

Consolidated Financial Results for the Fiscal Year Ended December 31, 2022 [IFRS]

February 14, 2023

Company name	: Otsuka Holdings Co., Ltd.
Stock exchange listing	: Tokyo Stock Exchange
Code number	: 4578
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Scheduled date of annual general meeting of shareholders	: March 30, 2023
Scheduled date of dividend payment commencement	: March 31, 2023
Scheduled date of securities report submission	: March 31, 2023
Supplementary materials for financial results	: Yes
Earnings announcement for 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 Fiscal Year Ended December 31, 2022

(1) Consolidated Operating Results

(% 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		Total comprehensive income for the year	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FY2022	1,737,998	16.0	174,917	11.3	150,323	(2.7)	137,419	6.4	134,019	6.8	272,360	25.4
FY2021	1,498,276	5.3	157,127	(27.6)	154,497	(22.2)	129,209	(14.8)	125,463	(15.3)	217,267	52.4

(Reference) Share of profit of investments accounted for using the equity method
 FY2022 ¥ 5,780 million
 FY2021 ¥ 8,508 million

* 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	Return on equity attributable to owners of the Company	Ratio of profit before tax to total assets	Ratio of operating profit to revenue
	Yen	Yen	%	%	%
FY2022	247.01	246.99	6.3	5.8	8.6
FY2021	231.32	231.15	6.5	6.0	10.3

(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 December 31, 2022	3,102,716	2,262,547	2,225,407	71.7	4,101.12
As of December 31, 2021	2,820,915	2,045,189	2,010,994	71.3	3,707.64

(3) Consolidated Cash Flows

	Net cash flows provided by operating activities	Net cash flows used in investing activities	Net cash flows used in financing activities	Cash and cash equivalents at the end of the year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FY2022	211,848	(81,575)	(95,474)	471,634
FY2021	228,864	(95,288)	(95,844)	410,684

2. Dividends

	Annual dividends per share					Total dividends	Dividends pay-out ratio (consolidated)	Ratio of dividends to equity attributable to owners of the Company (consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FY2021	–	50.00	–	50.00	100.00	54,236	43.2	2.8
FY2022	–	50.00	–	50.00	100.00	54,263	40.5	2.6
FY2023 (forecast)	–	50.00	–	50.00	100.00		34.5	

3. Forecasts of Consolidated Operating Results for the Year Ending December 31, 2023 (January 1, 2023 to December 31, 2023)

(% 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)	867,000	6.5	92,500	18.4	91,500	36.3	70,000	(2.1)	68,000	(2.5)	125.31
FY2023	1,800,000	3.6	210,000	20.1	210,000	39.7	161,500	17.5	157,500	17.5	290.25

4. Others

- (1) Changes in significant subsidiaries during the fiscal year (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 fiscal year (including treasury shares):
 - December 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 fiscal year:
 - December 31, 2022 15,201,916 shares
 - December 31, 2021 15,443,722 shares
 - 3) Average number of shares outstanding during the fiscal year:
 - Fiscal year ended December 31, 2022 542,556,212 shares
 - Fiscal year ended December 31, 2021 542,377,047 shares

* This report is out of scope of audits 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. Overview of Operating Results and Financial Position (5) Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2023” on page 10 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 February 14, 2023. 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. Overview of Operating Results and Financial Position

(1) Operating Results for the Fiscal Year Ended December 31, 2022

The Company and its affiliated companies (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)

	FY2021 (Fiscal year ended December 31, 2021)	FY2022 (Fiscal year ended December 31, 2022)	Change	% Change
Revenue	1,498,276	1,737,998	239,722	16.0 %
Business profit before research and development expenses	389,427	450,147	60,720	15.6 %
Business profit	157,127	174,917	17,789	11.3 %
Operating profit	154,497	150,323	(4,174)	(2.7) %
Profit before tax	163,638	172,954	9,315	5.7 %
Profit for the year	129,209	137,419	8,210	6.4 %
Profit attributable to owners of the Company	125,463	134,019	8,555	6.8 %
Research and development expenses	232,299	275,230	42,931	18.5 %
Impairment losses	6,479	41,521	35,041	540.8 %

Based on the concept of total health care, the Group has been operating its businesses to maintain and promote health and to diagnose and treat disease. To anticipate 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 pursue initiatives aimed at the realization of sustainable growth.

For the fiscal year ended December 31, 2022, the Group recorded consolidated revenue of ¥1,737,998 million (up 16.0% over the previous fiscal year), even after excluding the impact from exchange rate fluctuations. Whereas revenue increased in all of the businesses, the increase in consolidated revenue was mainly due to business performance driven by sales growth of the four global products (the long acting antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI/RXULTI*, the V₂-receptor antagonist *JYNARQUE* and the anti-cancer agent *LONSURF*), clinical nutrition and the anti-cancer agent *INQOVI* in the pharmaceutical business, as well as sales recovery in Japan and substantial sales growth overseas of *POCARI SWEAT*, and sales growth of *Nature Made* in line with a rising awareness toward self-management of health in the nutraceutical business. Moreover, sales of specialty chemical products and fine chemicals business in the other businesses were brisk.

Business profit before research and development expenses was ¥450,147 million (up 15.6%). This was mainly due to an increase in gross profit prompted by sales growth of the four global products and also due to appropriate controls having been imposed on selling, general and administrative expenses.

