

Terumo Corporation
Consolidated Financial Statements
For the fiscal year ended March 31, 2022



Independent auditor's report

To the Board of Directors of Terumo Corporation:

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 37 to the consolidated financial statements. The Company resolved during the board of directors meeting held on May 12, 2022 an acquisition and cancellation of its treasury shares.

Our opinion is not modified with respect to this matter.

Key Audit Matters

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

Appropriateness of management judgment as to whether an impairment loss should be recognized on goodwill allocated to the Blood and Cell Technologies Company

The key audit matter	How the matter was addressed in our audit
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In the consolidated statement of financial position, the Group recognized Goodwill and intangible assets of ¥514,801 million. As described in Note 12 “Goodwill and intangible assets, (3) Impairment test of goodwill” to the consolidated financial statements, goodwill of ¥139,695 million was allocated to the Blood and Cell Technologies Company, which represented approximately 9% of total assets in the consolidated financial statements. The amount primarily consists of goodwill arising from the acquisition of 100% of the shares of Caridian BCT Holding Corp. (now known as Terumo BCT Holding Corp.).

As described in Note 3 “Significant accounting policies, (10) Impairment of non-financial assets” to the consolidated financial statements, goodwill is tested for impairment whenever there is any indication of impairment, and at a certain time in each fiscal year regardless of whether there is any indication of impairment. An impairment loss is recognized when the carrying amount of a cash-generating unit (“CGU”) to which goodwill has been allocated is greater than its recoverable amount.

In the current fiscal year, the Company used the value in use as the recoverable amount in the impairment testing on goodwill allocated to the Blood and Cell Technologies Company. The future cash flows used to measure the value in use were estimated based on the medium-term business plan of the Blood and Cell Technologies Company prepared by management. The forecasts for future growth and market share of the Blood and Cell Technologies Company involved a high degree of uncertainty, and management’s judgement on these assumptions had a significant effect on the estimated future cash flows.

In addition, selecting appropriate models and input data for estimating the terminal growth rates and discount rates used to calculate the value in use required a high degree of expertise in valuation.

We, therefore, determined that our assessment of the appropriateness of the Company’s judgment as to whether an

With the involvement of the component auditors of Terumo BCT Holding Corp., a consolidated subsidiary, the primary audit procedures we performed to assess the appropriateness of management’s judgment as to whether an impairment loss should be recognized on goodwill allocated to the Blood and Cell Technologies Company are set forth below.

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Group’s internal controls related to the measurement of the value in use used in the impairment testing on CGUs to which goodwill has been allocated. In this assessment, we obtained an understanding of the process of developing a business plan of the Blood and Cell Technologies Company and focused on internal controls over management’s approval of the business plan.

(2) Assessment of the reasonableness of the estimated value in use

The procedures we performed to assess the appropriateness of key assumptions used in preparing a medium-term business plan of the Blood and Cell Technologies Company, which formed the basis for the estimate of future cash flows, included the following:

- assessed the appropriateness of the growth forecast of the Blood and Cell Technologies Company, by comparing it with market growth rates published by external research firms; and
- assessed the feasibility of the sales growth forecast of the Blood and Cell Technologies Company that reflected current sales promotion measures and projected market shares by analysing the causes of variances between the sales growth forecast that reflected past sales promotion measures and projected market shares used in the past medium-term business plan, and actual results achieved against the plan.

Also, the procedures we performed by involving valuation specialists within our domestic network firms to assess the terminal growth rates and discount rates, including the following:

- assessed the appropriateness of the calculation models used to estimate the terminal growth rates and discount rates based on subject matters relevant to valuation and the requirements of accounting standards; and
- assessed the appropriateness of input data used to

