce adapted to new lifestyles and carry out other measures.

*7: IRI Syndicated Retail Data, 2022 Jan-Mar

• Three nurture brands

Plant-based foods of the Daiya Foods Inc. brand in North America maintained the largest market share in the dairy alternative cheese market^{*8}, and the brand has been making positives moves, including new product launches and expansion of production facilities. Although sales declined slightly mainly due to the impact of disruptions in product shipping caused by the spread of COVID-19 and natural disasters, efforts were continued to enhance the product lineup by utilizing its original technology and expand distribution.

Sales of *EQUELLE*, a food and supplement brand containing equol that supports women's health and beauty, continued to grow steadily due to increased recognition of the product through the wide-ranging spread of information on the product. In addition, the Company conducted a nationwide survey of women regarding "working women's health consciousness." The survey results are available on our press release. (https://www.otsuka.co.jp/en/company/newsreleases/2022/20220308_1.html)

As for *BODY MAINTÉ*, a protective beverage brand containing the plant-based lactic-acid bacteria B240^{*9}, although sales declined, efforts were made to strengthen activities for increasing awareness of the product value and to promote increased recognition and consumption of the product.

*8: SPINS Satori, Total US- MULO & Natural Enhanced Channel, 12 Weeks ending 3/20/2022

*9: *Lactiplantibacillus pentosus* ONRICb0240: Strain isolated by Tokyo University of Agriculture, for which Otsuka Pharmaceutical has confirmed efficacy.

3) Consumer products

In mineral water products, sales volume performed solidly, primarily of 700-milliliter PET bottles of mainstay brand *CRYSTAL GEYSER*. However, sales volume declined slightly overall for the brand mainly due to a decrease in sales volume through e-commerce. Sales volume of *MATCH*, a carbonated vitamin drink, increased overall for the brand mainly due to the launch of the new products *MATCH Muscat* and *MATCH Jelly Pineapple Blend* and increased opportunities for activities by consumers. As a result, revenue for the three-month period ended March 31, 2022 totaled ¥7,673 million (up 12.3%), while business loss was ¥234 million (¥2,143 million at the same period of the previous fiscal year) due to the share of loss of investments accounted for using the equity method.

4) Others

Sales in the specialty chemical business increased due to continuing favorable market conditions and adjustments in selling prices to more appropriate levels. Sales in the fine chemical business increased significantly, mainly due to an increase in sales of antibiotic intermediates.

In the transportation and warehousing business, sales increased due to the capture of new external customers in line with the promotion of a "common distribution platform" and an increase in the handling volume.

As a result, although revenue for the three-month period ended March 31, 2022 totaled ¥39,048 million (up 8.9%), business profit was ¥2,432 million (down 39.9%) mainly due to the impact of rising raw material costs and transportation costs.

* Please refer to the Supplement Documents (FACT BOOK) for sales by product and other information.

<https://www.otsuka.com/en/ir/library/materials.html>

Impact of the situation involving Ukraine and Russia on business operations and operating results

The Group is deeply concerned about the current situation involving Ukraine and Russia (hereinafter referred to as "both countries"), and hopes for an early and peaceful resolution.

Regarding the impact on business operations and operating results for the three-month period ended March 31, 2022, the overall impact was limited despite some supply chain disruptions, impacts on clinical trials, etc.

Business sites

The Group does not have any business sites in both countries.

Sales

Although the anti-tuberculosis drug *Deltyba* and others are sold through business partners in both countries, the impact on business operations and operating results is limited. Under its corporate philosophy, "Otsuka-people creating new products for better health worldwide," the Group will carefully monitor the situation and intends to do its utmost to ensure that the supply of *Deltyba* and others is maintained so that patients who need the drugs can receive them.

Supply chains

Despite some disruptions in supply chains, including international transportation, the impact on business operations and operating results is limited as a result of switching to alternative raw materials, changing transportation routes and other measures.