Research and development expenses totaled ¥275,230 million (up 18.5%) mainly due to an increase in development expenses for centanafadine under development for the treatment of attention-deficit hyperactivity disorder (ADHD), etc., steady progress for sibeprenlimab/VIS649 which is under development for the treatment of IgA nephropathy, and in addition, an increase in development expenses pertaining to an agreement with Sumitomo Pharma Co., Ltd. and Sunovion Pharmaceuticals Inc. related to antipsychotic agent with a novel mechanism of action as a challenge to the possibility of new treatments. There was also the impact of exchange rate fluctuations.

As a result of greater than anticipated sales growth and appropriate controls having been imposed on selling, general and administrative expenses, business profit was ¥174,917 million (up 11.3%).

The operating profit was ¥150,323 million (down 2.7%). The main factor was that the Group recorded to other income a gain on valuation of its existing shareholding of Cullinan Pearl Corp. (hereinafter referred to as “Cullinan Pearl”) as a result of making Cullinan Pearl, which had been an equity-method affiliate of the Company, a wholly owned subsidiary. However, the Group recorded impairment losses on the intangible assets, etc. pertaining to vadadustat. Total impairment losses recorded during the fiscal year ended December 31, 2022 amounted to ¥41,521 million.

Profit for the year was ¥137,419 million (up 6.4%) and profit attributable to owners of the Company was ¥134,019 million (up 6.8%).

Results by business segment are as follows:

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Revenue	1,137,857	437,047	35,880	169,227	(42,014)	1,737,998
Business profit	151,875	54,195	7,135	9,047	(47,337)	174,917

Reference (FY2021)

(Millions of yen)

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Revenue	977,508	376,650	31,918	149,987	(37,788)	1,498,276
Business profit	139,942	46,551	5,324	10,774	(45,465)	157,127

1) Pharmaceuticals

Revenue in the pharmaceutical business for the fiscal year ended December 31, 2022 totaled ¥1,137,857 million (up 16.4%), with business profit of ¥151,875 million (up 8.5%).

Main products

● Four global products

The Group 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 ¥619,187 million (up 26.4%).

*1: Brand name for the antipsychotic agent outside 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 significantly 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, and the impact of exchange rate fluctuations. 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 ¥165,353 million (up 26.9%).

• 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 significantly increased, mainly due to the use of direct-to-consumer advertising, and an increase in face-to-face detailing activities, as well as the impact of exchange rate fluctuations. 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 ¥169,135 million (up 39.7%).

• 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 decreased due to the impact of the switch to generics for the treatment for fluid retention in patients with heart failure and hepatic cirrhosis. 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 ¥87,788 million (down 4.6%).

• 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 well as the impact of exchange rate fluctuations. As a result, sales of *JINARC/JYNARQUE* totaled ¥139,409 million (up 38.9%).

• Anti-cancer agent *LONSURF*

In the U.S., sales have increased as the use of oral anti-cancer agents has been recommended since the spread of COVID-19^{*5,6}, and there also was the impact of exchange rate fluctuations. Prescriptions continued to be solid in Japan and Europe. As a result, sales of *LONSURF* totaled ¥57,500 million (up 24.8%).

*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

Cane 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>
Accessed 20 January 2023.

2) Nutraceuticals

Revenue in the nutraceutical business for the fiscal year ended December 31, 2022 totaled ¥437,047 million (up 16.0%), with business profit of ¥54,195 million (up 16.4%).

Main products

The Group positions *POCARI SWEAT*, *Nature Made* and the Nutrition & Santé SAS brand as its three major brands. Sales of those brands totaled ¥272,642 million (up 17.9%). Total sales of its three nurture brands, the Daiya Foods Inc. brand, *EQUELLE* and *BODY MAINTÉ*, were ¥28,514 million (up 5.3%).

● Three major brands

Sales of *POCARI SWEAT*, an electrolyte supplement drink, increased in Japan due to factors that include rising awareness among consumers regarding health management, increased recognition of the importance of hydration and replenishment of electrolytes, promotion of consumption in daily life at home, and an increase in drinking occasions accompanying resumption of outdoor events. Overseas, sales of *POCARI SWEAT* significantly increased, 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.

Sales of *Nature Made* supplements by Pharmavite LLC increased, backed by enhanced awareness of physical conditioning among consumers and consumers' high trust in the brand and quality, and also boosted by the impact of exchange rate fluctuations.

The Nutrition & Santé SAS brand, which sells health food products mainly in Europe, is expanding its food services*7 and e-commerce adapted to new lifestyles. Although local-currency sales decreased mainly due to the impact of stalled growth in the high value-added organic food market*8, etc. accompanying a rapid rise in inflation in Europe and supply chain disruptions, Japanese yen-based sales increased due to exchange rate fluctuations.

*7: Services for providing meals to public institutions, schools, etc.

*8: IRI France Grocery Retailers - Organic food category Retail Sales, 2022 Jan-Dec

● Three nurture brands

Plant-based foods of the Daiya Foods Inc. brand saw a decrease in local-currency sales, mainly due to increased competition in the dairy alternative cheese market in North America. However, Japanese yen-based sales increased due to the impact of exchange rate fluctuations. 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.

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.

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

3) Consumer products

Revenue in the consumer product business for the fiscal year ended December 31, 2022 totaled ¥35,880 million (up 12.4%), while business profit totaled ¥7,135 million (up 34.0%) in part due to an increase in share of profit of associates.