<p>impairment loss should be recognized on goodwill allocated to the Blood and Cell Technologies Company was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>estimate the terminal growth rates and discount rates by comparing it with relevant market data published by an external organization related to the main countries within the regions in which the Blood and Cell Technologies Company operates.</p>
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Appropriateness of the Group’s determination of the accounting period in which revenue is recognized	
The key audit matter	How the matter was addressed in our audit
<p>The Group is primarily involved in the sales of medical products and equipment to domestic and overseas customers. The amount of the Group’s revenue reported in the Group’s consolidated statement of profit or loss was ¥703,303 million for the current fiscal year, which was mostly from sales of those products and equipment.</p> <p>As described in Note 3. “Significant accounting policies, (14) Revenue” to the consolidated financial statements, with regard to the sales of the Group’s products and equipment, the Group recognizes revenue at the time of delivery since the customer obtains control over the product or equipment and the performance obligation is satisfied at the time of delivery.</p> <p>The application of the revenue recognition criteria involves a potential risk that sales are recognized prematurely in an inappropriate accounting period before the delivery of a product or equipment to a customer has been completed, because of the following reasons:</p> <ul style="list-style-type: none"> ● As the financial forecast is announced to external investors, the sales department may be under too much pressure to achieve the forecast; and ● The time period from the shipment from a warehouse to the delivery to the customers varies widely depending on the geographical location of each customer. <p>We, therefore, determined that our assessment of the appropriateness of the Group’s determination of the accounting</p>	<p>The primary audit procedures we performed to assess the appropriateness of the Group’s determination of an accounting period in which revenue is recognized are set forth below. The following procedures include those performed by the component auditors of significant consolidated subsidiaries. We requested the component auditors to perform certain audit procedures, received reports on the results of the procedures and then concluded on whether sufficient and appropriate audit evidence was obtained:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Group’s internal controls relevant to the process of recognizing revenue related to the sales of products and equipment. In this assessment, we focused our testing on the following:</p> <ul style="list-style-type: none"> ● controls to ensure that sales data agrees to the contents of sales orders, invoices and customer receipts of products; and ● controls to investigate reasons for variances, if any, in inventory data between the logistics system and the external warehouse’s system. <p>(2) Assessment of whether revenue is recognized in the appropriate accounting period</p> <p>The procedures we performed to assess whether revenue is recognized in the appropriate accounting period, included the following:</p> <ul style="list-style-type: none"> ● selected sales transactions among those recorded in the last month of the fiscal year that appeared to be outside the normal range through an analysis on sales data based on the amount and date of sales to customers, and then assessed the appropriateness of the Group’s determination of the accounting

<p>period in which revenue is recognized was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>period in which revenue for those sales was recognized by tracing them to customer receipts of products and/or other supporting documents;</p> <ul style="list-style-type: none"> ● assessed the appropriateness of the Group’s determination of the accounting period in which revenue is recognized for sales recorded immediately before the end of the fiscal year by tracing them to customer receipts of products and/or other supporting documents; and ● assessed the appropriateness of revenue initially recognized for sales for which negative sales were recorded subsequent to the end of the fiscal year, by performing a multifaceted analysis including confirmation as to whether there was a large amount of returns and a trend analysis.
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Other Information

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

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

Responsibilities of Management and Audit/Supervisory Committee for the Consolidated Financial Statements

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

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

The Audit/Supervisory Committee are responsible for overseeing the directors’ performance of their duties with regard to the design, implementation and maintenance of the Group’s financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation and disclosures in the consolidated financial statements are in accordance with IFRS, the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Hideaki Koyama

Designated Engagement Partner

Certified Public Accountant

Yukihiko Ishiguro

Designated Engagement Partner

Certified Public Accountant

Yuichi Watanabe

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Tokyo Office, Japan

June 23, 2022

Notes to the Reader of Independent Auditor's Report:

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

Consolidated Financial Statements
1) Consolidated Statement of Financial Position

(Unit: Millions of yen)

	Notes	As of March 31, 2021	As of March 31, 2022
Assets			
Current assets			
Cash and cash equivalents	6	200,770	205,251
Trade and other receivables	7	128,770	135,998
Other current financial assets	8,31,32	1,116	63
Inventories	9	175,576	198,536
Current tax assets		510	778
Other current assets	10	17,222	18,086
Total current assets		523,966	558,713
Non-current assets			
Property, plant and equipment	11	299,679	333,864
Goodwill and intangible assets	12	471,834	514,801
Investments accounted for using the equity method		3,644	4,133
Other non-current financial assets	8,31,32	19,449	25,937
Deferred tax assets	18	23,729	20,198
Other non-current assets	10,20	8,887	16,043
Total non-current assets		827,225	914,979
Total assets		1,351,192	1,473,693