Research and Development

There are some impacts on clinical trials, and plans to launch clinical trial facilities and register patients in both countries have been put on hold. In order to minimize delays in ongoing clinical trials, the Group is responding by changing to other areas, etc., and is currently examining the impact on the progress of development. The Group also intends to do its utmost so that the supply of investigational drugs to the subjects participating in the clinical trials can be maintained and appropriate follow-up can be conducted.

Going forward, in the event that the impact of this situation becomes prolonged or more serious, the Group assumes that there will be further increases in raw material prices, supply chain disruptions, impacts of exchange rate fluctuations, etc., and will monitor the impact on business operations and operating results.

Research and Development Activities

Research and development expenses for the three-month period ended March 31, 2022 totaled ¥59,347 million.

The primary areas of research and development as well as the status of new product development by segment were as follows:

Pharmaceuticals

The Group conducts research and development with a primary focus on the areas of psychiatry and neurology, and oncology. The Group also conducts research and development focusing on fields that are yet to be fully addressed such as cardiovascular, renal system, etc.

Research and development expenses in the pharmaceutical business for the three-month period ended March 31, 2022 were ¥56,184 million.

Research and development activities in the pharmaceutical business carried out for the three-month period ended March 31, 2022 are summarized below.

Category	Brand Name, (Generic name), Development Code	Status
Psychiatry and neurology	(centanafadine) EB-1020	<U.S.> • Phase II / III trial for the treatment of binge-eating disorder was initiated in February 2022.
	<i>REXULTI</i> (brexpiprazole) OPC-34712	<U.S.> • Development for the treatment of borderline personality disorder was halted due to development strategy.
Oncology	(futibatinib) TAS-120	<U.S.> • An application for the indication of cholangiocarcinoma was filed in March 2022.
	(zimberelimab + pimitespib) AB122 + TAS-116	<Japan> • Phase I trial for the treatment of solid tumors* ¹ was initiated in February 2022.
	<i>Arokaris</i> (fosnetupitant) Pro-NETU	<Japan> • Approval was granted for the indication of chemotherapy-induced nausea and vomiting in March 2022.
Cardiovascular and renal system	<i>Samtasu</i> (tolvaptan sodium phosphate) OPC-61815	<Japan> • Approval was granted for the indication of cardiac edema in March 2022.
	(vadadustat) AKB-6548	<U.S. and Europe> • Otsuka Pharmaceutical has decided to terminate its global license agreements with Akebia Therapeutics, Inc. on May 13, 2022. These licenses were signed in December 2016 for the U.S. and April 2017 for Europe and other regions.

*1: pimitespib combination cohort during the Phase I trial in Japan for zimberelimab

Nutraceuticals

In the nutraceutical business, the Group draws on its knowledge in the pharmaceutical business to constantly conduct research and development of world-class products centering on functional foods and beverages that support the maintenance and improvement of day-to-day well-being. In the *SOYJOY* brand of soy snack bars, which delivers a convenient way to consume the nutrition of whole soybeans, *SOYJOY Plant-Based* bars, a new series in the brand made with plant-based ingredients, were launched in two flavors (*White Chocolate & Lemon* and *Banana*) in March 2022. For the *Calorie Mate* brand of balanced nutrition food, *Calorie Mate BLOCK Vanilla* was launched in March 2022 as a new item.

In addition, *POCARI SWEAT**¹ in PET bottles made with 30% recycled PET resin*² was launched in the spring of 2022. Going forward, we will introduce this change to other items successively while proceeding with further technological development.

Research and development expenses in the nutraceutical business for the three-month period ended March 31, 2022 were ¥1,747 million.

*1: *POCARI SWEAT* 500 ml and 300 ml (including label-less bottles) manufactured at Otsuka Pharmaceutical's Fukuroi Factory and Takasaki Factory

*2: PET resin reproduced from collected PET bottles

Consumer products

In the consumer product business, the Group is engaged in the research and development of original and unique products in the field of food and beverage that are part of everyone's daily life. The Group is creating and proposing innovative products based on the themes of food and health, targeting businesses in retort foods, beverages, and plant-based foods, with the aim of solving various issues associated with the changing society, such as those involving health, the environment, population and the aging society.