In mineral water products, sales of mainstay brand *CRYSTAL GEYSER* increased due to strong sales of 700-milliliter PET bottles, the largest size for personal use, although sales volume declined overall for the brand mainly due to a decrease in sales volume through the e-commerce and vending machine channels. Amid a growing awareness of health among people, sales volume of *MATCH*, a carbonated vitamin drink, increased overall for the brand mainly due to the launch of the new products *MATCH Vitamin Apple* and *MATCH Jelly Pineapple Blend* in addition to the existing products.

4) Others

Although revenue for the fiscal year ended December 31, 2022 totaled ¥169,227 million (up 12.8%), business profit was ¥9,047 million (down 16.0%) mainly due to the impact of rising raw material costs and transportation costs, and a decrease in share of profit of associates.

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

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.

* 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 fiscal year ended December 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 *Delyba* 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 *Delyba* 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. 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 fiscal year ended December 31, 2022 totaled ¥275,230 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 and renal system, etc.

Research and development expenses in the pharmaceutical business for the fiscal year ended December 31, 2022 were ¥260,610 million.

Research and development activities in the pharmaceutical business carried out for the fiscal year ended December 31, 2022 are summarized below.

Category	Brand Name, (Generic name), Development Code	Status*1
Psychiatry and neurology	<i>REXULTI</i> (brexpiprazole) OPC-34712 / OPC-34712 FUM	<U.S.> • Development for the treatment of borderline personality disorder was halted due to development strategy. <Japan> • Phase III trials of oral formulation for schizophrenia (once-weekly oral) were initiated in August 2022. <China> • An application for the indication of schizophrenia was filed in November 2022.
	(aripiprazole 2-month long-acting injection)	<Europe> • An application for the indication of schizophrenia was filed in June 2022. <U.S.> • An application for the indication of schizophrenia and bipolar I disorder was filed in September 2022.
	(deuterium-modified dextromethorphan, quinidine) AVP-786	<U.S.> • Development for the treatment of intermittent explosive disorder and traumatic brain injury was halted due to development strategy.
	(centanafadine) EB-1020	<U.S.> • Phase II trial for the treatment of major depressive disorder was initiated in September 2022. • Development for the treatment of smoking cessation and binge-eating disorder was halted due to development strategy.
	(ulotaront) SEP-363856	<U.S.> • Phase II / III trial for the adjunctive treatment of major depressive disorder was initiated. <Japan and U.S.> • Phase II / III trial for the treatment of generalized anxiety disorder was initiated.
	OPC-64005	<Japan> • Development for the treatment of major depressive disorder was halted due to development strategy.
	Oncology	<i>INQOVI</i> (decitabine, cedazuridine) ASTX727
TAS-114		<Japan, U.S. and Europe> • Development for the treatment of non-small cell lung cancer was halted due to development strategy.

Category	Brand Name, (Generic name), Development Code	Status*1
	<i>Jeslhy</i> (pimipitespib) TAS-116	<Japan> • Approval was granted for the indication of gastrointestinal stromal tumor in June 2022.
	<i>LYTGOBI</i> (futibatinib) TAS-120	<Japan> • An application for the indication of biliary tract cancer was filed in July 2022. <U.S.> • Approval was granted for the indication of intrahepatic cholangiocarcinoma in September 2022. <Europe> • An application for the indication of cholangiocarcinoma was filed.
	(zipalertinib) TAS6417*2	<U.S. and Europe> • Currently in Phase I / II trial for the treatment of non-small cell lung cancer.
	(zimberelimab + pamufetinib) AB122 + TAS-115	<Japan> • Phase I trial for the treatment of solid tumors*3 was initiated in September 2022.
	(zimberelimab + pimipitespib) AB122 + TAS-116	<Japan> • Phase I trial for the treatment of solid tumors*4 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.
	(mipetresgene autoleucel) TBI-1301	<Japan> • The program was returned to Takara Bio Inc. due to mutual strategic changes.
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.
	(sibeprenlimab) VIS649	<Japan, U.S. and Europe> • Phase III trial for the treatment of IgA nephropathy was initiated in April 2022.
	<i>Lupkynis</i> (voclosporin)	<Europe> • Approval was granted for the indication of active lupus nephritis in September 2022.
Other categories	TAS5315	<Japan> • Phase II trial for the treatment of chronic spontaneous urticaria was initiated in June 2022.
	(quabodepistat) OPC-167832	<U.S.> • Phase II trial for tuberculosis was initiated in April 2022.

*1 The above description of status in U.S. and Europe, "an application was filed" indicates that an application for approval has been submitted to or accepted by the relevant authorities. For other countries and regions, it indicates that an application for approval has been submitted to the relevant authorities.

*2: Entered into an agreement regarding the acquisition of Cullinan Pearl in May 2022.

*3: pamufetinib combination cohort during the Phase I trial in Japan for zimberelimab

*4: pimipitespib 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 conduct research and development of scientifically based original products in order to maintain and promote the health of people.

In the field of women's health, the Group was involved with a research paper suggesting that consumption of "γ-tocopherol, γ-tocotrienol, equol and calcium via a supplement containing these four ingredients" (γ-toco composite supplement) may alleviate subjective symptoms of premenstrual syndrome (PMS), experienced by approximately 70% of women*¹. The research paper was published in the July 30, 2022 issue of *The Journal of Japan Society for Menopause and Women's Health**².