(Unit: Millions of yen)

	Notes	As of March 31, 2021	As of March 31, 2022
Liabilities and Equity			
Liabilities			
Current liabilities			
Trade and other payables	13	83,528	81,545
Bonds and borrowings	14,31,32	42,072	1,121
Other current financial liabilities	15,16,31,32	7,784	7,228
Current tax liabilities		14,311	14,104
Provisions		374	499
Other current liabilities	19	63,295	73,222
Total current liabilities		211,366	177,721
Non-current liabilities			
Bonds and borrowings	14,31,32	218,497	224,875
Other non-current financial liabilities	15,16,31,32	32,122	30,297
Deferred tax liabilities	18	15,962	12,746
Retirement benefit liabilities	20	6,639	5,811
Provisions		96	113
Other non-current liabilities	19	9,845	9,813
Total non-current liabilities		283,163	283,658
Total liabilities		494,530	461,379
Equity			
Share capital	21	38,716	38,716
Capital surplus	21	51,829	51,921
Treasury shares	21	(6,838)	(6,229)
Retained earnings	21	775,078	846,978
Other components of equity	21	(2,123)	80,926
Total equity attributable to owners of the parent		856,662	1,012,313
Total equity		856,662	1,012,313
Total liabilities and equity		1,351,192	1,473,693

The accompanying notes are an integral part of these consolidated financial statements.

2) Consolidated Statement of Profit or Loss

(Unit: Millions of yen)

	Notes	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Revenue	5,24	613,842	703,303
Cost of sales		287,219	333,962
Gross profit		326,623	369,341
Selling, general and administrative expenses	25	228,566	250,891
Other income	27	3,814	2,500
Other expenses	27	3,485	4,990
Operating profit		98,386	115,960
Finance income	28	1,727	1,062
Finance costs	28	2,337	2,961
Share of profit/(loss) of investments accounted for using the equity method		(716)	440
Profit before tax		97,060	114,501
Income tax expenses	18	19,859	25,687
Profit for the year		77,200	88,813
Attributable to:			
Owners of the parent		77,268	88,813
Non-controlling interests		(67)	-
Total profit for the year		77,200	88,813
Earnings per share			
Basic earnings per share (yen)	30	102.33	117.45
Diluted earnings per share (yen)	30	102.11	117.38

The accompanying notes are an integral part of these consolidated financial statements.

3) Consolidated Statement of Comprehensive Income

(Unit: Millions of yen)

	Notes	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Profit for the year		77,200	88,813
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Changes in financial assets measured at fair value through other comprehensive income	29	1,448	(29)
Remeasurements of defined benefit plans	29	11,803	6,699
Total items that will not be reclassified to profit or loss		13,252	6,670
Items that are or may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	29	24,390	83,029
Cash flow hedges	29	667	(458)
Cost of hedging	29	220	340
Total items that are or may be reclassified subsequently to profit or loss		25,278	82,910
Total other comprehensive income/(loss) for the year		38,531	89,581
Total comprehensive income for the year		115,732	178,394
Attributable to:			
Owners of the parent		115,801	178,394
Non-controlling interests		(69)	-
Total comprehensive income for the year		115,732	178,394

(Note) Items in the above statement are net of tax.

Details of the tax effect in relation to other comprehensive income are set out in Note 29 "Other comprehensive income".

The accompanying notes are an integral part of these consolidated financial statements.