Research and development expenses in the consumer product business for the three-month period ended March 31, 2022 were ¥148 million.

Others

In the other businesses, the Group is primarily engaged in the research and development of specialty chemical products and fine chemicals. The Group is focusing on organic and inorganic synthesis technologies and conducting research and development of new products centered on own technology as well as research and development of next-generation fields.

Research and development expenses in the other businesses for the three-month period ended March 31, 2022 were ¥1,266 million.

(2) Consolidated Financial Position

1) Assets, Liabilities and Equity

(Millions of yen)

	As of December 31, 2021	As of March 31, 2022	Change
Current assets	1,049,389	1,065,896	16,507
Non-current assets	1,771,526	1,820,131	48,605
Total assets	2,820,915	2,886,028	65,113
Current liabilities	467,910	474,167	6,257
Non-current liabilities	307,815	307,929	114
Total liabilities	775,725	782,097	6,372
Total equity	2,045,189	2,103,931	58,741

a. Assets

Total assets as of March 31, 2022 were ¥2,886,028 million, an increase of ¥65,113 million compared to ¥2,820,915 million as of December 31, 2021. Current assets increased by ¥16,507 million, and non-current assets increased by ¥48,605 million.

(Current Assets)

Current assets as of March 31, 2022 were ¥1,065,896 million, an increase of ¥16,507 million compared to ¥1,049,389 million as of December 31, 2021. This was mainly due to increases in cash and cash equivalents by ¥12,678 million, inventories by ¥15,990 million and other financial assets by ¥10,834 million, partially offset by a decrease in trade and other receivables by ¥27,140 million.

(Non-current Assets)

Non-current assets as of March 31, 2022 were ¥1,820,131 million, an increase of ¥48,605 million compared to ¥1,771,526 million as of December 31, 2021. This was mainly comprised of exchange rate fluctuations that increased goodwill by ¥18,188 million, intangible assets by ¥8,734 million and investments accounted for using the equity method by ¥13,754 million.

b. Liabilities

Total liabilities as of March 31, 2022 were ¥782,097 million, an increase of ¥6,372 million compared to ¥775,725 million as of December 31, 2021. Current liabilities increased by ¥6,257 million, and non-current liabilities decreased by ¥114 million.

(Current Liabilities)

Current liabilities as of March 31, 2022 were ¥474,167 million, an increase of ¥6,257 million compared to ¥467,910 million as of December 31, 2021. This was mainly due to increases in bonds and borrowings by ¥2,039 million, income taxes payable by ¥2,336 million and other current liabilities by ¥17,496 million, partially offset by a decrease in trade and other payables by ¥15,561 million.

(Non-current Liabilities)

Non-current liabilities as of March 31, 2022 were ¥307,929 million, an increase of ¥114 million compared to ¥307,815 million as of December 31, 2021. This was mainly due to increases in deferred tax liabilities by ¥2,000 million and other non-current liabilities by ¥2,154 million, partially offset by decreases in bonds and borrowings by ¥2,336 million and contract liabilities by ¥2,517 million.

c. Equity

Total equity as of March 31, 2022 was ¥2,103,931 million, an increase of ¥58,741 million compared to ¥2,045,189 million as of December 31, 2021. This was mainly due to an increase in other components of equity by ¥62,136 million as a result of exchange rate fluctuations, partially offset by a decrease in retained earnings by ¥4,206 million which consisted of dividend payments of ¥27,119 million net of profit attributable to owners of the Company of ¥23,255 million.

2) Cash Flows

Cash and cash equivalents as of March 31, 2022 was ¥423,362 million, an increase of ¥12,678 million compared to the balance as of December 31, 2021. For the three-month period ended March 31, 2022, net cash flows provided by operating activities were ¥57,698 million, while net cash flows used in investing activities were ¥22,797 million mainly as a result of investments in the pharmaceutical business toward sustainable growth. Net cash flows used in financing activities were ¥34,561 million as a result of repayments of borrowings and lease liabilities and ¥27,428 million of dividends paid.