Moreover, amid the continuing various Group-wide initiatives and programs for contributing to a recycling society under the Otsuka Group Environmental Policy, the Group launched *POCARI SWEAT 250-milliliter Returnable Bottle* in July 2022 at selected stores using the circular shopping platform Loop. In addition, the Group launched *B240 Tablets* that contain lactic acid bacterium B240, a proprietary ingredient that supports maintenance of physical condition, in July 2022 through its own e-commerce portal. The Group conceived of *B240 Tablets* as small, easy-to-swallow tablets to encourage ongoing consumption of lactic acid bacterium B240 and is promoting initiatives that support people who wish to live health daily lives.

In the cosmetics*³ field, focusing on healthy skin, *Sakuraé* followed *Inner Signal* and *UL-OS* as the third skin care brand launched. *Sakuraé Double Action Serum*, Japan's first*⁴ medicated beauty extract to deliver double brightening effect*⁵*⁶ was marketed via the Otsuka e-commerce website in November 2022.

*1: Source: Otsuka Pharmaceutical survey of 1,000 Japanese women, aged 30 to 44; June-July 2021

*2: Title: "The effects of γ-tocopherol, γ-tocotrienol, equol and calcium supplementation on premenstrual symptoms: a randomized, double-blind, crossover trial"; Published in: *The Journal of Japan Society for Menopause and Women's Health* 29 (4) 578-587, 2022

*3: Cosmetics: cosmetics + medicine = Otsuka's unique concept for skin health products

*4: First product in Japan to prevent dark spots and freckles by suppressing formation and accumulation of melanin

*5: Ascorbic acid 2-glucoside inhibits formation of melanin, prevents dark spots and freckles.

*6: AMP (Disodium adenosine phosphate OT) suppresses accumulation of melanin, prevents dark spots and freckles

Research and development expenses in the nutraceutical business for the fiscal year ended December 31, 2022 were ¥8,690 million.

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 fiscal year ended December 31, 2022 were ¥644 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 fiscal year ended December 31, 2022 were ¥5,283 million.

(3) Financial Position for the Fiscal Year Ended December 31, 2022

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022	Change
Current assets	1,049,389	1,192,030	142,641
Non-current assets	1,771,526	1,910,685	139,159
Total assets	2,820,915	3,102,716	281,800
Current liabilities	467,910	539,193	71,282
Non-current liabilities	307,815	300,975	(6,840)
Total liabilities	775,725	840,168	64,442
Total equity	2,045,189	2,262,547	217,358

a. Assets

Total assets as of December 31, 2022 were ¥3,102,716 million, an increase of ¥281,800 million compared to ¥2,820,915 million as of December 31, 2021. Current assets increased by ¥142,641 million, and non-current assets increased by ¥139,159 million.

(Current Assets)

Current assets as of December 31, 2022 were ¥1,192,030 million, an increase of ¥142,641 million compared to ¥1,049,389 million as of December 31, 2021. This was mainly due to increases in cash and cash equivalents by ¥60,949 million, trade and other receivables by ¥43,235 million, and inventories by ¥43,156 million, partially offset by decreases in income taxes receivable by ¥5,588 million and other financial assets by ¥2,593 million.

(Non-current Assets)

Non-current assets as of December 31, 2022 were ¥1,910,685 million, an increase of ¥139,159 million compared to ¥1,771,526 million as of December 31, 2021. This was mainly due to increases in property, plant and equipment by ¥23,584 million, goodwill by ¥39,706 million, intangible assets by ¥57,124 million, investments accounted for using the equity method by ¥13,953 million and deferred tax assets by ¥21,524 million. These increases were mainly due to investments in the pharmaceutical business and the impact of exchange rate fluctuations.

b. Liabilities

Total liabilities as of December 31, 2022 were ¥840,168 million, an increase of ¥64,442 million compared to ¥775,725 million as of December 31, 2021. Current liabilities increased by ¥71,282 million, and non-current liabilities decreased by ¥6,840 million.

(Current Liabilities)

Current liabilities as of December 31, 2022 were ¥539,193 million, an increase of ¥71,282 million compared to ¥467,910 million as of December 31, 2021. This was mainly due to increases in trade and other payables by ¥28,252 million, income taxes payable by ¥17,849 million and other current liabilities by ¥37,589 million, partially offset by decreases in bonds and borrowings by ¥6,436 million and provisions by ¥8,778 million.

(Non-current Liabilities)

Non-current liabilities as of December 31, 2022 were ¥300,975 million, a decrease of ¥6,840 million compared to ¥307,815 million as of December 31, 2021. This was mainly due to decreases in bonds and borrowings by ¥8,979 million, lease liabilities by ¥3,496 million and contract liabilities by ¥7,034 million, partially offset by increases in other financial liabilities by ¥5,700 million and other non-current liabilities by ¥3,034 million.

c. Equity

Total equity as of December 31, 2022 was ¥2,262,547 million, an increase of ¥217,358 million compared to ¥2,045,189 million as of December 31, 2021. This was mainly due to an increase in retained earnings by ¥71,022 million which consisted of profit attributable to owners of the Company of ¥134,019 million net of dividend payments of ¥54,251 million, and an increase in other components of equity by ¥142,822 million primarily as a result of the depreciation of the yen.

(4) Cash Flow for the Fiscal Year Ended December 31, 2022

Cash and cash equivalents as of December 31, 2022 were ¥471,634 million, an increase of ¥60,949 million compared to the balance as of December 31, 2021. For the fiscal year ended December 31, 2022, net cash flows provided by operating activities were ¥211,848 million, while net cash flows used in investing activities were ¥81,575 million mainly as a result of investments in the pharmaceutical business toward sustainable growth. Net cash flows used in financing activities were ¥95,474 million as a result of repayments of borrowings and lease liabilities and ¥55,561 million of dividends paid.