4) Consolidated Statement of Changes in Equity

(Unit: Millions of yen)

	Notes	Equity attributable to owners of the parent					Total	Non-controlling interests	Total equity
		Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity			
Balance as of April 1, 2020		38,716	51,858	(14,103)	705,765	(27,423)	754,813	69	754,883
Profit for the year		-	-	-	77,268	-	77,268	(67)	77,200
Other comprehensive income		-	-	-	-	38,533	38,533	(1)	38,531
Total comprehensive income		-	-	-	77,268	38,533	115,801	(69)	115,732
Acquisition of treasury shares		-	-	(3)	-	-	(3)	-	(3)
Disposal of treasury shares		-	-	96	(14)	(82)	0	-	0
Dividends	22	-	-	-	(21,109)	-	(21,109)	-	(21,109)
Transfer from other components of equity to retained earnings	21	-	-	-	13,197	(13,197)	-	-	-
Share-based payments	23	-	0	99	102	47	249	-	249
Conversion of convertible bonds		-	(29)	7,072	(132)	-	6,910	-	6,910
Total transactions with owners of the parent		-	(29)	7,265	(7,956)	(13,232)	(13,953)	-	(13,953)
Balance as of March 31, 2021		38,716	51,829	(6,838)	775,078	(2,123)	856,662	-	856,662
Profit for the year		-	-	-	88,813	-	88,813	-	88,813
Other comprehensive income		-	-	-	-	89,581	89,581	-	89,581
Total comprehensive income		-	-	-	88,813	89,581	178,394	-	178,394
Acquisition of treasury shares		-	-	(3)	-	-	(3)	-	(3)
Disposal of treasury shares		-	(10)	49	-	(38)	0	-	0
Dividends	22	-	-	-	(23,440)	-	(23,440)	-	(23,440)
Transfer from other components of equity to retained earnings	21	-	-	-	6,527	(6,527)	-	-	-
Share-based payments	23	-	114	91	-	35	241	-	241
Conversion of convertible bonds		-	(11)	470	-	-	459	-	459
Total transactions with owners of the parent		-	92	608	(16,913)	(6,531)	(22,742)	-	(22,742)
Balance as of March 31, 2022		38,716	51,921	(6,229)	846,978	80,926	1,012,313	-	1,012,313

The accompanying notes are an integral part of these consolidated financial statements.

5) Consolidated Statement of Cash Flows

(Unit: Millions of yen)

	Notes	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Cash flows from operating activities			
Profit before tax		97,060	114,501
Depreciation and amortization		53,932	58,882
Share of the (profit)/loss of investments accounted for using the equity method		716	(440)
Increase/(decrease) in retirement benefit assets or liabilities		256	646
Interest and dividend income		(539)	(640)
Interest expenses		2,337	1,833
Foreign exchange (gain)/loss		249	2,187
(Gain)/loss on disposal of property, plant and equipment		498	472
(Increase)/decrease in trade and other receivables		6,417	(895)
(Increase)/decrease in inventories		(21,985)	(8,166)
Increase/(decrease) in trade and other payables		(814)	55
Others		6,754	3,799
Sub-total		144,884	172,236
Interest and dividend income received		740	1,033
Interest expenses paid		(1,062)	(1,312)
Income taxes paid		(23,076)	(30,489)
Net cash provided by operating activities		121,485	141,467
Cash flow from investing activities			
Payments for purchase of time deposits		(149)	(3)
Proceeds from withdrawal of time deposits		305	7
Payments for purchase of property, plant and equipment		(62,318)	(53,515)
Proceeds from sale of property, plant and equipment		16	26
Payments for purchase of intangible assets		(20,806)	(20,590)
Proceeds from sale of intangible assets		212	-
Payments for purchase of financial instruments		(2,102)	(1,705)
Proceeds from sale of financial instruments		2,900	180
Payment for acquisition of shares of subsidiaries and other businesses		(3,374)	(2,853)
Net cash used in investing activities		(85,317)	(78,454)
Cash flow from financing activities			
Repayments of short-term borrowings	17	(40,000)	-
Proceeds from long-term borrowings	17	70,000	-
Repayments of long-term borrowings	17	-	(30,670)
Payments for redemption of corporate bonds	17	(10,000)	(10,000)
Repayments of lease liabilities	17	(6,277)	(6,750)
Payments for purchase of treasury shares		(3)	(3)
Payments for dividends		(21,155)	(23,455)
Net cash provided by/(used in) financing activities		(7,436)	(70,879)
Effect of exchange rate changes on cash and cash equivalents		5,139	12,347
Net increase/(decrease) in cash and cash equivalents		33,871	4,481

Cash and cash equivalents at the beginning of the year	<u>166,898</u>	<u>200,770</u>
Cash and cash equivalents at the end of the year	<u>200,770</u>	<u>205,251</u>

The accompanying notes are an integral part of these consolidated financial statements.