Thus, cash and cash equivalents were increased to ¥423,362 million as operating cash inflows exceeded the total cash outflows from investing and financing activities, further augmented by the effect of ¥12,338 million of exchange rate fluctuations on cash and cash equivalents as a result of the depreciation of the yen.

The following provides details around cash flow movements for the three-month period ended March 31, 2022:

Cash Flows from Operating Activities

Net cash flows provided by operating activities were ¥57,698 million, a decrease of ¥15,498 million compared to the figure for the three-month period ended March 31, 2021. Cash flows from operating activities for the three-month period ended March 31, 2022 mainly consisted of ¥30,985 million of profit before tax, adjusted for ¥23,831 million of impairment losses and reversal of impairment losses, ¥37,746 million decrease in trade and other receivables, ¥24,856 million decrease in trade and other payables and ¥8,701 million of income taxes paid. The decrease of ¥15,498 million in inflows was primarily due to a ¥13,526 million decrease in inflow from trade and other receivables.

Cash Flows from Investing Activities

Net cash flows used in investing activities were ¥22,797 million, an increase in outflows of ¥13,987 million compared to the figure for the three-month period ended March 31, 2021. Cash flows used in investing activities for the three-month period ended March 31, 2022 mainly consisted of ¥13,589 million of payments for acquisition of property, plant and equipment and ¥8,628 million of payments for acquisition of investments. The increase of ¥13,987 million in outflows was primarily due to a ¥16,347 million increase in outflow of time deposits.

Cash Flows from Financing Activities

Net cash flows used in financing activities were ¥34,561 million, a decrease in outflows of ¥218 million compared to the three-month period ended March 31, 2021. Cash flows from financing activities for the three-month period ended March 31, 2022 mainly consisted of ¥4,526 million of repayments of long-term borrowings, ¥4,815 million of repayments of lease liabilities and ¥27,428 million of dividends paid.

(3) Forecast for Consolidated Operating Results

There are no changes to the forecast of consolidated financial results for the six-month period ending June 30, 2022 and the year ending December 31, 2022 announced on February 10, 2022.

2. Condensed Interim Consolidated Financial Statements and Major Notes
(1) Condensed Interim Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2021	As of March 31, 2022
Assets		
Current assets		
Cash and cash equivalents	410,684	423,362
Trade and other receivables	380,191	353,050
Inventories	180,350	196,341
Income taxes receivable	8,543	9,019
Other financial assets	20,074	30,909
Other current assets	48,036	52,861
Subtotal	1,047,880	1,065,545
Assets held for sale	1,508	351
Total current assets	1,049,389	1,065,896
Non-current assets		
Property, plant and equipment	487,089	494,836
Goodwill	295,735	313,924
Intangible assets	522,662	531,396
Investments accounted for using the equity method	227,790	241,544
Other financial assets	173,956	169,547
Deferred tax assets	31,936	49,157
Other non-current assets	32,355	19,725
Total non-current assets	1,771,526	1,820,131
Total assets	2,820,915	2,886,028

	(Millions of yen)	
	As of December 31, 2021	As of March 31, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	170,103	154,541
Bonds and borrowings	32,877	34,916
Lease liabilities	17,096	17,343
Other financial liabilities	1,988	2,029
Income taxes payable	10,490	12,826
Provisions	9,542	9,412
Contract liabilities	12,458	12,298
Other current liabilities	213,302	230,798
Subtotal	467,859	474,167
Liabilities directly associated with assets held for sale	50	—
Total current liabilities	467,910	474,167
Non-current liabilities		
Bonds and borrowings	102,754	100,418
Lease liabilities	59,726	59,196
Other financial liabilities	24,815	25,982
Net defined benefit liabilities	14,075	14,232
Provisions	1,358	1,376
Contract liabilities	57,771	55,253
Deferred tax liabilities	27,560	29,561
Other non-current liabilities	19,753	21,907
Total non-current liabilities	307,815	307,929
Total liabilities	775,725	782,097
Equity		
Equity attributable to owners of the Company		
Share capital	81,690	81,690
Capital surplus	506,724	506,877
Treasury shares	(45,572)	(45,572)
Retained earnings	1,482,197	1,477,991
Other components of equity	(14,046)	48,090
Total equity attributable to owners of the Company	2,010,994	2,069,078
Non-controlling interests	34,195	34,853
Total equity	2,045,189	2,103,931
Total liabilities and equity	2,820,915	2,886,028