Thus, cash and cash equivalents were increased to ¥471,634 million as operating cash inflows exceeded the total cash outflows from investing and financing activities, further augmented by the effect of ¥26,151 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 fiscal year ended December 31, 2022:

Cash Flows from Operating Activities

Net cash flows provided by operating activities were ¥211,848 million, a decrease of ¥17,016 million compared to the previous fiscal year. Cash flows provided by operating activities for the fiscal year ended December 31, 2022 mainly consisted of ¥172,954 million of profit before tax, adjusted for ¥93,761 million of depreciation and amortization expenses, ¥41,521 million of impairment losses and reversal of impairment losses, ¥28,693 million of finance income, ¥21,700 million increase in inventories, ¥22,481 million increase in trade and other receivables and ¥35,250 million of income taxes paid. The decrease of ¥17,016 million in inflows was primarily due to ¥28,205 million increase in outflow to inventories, a turn from the inflow recorded in the previous fiscal year, and ¥35,804 million increase in outflow to trade and other receivables, partially offset by ¥9,315 million increase of profit before tax and ¥35,041 million increase of impairment losses and reversal of impairment losses, both of which are non-cash items.

Cash Flows from Investing Activities

Net cash flows used in investing activities were ¥81,575 million, a decrease of ¥13,713 million compared to the previous fiscal year. Cash flows used in investing activities for the fiscal year ended December 31, 2022 mainly consisted of ¥60,949 million of payments for acquisition of property, plant and equipment, ¥46,838 million of payments for acquisition of intangible assets including an asset acquisition of TAS6417 from Cullinan Pearl, ¥43,526 million of proceeds from sales and redemption of investments and ¥19,971 million of payments for acquisition of investments. The decrease of ¥13,713 million was primarily due to a ¥21,280 million increase of proceeds from sales and redemption of investments, a ¥13,860 million decrease of payments for acquisition of intangible assets and the recording of ¥8,323 million in proceeds from sales of subsidiaries, partially offset by a ¥32,507 million increase in outflows to time deposits.

Cash Flows from Financing Activities

Net cash flows used in financing activities were ¥95,474 million, a decrease of ¥369 million compared to the previous fiscal year. Cash flows used in financing activities for the fiscal year ended December 31, 2022 mainly consisted of ¥25,671 million of repayments of long-term borrowings, ¥19,729 million of repayments of lease liabilities and ¥55,561 million of dividends paid.

(5) Forecasts of Consolidated Financial Results for the Fiscal Year Ending December 31, 2023

The financial forecast for the fiscal year ending December 31, 2023 is as follows:

	(Millions of yen)			
	FY2022 (actual)	FY2023 (forecast)	Change	% Change
Revenue	1,737,998	1,800,000	62,001	3.6 %
Business profit before research and development expenses	450,147	485,000	34,852	7.7 %
Business profit	174,917	210,000	35,082	20.1 %
Operating profit	150,323	210,000	59,676	39.7 %
Profit before tax	172,954	210,000	37,045	21.4 %
Profit for the year	137,419	161,500	24,080	17.5 %
Profit attributable to owners of the Company	134,019	157,500	23,480	17.5 %
Research and development expenses	275,230	275,000	(230)	(0.1)%

(Note) FY2023 projected exchange rate: 130 Yen/USD 138 Yen/EUR

In the pharmaceutical business, revenue is expected to increase with results strongly driven by the four global products (*ABILIFY MAINTENA*, *REXULTI/RXULTI*, *JINARC/JYNARQUE* and *LONSURF*), thereby offsetting a significant decline in sales after the expiry of the period of sales exclusivity for *Samsca* in Japan. In the nutraceutical business, revenue is expected to increase due to growth in sales of three major brands (*POCARI SWEAT*, *Nature Made* and the Nutrition & Santé SAS brand) and three nurture brands (Daiya Foods Inc. brand, *EQUELLE* and *BODY MAINTÉ*).

Regarding selling, general and administrative expenses, the Group will engage in growth investment involving large new businesses that take on challenges in new frontiers. Meanwhile, the Group will also promote further cost adjustments in existing businesses.

Regarding research and development expenses, the Group expects to incur development expenses pertaining to an agreement with Sumitomo Pharma Co., Ltd. and Sunovion Pharmaceuticals Inc. related to antipsychotic agent with a novel mechanism of action as a challenge to the possibility of new treatments. The Group also expects to invest in sibeprenlimab/VIS649 under development for the treatment of IgA nephropathy, centanafadine under development for the treatment of ADHD, etc., and TAS6417 under development for the treatment of non-small cell lung cancer, etc.

Business profit is expected to be higher than the one for the fiscal year ended December 31, 2022, as sales of the four global products and the nutraceutical business are expected to increase and further cost adjustments in existing businesses are promoted, despite the likelihood of a significant decline in profits after the expiry of the exclusive sales period for *Samsca* in Japan.

For the fiscal year ending December 31, 2023, the Company projects consolidated revenue of ¥1,800,000 million (up 3.6% over the current fiscal year), business profit before research and development expenses of ¥485,000 million (up 7.7%), business profit of ¥210,000 million (up 20.1%), operating profit of ¥210,000 million (up 39.7%), profit before tax of ¥210,000 million (up 21.4%), profit for the year of ¥161,500 million (up 17.5%), and profit attributable to owners of the Company of ¥157,500 million (up 17.5%).