6) Notes to Consolidated Financial Statements

1. Reporting entity

Terumo Corporation (hereinafter referred to as the “Company”) is a company located in Japan. The address of the Company’s registered head office and main business offices are available on the Company’s website (URL <https://www.terumo.com/>). These consolidated financial statements for the fiscal year ended March 31, 2022 comprise of the Company and its subsidiaries (hereinafter collectively referred to as the “Group”). The Group is primarily involved in the manufacture and sales of medical products and equipment, and operates based on an in-house company system classified by product groups. Details of these principal business activities of the Group are presented in Note 5 “Segment information”.

2. Basis of preparation

(1) Compliance with IFRS

As the Company has met the requirements for a “Specified Company Applying Designated International Financial Reporting Standards” prescribed in Article 1-2 of the “Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements” issued by the Ministry of Finance in Japan (Ministry of Finance Ordinance No. 28 of 1976), the Group’s consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (hereinafter referred to as “IFRS”) as prescribed in Article 93 of the ordinance.

The consolidated financial statements were approved for publication by Shinjiro Sato, President and CEO, on June 23, 2022.

(2) Basis of measurement

The Group’s consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments measured at fair value and the assets and liabilities recognized for defined benefit plans, as presented in Note 3 “Significant accounting policies”.

(3) Functional currency and presentation currency

The Group’s consolidated financial statements are presented in Japanese yen, which is the currency of the primary economic environment in which the Company operates (hereinafter referred to as the “functional currency”). All financial information is rounded down to the nearest million yen.

(4) Changes in accounting policy

The Group has adopted the standards and interpretations below from the fiscal year ended March 31, 2022. The effect of adopting these standards on the Group’s consolidated financial statements is insignificant.

	Standard/Interpretation	Outline of the new standards, interpretations and amendments
IFRS 7	Financial Instruments: Disclosures	Amendments corresponding to the impact on financial reporting
IFRS 9	Financial Instruments	causing during the period of transition from the existing interest rate
IFRS 16	Leases	benchmark to alternative benchmark rates due to IBOR reform.

(5) Use of accounting estimates and judgements

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of the Group’s accounting policies and the carrying amounts of assets, liabilities, income and expenses. The estimates and assumptions are based on management’s best judgement, through their evaluation of various factors that were considered reasonable at the end of period, based on historical experience and available information. However, actual results may differ from those estimates and assumptions due to their nature. Estimates and underlying assumptions are reviewed on an ongoing basis. Any changes to accounting estimates are recognized in the period in which the estimate is revised and future accounting periods that will be affected.

The below are the judgements made by management, that have significant influence on the amounts in the consolidated financial statements, and the estimates and underlying assumptions which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in subsequent reporting periods.

With respect to future earnings forecasts, although the impact of inflation is expected to remain in the fiscal year ending March 31, 2023, the Group expects that the recovery from the impact of the spread of COVID-19 infections and growth drivers in each reportable segment will have a positive impact on the Group's business. Contributed also by improvements in operating levels of factories, the Group assumes that sales and profits will increase, and has made accounting estimates, such as the impairment test of goodwill, based on such assumption.

(a) Evaluation of inventories

Inventories are measured at historical costs. However, when the net realizable value ("NRV") at the reporting date falls below the cost, inventories are measured based on NRV. In principle, the differences between the cost and NRV are recognized as cost of sales. The net realizable value of slow-moving inventories that cannot be consumed or sold in the normal operating cycle is calculated based on information reflecting future demand and market trends. The Group may recognize substantial losses, in cases where the NRV decreases, because of a deterioration in the market environment against that forecast.