(2) Condensed Interim Consolidated Statements of Income

(Millions of yen)

	FY2021 (Three-month period ended March 31, 2021)	FY2022 (Three-month period ended March 31, 2022)
Revenue	336,789	380,308
Cost of sales	(109,972)	(126,340)
Gross profit	226,816	253,968
Selling, general and administrative expenses	(134,220)	(154,500)
Share of profit of investments accounted for using the equity method	4,915	2,346
Research and development expenses	(48,603)	(59,347)
Impairment losses	(51)	(23,831)
Other income	2,379	2,358
Other expenses	(1,142)	(245)
Operating profit	50,092	20,749
Finance income	9,514	11,272
Finance expenses	(1,606)	(1,036)
Profit before tax	58,001	30,985
Income tax expenses	(12,266)	(6,800)
Profit for the period	45,735	24,184
Attributable to:		
Owners of the Company	44,682	23,255
Non-controlling interests	1,052	928
Earnings per share:		
Basic earnings per share (Yen)	82.38	42.87
Diluted earnings per share (Yen)	81.61	42.71

(3) Condensed Interim Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2021 (Three-month period ended March 31, 2021)	FY2022 (Three-month period ended March 31, 2022)
Profit for the period	45,735	24,184
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	1,700	33
Financial assets measured at fair value through other comprehensive income	(3,265)	(6,174)
Share of other comprehensive income of investments accounted for using the equity method	(51)	40
Subtotal	(1,616)	(6,100)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	51,373	56,257
Cash flow hedges	17	(1)
Share of other comprehensive income of investments accounted for using the equity method	6,964	12,346
Subtotal	58,356	68,601
Total other comprehensive income	56,739	62,501
Total comprehensive income for the period	102,474	86,686
Attributable to:		
Owners of the Company	100,648	85,049
Non-controlling interests	1,826	1,636
Total comprehensive income for the period	102,474	86,686

(4) Condensed Interim Consolidated Statements of Changes in Equity
FY2021 (Three-month period ended March 31, 2021)

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2021	81,690	506,295	(45,781)	1,402,644	—	43,298
Profit for the period	—	—	—	44,682	—	—
Other comprehensive income	—	—	—	—	1,742	(3,300)
Comprehensive income for the period	—	—	—	44,682	1,742	(3,300)
Purchase of treasury shares	—	—	(0)	—	—	—
Dividends	—	—	—	Δ27,116	—	—
Share-based payment transactions	—	161	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	1,694	(1,742)	47
Total transactions with owners	—	161	(0)	Δ25,422	(1,742)	47
Balance as of March 31, 2021	81,690	506,457	(45,781)	1,421,904	—	40,045

	Equity attributable to owners of the Company					
	Other components of equity			Total	Non-controlling interests	Total equity
	Exchange differences on translation of foreign operations	Cash flow hedges	Total			
Balance as of January 1, 2021	(135,766)	(5)	(92,474)	1,852,375	31,057	1,883,432
Profit for the period	—	—	—	44,682	1,052	45,735
Other comprehensive income	57,505	17	55,965	55,965	774	56,739
Comprehensive income for the period	57,505	17	55,965	100,648	1,826	102,474
Purchase of treasury shares	—	—	—	(0)	—	(0)
Dividends	—	—	—	(27,116)	(1,465)	(28,582)
Share-based payment transactions	—	—	—	161	—	161
Transfer from other components of equity to retained earnings	—	—	(1,694)	—	—	—
Total transactions with owners	—	—	(1,694)	(26,955)	(1,465)	(28,421)
Balance as of March 31, 2021	(78,261)	12	(38,203)	1,926,067	31,418	1,957,486