In addition, the following restricted stock-based compensation is planned in the next fiscal year.

Based on the restricted stock-based compensation plan whose introduction was resolved at the Board of Directors meeting held on February 13, 2019 and approved at the General Meeting of Shareholders held on March 28, 2019, a disposal of treasury shares as stock-based compensation (total amount to be paid in: estimated at ¥250 million) is planned for the next fiscal year. Specific details will be confirmed and announced at the Board of Directors meeting scheduled on March 30, 2023.

2. Basic Rationale for Selection of Accounting Standards

The Group adopted International Financial Reporting Standards (IFRS) to enhance the international comparability of its financial reporting.

3. Consolidated Financial Statements and Major Notes
(1) Consolidated Statements of Financial Position

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Assets		
Current assets		
Cash and cash equivalents	410,684	471,634
Trade and other receivables	380,191	423,426
Inventories	180,350	223,507
Income taxes receivable	8,543	2,954
Other financial assets	20,074	17,481
Other current assets	48,036	52,934
Subtotal	1,047,880	1,191,939
Assets held for sale	1,508	91
Total current assets	1,049,389	1,192,030
Non-current assets		
Property, plant and equipment	487,089	510,674
Goodwill	295,735	335,442
Intangible assets	522,662	579,786
Investments accounted for using the equity method	227,790	241,743
Other financial assets	173,956	177,421
Deferred tax assets	31,936	53,460
Other non-current assets	32,355	12,156
Total non-current assets	1,771,526	1,910,685
Total assets	2,820,915	3,102,716

(Millions of yen)

	As of December 31, 2021	As of December 31, 2022
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	170,103	198,356
Bonds and borrowings	32,877	26,440
Lease liabilities	17,096	17,717
Other financial liabilities	1,988	3,307
Income taxes payable	10,490	28,340
Provisions	9,542	763
Contract liabilities	12,458	13,376
Other current liabilities	213,302	250,891
Subtotal	467,859	539,193
Liabilities directly associated with assets held for sale	50	-
Total current liabilities	467,910	539,193
Non-current liabilities		
Bonds and borrowings	102,754	93,775
Lease liabilities	59,726	56,229
Other financial liabilities	24,815	30,515
Net defined benefit liabilities	14,075	16,011
Provisions	1,358	1,507
Contract liabilities	57,771	50,736
Deferred tax liabilities	27,560	29,410
Other non-current liabilities	19,753	22,787
Total non-current liabilities	307,815	300,975
Total liabilities	775,725	840,168
Equity		
Equity attributable to owners of the Company		
Share capital	81,690	81,690
Capital surplus	506,724	506,579
Treasury shares	(45,572)	(44,858)
Retained earnings	1,482,197	1,553,219
Other components of equity	(14,046)	128,775
Total equity attributable to owners of the Company	2,010,994	2,225,407
Non-controlling interests	34,195	37,140
Total equity	2,045,189	2,262,547
Total liabilities and equity	2,820,915	3,102,716

(2) Consolidated Statements of Income

(Millions of yen)

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Revenue	1,498,276	1,737,998
Cost of sales	(495,030)	(569,501)
Gross profit	1,003,245	1,168,496
Selling, general and administrative expenses	(622,326)	(724,129)
Share of profit of investments accounted for using the equity method	8,508	5,780
Research and development expenses	(232,299)	(275,230)
Impairment losses	(6,479)	(41,521)
Other income	11,348	23,445
Other expenses	(7,499)	(6,518)
Operating profit	154,497	150,323
Finance income	13,981	28,693
Finance expenses	(4,840)	(6,063)
Profit before tax	163,638	172,954
Income tax expenses	(34,429)	(35,534)
Profit for the year	129,209	137,419
Attributable to:		
Owners of the Company	125,463	134,019
Non-controlling interests	3,745	3,400
Profit for the period	129,209	137,419
Earnings per share:		
Basic earnings per share (Yen)	231.32	247.01
Diluted earnings per share (Yen)	231.15	246.99

(3) Consolidated Statements of Comprehensive Income

(Millions of yen)

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Profit for the year	129,209	137,419
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	7,166	(5,407)
Financial assets measured at fair value through other comprehensive income	(13,092)	8,937
Share of other comprehensive income of investments accounted for using the equity method	(252)	462
Subtotal	(6,178)	3,992
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	81,254	117,463
Cash flow hedges	(0)	26
Share of other comprehensive income of investments accounted for using the equity method	12,982	13,458
Subtotal	94,236	130,948
Total other comprehensive income	88,057	134,940
Total comprehensive income for the year	217,267	272,360
Attributable to:		
Owners of the Company	212,218	268,095
Non-controlling interests	5,049	4,265
Total comprehensive income for the year	217,267	272,360

(4) Consolidated Statements of Changes in Equity
FY2021 (From January 1, 2021 to December 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 year	—	—	—	125,463	—	—
Other comprehensive income	—	—	—	—	7,025	(13,364)
Comprehensive income for the year	—	—	—	125,463	7,025	(13,364)
Purchase of treasury shares	—	—	(1)	—	—	—
Dividends	—	—	—	(54,236)	—	—
Share-based payment transactions	—	456	210	—	—	—
Changes in ownership interests in subsidiaries that do not result in loss of control	—	(27)	—	—	—	—
Changes associated with losing control of subsidiaries	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	8,326	(7,025)	(1,300)
Total transactions with owners	—	428	209	(45,910)	(7,025)	(1,300)
Balance as of December 31, 2021	81,690	506,724	(45,572)	1,482,197	—	28,632