Details of the amount of write-down of inventories are described in Note 9 "Inventories".

(b) Estimation of useful lives and residual values of property, plant and equipment and intangible assets

Property, plant and equipment are depreciated based on the estimated useful lives over which the asset's future economic benefits are expected to flow to the Group. If an item of property, plant and equipment becomes obsolete in the future or is redesignated for other uses, the depreciation expenses for the period may increase due to the shortening of the estimated useful life of the item. Details of the estimates of useful lives of property, plant and equipment are described in Note 3 "Significant accounting policies - (7) Property, plant and equipment". The residual values of property, plant and equipment are set at zero or at a memorandum value, except for items for which the selling prices (after deducting costs to sell) at the end of useful lives can be estimated.

Intangible assets, except for intangible assets with indefinite useful lives and intangible assets that are not yet available for use, are amortized based on the estimated useful lives over which the asset's future economic benefits are expected to flow to the Group. There is a risk of an increase in amortization costs caused by changes in the estimated useful lives of intangible assets due to external factors, such as changes in business environment.

Details of the estimates of useful lives of intangible assets are described in Note 3 "Significant accounting policies - (8) Goodwill and intangible assets".

(c) Estimation of recoverable amounts for impairment testing

The Group conducts an impairment test on non-financial assets, except for inventories and deferred tax assets, if an indication of impairment exists. However, goodwill and intangible assets with indefinite useful lives, and intangible assets not yet available for use are tested for impairment annually and when an indication of impairment exists.

Factors that would trigger an impairment test include significant deterioration in past performance or expected operating results, significant changes in the usage of acquired assets, changes in the overall strategy, and significant decline in industry and economic trends.

Goodwill is allocated to cash-generating units or groups of cash-generating units which are determined based on business type. An impairment test is conducted annually and when an indication of impairment exists.

Determining the recoverable amounts used in impairment tests requires the estimation of assets' useful lives, future cash flows, discount rates reflecting the inherent risks of the assets and long-term growth rates, which are determined based on the management's best estimates and judgements. These estimates may be affected by the uncertainty over future economic conditions. Where it is necessary to make changes in the estimates, it may result in significant impacts on the consolidated financial statements in future reporting periods.

Details of the calculation of the recoverable amounts used in the impairment tests are described in Note 3 "Significant accounting policy (10) Impairment of non-financial assets".

(d) Measurement of defined benefit obligations

The Group has in place various post retirement benefit plans, including defined benefit plans.

The present value of defined benefit liabilities for each plan and the service costs are calculated based on actuarial assumptions. Determining these actuarial assumptions requires estimates of variables such as discount rates and net interest, which are made based on management's best estimates and judgements. However, these estimates may be affected by the uncertain future economic conditions. Where it is necessary to make changes in the estimates, it may result in significant impacts on the consolidated financial statements in subsequent reporting periods.

Details of the amounts of defined benefit liabilities and plan assets, and actuarial assumptions are described in Note 20 "Post-employment benefits".

(e) Estimation of share-based payments

The Group has a share option scheme. The estimation of share-based compensation expenses related to stock options granted to directors, executives and employees is measured at fair value, which is calculated using the Black-Scholes-Merton model (hereinafter referred to as the “Black-Scholes model”). The Black-Scholes model involves various assumptions that require sophisticated judgements, such as expected volatility at option grant date, expected remaining maturity of stock options, and fair value of shares on option grant date. The estimate of expected volatility is based on past actual volatility of reference companies that are listed and have similar business and scale. The estimate of the expected remaining period of stock options is based on the forecast of future stock price fluctuations and expected exercise patterns of option holders.

The nature and amounts of the share option scheme are described in Note 23 “Share-based payments”.

(f) Recoverability of deferred tax assets

Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which temporary deductible differences, tax loss carryforwards and tax credit carryforwards can be utilized. In respect of the recognition of deferred tax assets, the Group estimates the timing and amount of expected taxable income based on the Group’s business plan to determine whether it is probable that taxable income will be available.