Equity attributable to owners of the Company

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2022	81,690	506,724	(45,572)	1,482,197	—	28,632
Profit for the period	—	—	—	23,255	—	—
Other comprehensive income	—	—	—	—	161	(6,249)
Comprehensive income for the period	—	—	—	23,255	161	(6,249)
Dividends	—	—	—	(27,119)	—	—
Share-based payment transactions	—	153	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(342)	(161)	504
Total transactions with owners	—	153	—	(27,462)	(161)	504
Balance as of March 31, 2022	81,690	506,877	(45,572)	1,477,991	—	22,888

Equity attributable to owners of the Company

	Other components of equity			Total	Non-controlling interests	Total equity
	Exchange differences on translation of foreign operations	Cash flow hedges	Total			
Balance as of January 1, 2022	(42,673)	(6)	(14,046)	2,010,994	34,195	2,045,189
Profit for the period	—	—	—	23,255	928	24,184
Other comprehensive income	67,882	(1)	61,793	61,793	707	62,501
Comprehensive income for the period	67,882	(1)	61,793	85,049	1,636	86,686
Dividends	—	—	—	(27,119)	(978)	(28,097)
Share-based payment transactions	—	—	—	153	—	153
Transfer from other components of equity to retained earnings	—	—	342	—	—	—
Total transactions with owners	—	—	342	(26,966)	(978)	(27,944)
Balance as of March 31, 2022	25,209	(8)	48,090	2,069,078	34,853	2,103,931

(5) Condensed Interim Consolidated Statements of Cash Flows

(Millions of yen)

	FY2021 (Three-month period ended March 31, 2021)	FY2022 (Three-month period ended March 31, 2022)
Cash flows from operating activities		
Profit before tax	58,001	30,985
Depreciation and amortization expenses	20,289	22,126
Impairment losses and reversal of impairment losses	51	23,831
Share of profit of investments accounted for using the equity method	(4,915)	(2,346)
Finance income	(9,514)	(11,272)
Finance expenses	1,606	1,036
Decrease (increase) in inventories	694	(4,832)
Decrease in trade and other receivables	51,272	37,746
Decrease in trade and other payables	(25,391)	(24,856)
Others	(6,209)	(7,038)
Subtotal	<u>85,883</u>	<u>65,379</u>
Interest and dividends received	1,357	1,687
Interest paid	(714)	(666)
Income taxes paid	(13,330)	(8,701)
Net cash flows provided by operating activities	<u>73,197</u>	<u>57,698</u>
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	480	2,483
Payments for acquisition of property, plant and equipment	(13,680)	(13,589)
Payments for acquisition of intangible assets	(2,808)	(1,477)
Proceeds from sales and redemption of investments	4,604	3,233
Payments for acquisition of investments	(9,733)	(8,628)
Decrease (increase) in time deposits	10,910	(5,436)
Others	1,416	618
Net cash flows used in investing activities	<u>(8,810)</u>	<u>(22,797)</u>
Cash flows from financing activities		
Purchase of treasury shares	(0)	—
Change in short-term borrowings, net	1,628	1,205
Proceeds from long-term borrowings	12	1,003
Repayments of long-term borrowings	(3,233)	(4,526)
Repayments of lease liabilities	(4,609)	(4,815)
Dividends paid	(28,579)	(27,428)
Net cash flows used in financing activities	<u>(34,780)</u>	<u>(34,561)</u>
Increase in cash and cash equivalents	29,606	339
Cash and cash equivalents at the beginning of the period	356,851	410,684
Effect of exchange rate changes on cash and cash equivalents	8,972	12,338
Cash and cash equivalents at the end of the period	<u>395,430</u>	<u>423,362</u>

(6) Notes to Condensed Interim Consolidated Financial Statements

Note to Going Concern Assumptions

Not applicable.