	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 year	—	—	—	125,463	3,745	129,209
Other comprehensive income	93,093	(0)	86,754	86,754	1,303	88,057
Comprehensive income for the year	93,093	(0)	86,754	212,218	5,049	217,267
Purchase of treasury shares	—	—	—	(1)	—	(1)
Dividends	—	—	—	(54,236)	(1,751)	(55,988)
Share-based payment transactions	—	—	—	666	—	666
Changes in ownership interests in subsidiaries that do not result in loss of control	—	—	—	(27)	(17)	(44)
Changes associated with losing control of subsidiaries	—	—	—	—	(143)	(143)
Transfer from other components of equity to retained earnings	—	—	(8,326)	—	—	—
Total transactions with owners	—	—	(8,326)	(53,598)	(1,911)	(55,510)
Balance as of December 31, 2021	(42,673)	(6)	(14,046)	2,010,994	34,195	2,045,189

	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 year	—	—	—	134,019	—	—
Other comprehensive income	—	—	—	—	(5,091)	8,961
Comprehensive income for the year	—	—	—	134,019	(5,091)	8,961
Purchase of treasury shares	—	—	(0)	—	—	—
Dividends	—	—	—	(54,251)	—	—
Share-based payment transactions	—	(101)	714	—	—	—
Changes in ownership interests in subsidiaries that do not result in loss of control	—	(43)	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	(8,746)	5,091	3,655
Total transactions with owners	—	(144)	713	(62,997)	5,091	3,655
Balance as of December 31, 2022	81,690	506,579	(44,858)	1,553,219	—	41,249

	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 year	—	—	—	134,019	3,400	137,419
Other comprehensive income	130,178	26	134,075	134,075	864	134,940
Comprehensive income for the year	130,178	26	134,075	268,095	4,265	272,360
Purchase of treasury shares	—	—	—	(0)	—	(0)
Dividends	—	—	—	(54,251)	(1,342)	(55,593)
Share-based payment transactions	—	—	—	612	—	612
Changes in ownership interests in subsidiaries that do not result in loss of control	—	—	—	(43)	22	(21)
Transfer from other components of equity to retained earnings	—	—	8,746	—	—	—
Total transactions with owners	—	—	8,746	(53,682)	(1,320)	(55,002)
Balance as of December 31, 2022	87,504	20	128,775	2,225,407	37,140	2,262,547

(5) Consolidated Statements of Cash Flows

(Millions of yen)

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Cash flows from operating activities		
Profit before tax	163,638	172,954
Depreciation and amortization expenses	84,855	93,761
Impairment losses and reversal of impairment losses	6,479	41,521
Share of profit of investments accounted for using the equity method	(8,508)	(5,780)
Finance income	(13,981)	(28,693)
Finance expenses	4,840	6,063
Decrease (increase) in inventories	6,505	(21,700)
Decrease (increase) in trade and other receivables	13,322	(22,481)
(Decrease) increase in trade and other payables	(12,162)	1,394
Others	29,398	773
Subtotal	<u>274,389</u>	<u>237,812</u>
Interest and dividends received	9,281	12,747
Interest paid	(2,662)	(3,460)
Income taxes paid	(52,144)	(35,250)
Net cash flows provided by operating activities	<u>228,864</u>	<u>211,848</u>
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	1,697	3,702
Payments for acquisition of property, plant and equipment	(52,453)	(60,949)
Payments for acquisition of intangible assets	(60,699)	(46,838)
Proceeds from sales and redemption of investments	22,245	43,526
Payments for acquisition of investments	(23,714)	(19,971)
Proceeds from sales of subsidiaries	-	8,323
Payments for acquisition of subsidiaries	(8,035)	-
Decrease (increase) in time deposits	23,551	(8,956)
Others	2,119	(411)
Net cash flows used in investing activities	<u>(95,288)</u>	<u>(81,575)</u>
Cash flows from financing activities		
Purchase of treasury shares	(1)	(0)
Change in short-term borrowings, net	10	4,436
Proceeds from long-term borrowings	220	1,073
Repayments of long-term borrowings	(21,131)	(25,671)
Repayments of lease liabilities	(18,912)	(19,729)
Dividends paid	(55,984)	(55,561)
Others	(44)	(21)
Net cash flows used in financing activities	<u>(95,844)</u>	<u>(95,474)</u>
Increase in cash and cash equivalents	37,732	34,798
Cash and cash equivalents at the beginning of the year	356,851	410,684
Effect of exchange rate changes on cash and cash equivalents	16,101	26,151
Cash and cash equivalents at the end of the year	<u>410,684</u>	<u>471,634</u>

(6) Notes to Consolidated Financial Statements

Note to Going Concern Assumptions

Not applicable.

Significant Accounting Estimates and Judgments

In preparing IFRS-compliant consolidated financial statements, management is required to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

Such estimates and underlying assumptions are reviewed on an ongoing basis. The effects of the review of accounting estimates are recognized in the accounting period in which the review was conducted and future accounting periods.

Items that may have significant effects on the amounts recognized in the consolidated financial statements are as follows:

- Impairment of intangible assets
- Fair value measurement of financial instruments
- Recoverability of deferred tax assets
- Measurement of defined benefit obligations
- Estimation of statutory and contractual rebates related to the public health system in the U.S.