The timing and amounts of expected taxable income may be affected by the uncertainty over future economic conditions. Where the actual timing and amounts of taxable income differ from the estimates, the differences may have a material impact on the amounts of deferred tax assets recognized in the consolidated financial statements in subsequent reporting periods.

The nature and amounts of deferred tax assets are described in Note 18 “Income taxes”.

(g) Fair values of financial instruments

The Group uses valuation techniques utilizing inputs that are unobservable in the market when assessing the fair value of financial instruments. Fair value calculated based on valuation techniques utilizing unobservable inputs is subject to assumptions such as reasonable base rate and selection of calculation model. Unobservable inputs may be affected by the uncertainty over future economic conditions, which may have a material impact on the consolidated financial statements in the subsequent reporting periods.

Details of valuation techniques and inputs used in determining fair values of financial instruments are described in Note 32 “Fair values of financial instruments”.

(6) Early application of standards and interpretations

There are no standards and interpretations early applied from the fiscal year ended March 31, 2022.

(7) New standards and interpretations not yet adopted

The standards and interpretations that were newly issued or amended by the date of approval of the consolidated financial statements but have not been early adopted by the Group as of March 31, 2022 are as follows:

Standard/Interpretation	Mandatory application (From periods beginning on or after)	To be adopted by the Group (reporting period ending)	Outline of the new standards, interpretations and amendments
IAS 12 Income taxes	January 1, 2023	From the year ending March 31, 2024	Clarification of the accounting for deferred tax on leases and decommissioning obligations (Transactions for which companies recognize both an asset and a liability)
IFRS 3 Business Combinations	January 1, 2022	From the year ending March 31, 2023	Updating reference to the revised Conceptual Framework for Financial Reporting.

The standards and interpretations will be adopted by the Group in the consolidated financial statements at the time of application as shown above.

The Group is evaluating the effect of adopting the standards on the Group's consolidated financial statements for the year ending March 31, 2023 and thereafter but currently the impacts cannot be estimated.

3. Significant accounting policies

The significant accounting policies used in the preparation of the consolidated financial statements are described below. The Group has applied the accounting policies consistently in all the reporting periods presented in these consolidated financial statements unless otherwise noted.

(1) Basis of consolidation

(a) Subsidiaries

Subsidiaries are entities which are controlled by the Group. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity, and has the ability to use its power to affect its returns. The subsidiaries' financial statements are consolidated from the date when control is acquired until the date when control is lost.

In the event that the accounting policies applied by the subsidiaries are different from those adopted by the Group, the financial statements of those subsidiaries are adjusted to align with the Group's accounting policies.

Inter-group balances and transactions, and unrealized gains and losses arising from inter-group transactions, are eliminated when preparing the consolidated financial statements.

Total comprehensive income of subsidiaries is generally attributed to the owners of the parent and to the non-controlling interests, even if it results in a deficit of non-controlling interests.

(b) Associates

Associates are entities in which the Group has significant influence, but not control, over the financial and operating policies. It is presumed that significant influence over an investee exists when the Group holds 20% or more of the voting rights but no more than 50% of the voting rights of the investee.

Investments in associates are recognized initially at cost, and subsequently accounted for using the equity method. The Group's investment includes goodwill identified on acquisition. This goodwill is not separately recognized, so it is not tested for impairment separately. Instead, the entire carrying amounts of the investments in associates are tested for impairment. Specifically, the Group evaluates, on a quarterly basis, whether there is any objective evidence of impairment of investments. If there is any objective evidence that shows the investment may be impaired, an impairment test is carried out.

To maintain consistency with the policies adopted by the Group, the financial statements of associates are adjusted to comply with the Group accounting policies as necessary.

When the Group's share of losses of an associate exceeds the Group's interest in that associate accounted for using the equity method, the Group reduces the balance of investment in associate to zero, and does not recognize any further losses except when the Group has legal or constructive obligations or makes payments on behalf of the associate.