Operating Segments

1) Overview of reportable segments

The Group's reportable segments are the constituent units of the Group for which separate financial information is available and which are subject to periodic reviews by the Board of Directors in order to make decisions on allocation of business resources and to evaluate the business performance of the respective segments.

The Company directs the Group's strategic planning, monitors group operations and provides various services to its group companies. Business activities are conducted by the Group's subsidiaries and associates.

Centering on the healthcare business, the Group operates activities inside and outside Japan relating to the following four reportable segments: "Pharmaceuticals," "Nutraceuticals," "Consumer products" and "Others" businesses.

The Group defines the reportable segments as follows:

"Pharmaceuticals" comprises manufacturing and sales of prescription drugs and intravenous solutions.

"Nutraceuticals" comprises manufacturing and sales of functional beverages, over-the-counter drugs and nutritional supplements.

"Consumer products" comprises manufacturing and sales of mineral water, soft beverages and food products.

"Others" encompasses logistics, warehousing, manufacturing and sales of chemical products, evaluation systems for LED displays and spectroanalysis devices.

2) Revenues and performance by reportable segment

Segment profit is based on operating profit.

Intersegment revenue and transfers reflect reasonable prices for intersegment transfers based on market value.

Revenues and performance by the Group's reportable segments are as follows:

FY2021 (Three-month period ended March 31, 2021)

(Millions of yen)

	Reportable segment					Adjustments *	Consolidated
	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	225,322	76,846	6,826	27,794	336,789	—	336,789
Intersegment revenue or transfers	—	8	3	8,077	8,090	(8,090)	—
Total	225,322	76,854	6,830	35,871	344,879	(8,090)	336,789
Segment profit	45,031	8,698	2,143	5,134	61,006	(10,913)	50,092

* Adjustments to segment profit of ¥(10,913) million include intersegment eliminations of ¥(157) million, unallocated expenses of ¥(11,089) million and other income of ¥333 million. Unallocated expenses are incurred in administrative departments such as headquarters.

FY2022 (Three-month period ended March 31, 2022)

(Millions of yen)

	Reportable segment					Adjustments *	Consolidated
	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	252,058	90,337	7,670	30,242	380,308	—	380,308
Intersegment revenue or transfers	—	3	3	8,806	8,813	(8,813)	—
Total	252,058	90,340	7,673	39,048	389,122	(8,813)	380,308
Segment profit (loss)	17,333	11,262	(235)	4,052	32,413	(11,663)	20,749

* Adjustments to segment profit of ¥(11,663) million include intersegment eliminations of ¥85 million, unallocated expenses of ¥(12,072) million and other income of ¥323 million. Unallocated expenses are incurred in administrative departments such as headquarters.

Impairment of Assets

The Group recorded impairment losses of ¥23,831 million for the three-month period ended March 31, 2022, ¥23,760 million of which related to the pharmaceutical business.

In the pharmaceutical business, the Group received a Complete Response Letter (CRL) from the U.S. Food and Drug Administration (FDA) for vadadustat for the treatment of anemia during and before dialysis, indicating that the application is not ready for approval in its present form. As a result, impairment losses of ¥23,584 million were recorded, with carrying amounts of in-process research and development recognized as intangible assets and other related assets reduced to zero.

Subsequent Events

Acquisition of Cullinan Pearl Corp.

Taiho Pharmaceutical Co., Ltd. (hereinafter referred to as “Taiho”), a consolidated subsidiary of the Company, entered into an agreement with Cullinan Oncology, Inc. (hereinafter referred to as “Cullinan Oncology”) to acquire all shares of Cullinan Pearl Corp. (hereinafter referred to as “Cullinan Pearl”), an equity-method affiliate of the Company, held by Cullinan Oncology on May 12, 2022 (Japan Standard Time), and Cullinan Pearl will be a wholly-owned subsidiary. Taiho will make an upfront cash payment of \$275 million to Cullinan Oncology, with potential to pay up to an additional \$130 million in regulatory-based milestone payments, as consideration of this acquisition. The acquisition under this agreement is expected to be completed by the end of the second quarter of FY 2022, subject to necessary legal proceedings.