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 chemicals, 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 (From January 1, 2021 to December 31, 2021)

(Millions of yen)

	Reportable segment					Adjustments*1	Consolidated Statement of Income
	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	977,508	376,600	31,893	112,274	1,498,276	—	1,498,276
Intersegment revenue or transfers	—	50	25	37,713	37,788	(37,788)	—
Total	977,508	376,650	31,918	149,987	1,536,064	(37,788)	1,498,276
Segment profit	137,342	46,559	5,312	11,437	200,652	(46,154)	154,497
Other items							
Depreciation and amortization expenses	55,718	14,501	1,611	8,584	80,416	4,438	84,855
Share of profit (loss) of investments accounted for using the equity method	(1,971)	411	7,906	2,160	8,508	—	8,508
Impairment losses	5,376	61	20	1,006	6,465	14	6,479
Capital expenditures*2	93,625	19,598	2,673	10,742	126,638	17,470	144,109

	Reportable segment					Adjustments* ¹	Consolidated Statement of Income
	Pharmaceuticals	Nutra-ceuticals	Consumer products	Others	Total		
Revenue							
Revenue from external customers	1,137,857	437,014	35,854	127,271	1,737,998	—	1,737,998
Intersegment revenue or transfers	—	32	26	41,955	42,014	(42,014)	—
Total	1,137,857	437,047	35,880	169,227	1,780,012	(42,014)	1,737,998
Segment profit	123,145	56,276	6,930	11,916	198,268	(47,945)	150,323
Other items							
Depreciation and amortization expenses	62,181	15,646	1,799	8,793	88,419	5,341	93,761
Share of profit (loss) of investments accounted for using the equity method	(6,860)	858	10,921	862	5,780	—	5,780
Impairment losses	38,287	2,040	237	108	40,674	847	41,521
Capital expenditures* ²	101,023	15,014	3,315	9,259	128,613	10,705	139,319

*¹ Details of adjustments are as follows:

(1) Segment profit

The following table shows the segment profit adjustments.

(Millions of yen)

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Intersegment eliminations	329	(265)
Unallocated expenses*	(47,359)	(48,987)
Other income	874	1,307
Total	(46,154)	(47,945)

* Unallocated expenses are incurred in administrative departments such as headquarters of the Company and certain subsidiaries.

(2) Other items

Depreciation and amortization expenses and impairment losses

Adjustments include depreciation and amortization expenses and impairment losses of property, plant and equipment and intangible assets as assets associated with headquarter functions of the Company and certain subsidiaries.

(3) Capital expenditures

Adjustments include capital expenditures relating to assets associated with headquarter and research functions of the Company and certain subsidiaries.

*² Capital expenditures are purchases of property, plant and equipment, goodwill and intangible assets.

Earnings per Share

(1) Basis of calculating basic earnings per share

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Profit attributable to owners of the Company (Millions of yen)	125,463	134,019
Amount not attributable to ordinary equity holders of the Company (Millions of yen)	–	–
Profit used for calculation of basic earnings per share (Millions of yen)	125,463	134,019
Weighted average number of ordinary shares (Thousands of shares)	542,377	542,556
Basic earnings per share (Yen)	231.32	247.01

(2) Basis of calculating diluted earnings per share

	FY2021 (From January 1, 2021 to December 31, 2021)	FY2022 (From January 1, 2022 to December 31, 2022)
Profit used for calculation of basic earnings per share (Millions of yen)	125,463	134,019
Adjustments of profit for the year (Millions of yen)	(90)	(10)
Profit used for calculation of diluted earnings per share (Millions of yen)	125,373	134,008
Weighted average number of ordinary shares (Thousands of shares)	542,377	542,556
Increase in ordinary shares		
Warrants (Thousands of shares)	–	–
Weighted average number of diluted ordinary shares (Thousands of shares)	542,377	542,556
Diluted earnings per share (Yen)	231.15	246.99

Acquisition of Full Ownership of Cullinan Pearl Corp. and Asset Acquisition of TAS6417

On June 21, 2022 (Japan time), Taiho Pharmaceutical Co., Ltd. (hereinafter referred to as “Taiho”), a consolidated subsidiary of the Company, acquired all shares of Cullinan Pearl (a then 20% equity-method affiliate of the Company) after the necessary legal proceedings, based on an agreement with Cullinan Oncology, Inc. (hereinafter referred to as “Cullinan Oncology”) on May 12, 2022 (Japan time), and Cullinan Pearl became a wholly owned subsidiary of the Company. Taiho made an upfront cash payment of \$275 million to Cullinan Oncology, with potential to pay up to an additional \$130 million based on the contractual milestone achievement. As a result of this acquisition, TAS6417, an epidermal growth factor receptor (EGFR) inhibitor discovered by Taiho, has been added to the Group’s pipeline.

The Group conducted a concentration test in accordance with the provisions of IFRS 3 “Business Combinations” for the above transaction and determined that substantially all of the fair value of the gross assets acquired was concentrated in a single identifiable asset, and that the integrated set of activities and assets acquired did not qualify as a business. Therefore, the Group accounted for this transaction as an asset acquisition. As for the Group’s equity interest in Cullinan Pearl held immediately before the date of acquisition, the Group remeasured it at its acquisition-date fair value and recognized a gain of ¥10,495 million in “Other income” in the consolidated statements of income. The Group recorded ¥48,370 million of the consideration for the asset acquisition in “Intangible assets” (in-process research and development) on the consolidated statements of financial position, which mainly consisted of the upfront payment and the fair value of the previously held equity interest.

Subsequent Events

Not applicable.