(2) Business combinations

The Group uses the acquisition method to account for business combinations. The acquisition consideration is calculated as the sum of the acquisition-date fair value of the assets transferred, the liabilities assumed, and the equity interests issued by the Company in exchange for control over the acquiree. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration. In principle, the identifiable assets acquired, and liabilities and contingent liabilities assumed are measured at acquisition-date fair value.

Goodwill is recognized in the Consolidated Statement of Financial Position as of the acquisition date as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the Group's previously held equity interest in the acquiree over the net of the acquisition date amounts of the identifiable assets acquired and liabilities assumed.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognized at that date, during the measurement period. Additional assets and liabilities are also recognized if new information obtained would have resulted in the recognition of those assets and liabilities. The measurement period shall not exceed one year from the date of acquisition of control.

(3) Foreign currency

(a) Functional currency and presentation currency

The separate financial statements of each company of the Group are prepared in the respective functional currency. The Group's consolidated financial statements are prepared in the Company's functional currency, Japanese yen, which is also its presentation currency.

(b) Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currencies of each company at the spot exchange rate at the date of transactions or at the foreign exchange rate that approximates the spot exchange rate at the date of the translation.

Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items measured at fair value that are denominated in foreign currencies are translated into the functional currency at the exchange rates at the date when the fair value was measured. Exchange differences arising from foreign currency translation are recognized in profit or loss, except for exchange differences arising from financial assets measured through other comprehensive income and cash flow hedges that are recognized in other comprehensive income.

Non-monetary items that are measured at historical cost in a foreign currency are translated into the functional currency at the spot exchange rate at the date of transactions or at the foreign exchange rate that approximates the spot exchange rate at the date of the translation.

(c) Foreign operations

The assets and liabilities of the Group's foreign operations are translated into Japanese yen at the exchange rate at the end of each reporting period. Income and expenses are translated into Japanese yen at the average exchange rate for the period unless the exchange rate fluctuates significantly during the period. Exchange differences arising from the translation of the financial statements of foreign operations are recognized in other comprehensive income, and subsequently transferred to profit or loss during the period in which foreign operations are disposed.

(4) Financial instruments

a. Recognition and measurement of financial assets

(a) Initial recognition and measurement

The Group classifies financial assets into financial assets measured at fair value through profit or loss, financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost. The classification is determined on initial recognition.

Financial assets measured at fair value through profit or loss are initially measured at fair value. For financial assets measured at fair value through other comprehensive income and financial assets measured at amortized cost, transaction costs that are directly attributable to the acquisition of financial assets are added to the fair value of the financial assets on initial recognition. However, the trade receivables that do not contain a significant financing

component are measured at the transaction price on initial recognition.

Financial assets are initially recognized when the Group becomes a contractual party to the contract provisions of the financial instrument. However, trade and other receivables are initially recognized on the transaction date.

The Group classifies its financial assets as those measured at amortized cost if both of the following conditions are met.

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

Financial assets not classified as those measured at amortized cost are measured at fair value.

Among financial assets measured at fair value, the Group may irrevocably designate equity instruments, on an asset-by-asset basis, measured at fair value through profit or loss or at fair value through other comprehensive income on initial recognition and apply the designation consistently.

The above-said financial assets measured at amortized cost, and financial assets other than equity instruments measured at fair value through other comprehensive income, are all measured at fair value through profit or loss.

(b) Subsequent measurement

After initial recognition, financial assets are subsequently measured according to the following classifications:

(i) Financial assets measured at amortized cost

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

(ii) Financial assets measured at fair value

Financial assets measured at fair value are measured at fair value.

The changes in fair value of financial assets measured at fair value are recognized in profit or loss. However, as for equity instruments designated as financial assets measured at fair value through other comprehensive income, the changes in fair value are recognized in other comprehensive income.

Dividends arising from equity instruments measured at fair value through other comprehensive income are recognized as "Finance income" in profit or loss, except when such dividends are deemed as partial recovery of investment cost.

b. Impairment of financial assets

For financial assets measured at amortized cost, loss allowances are recognized based on the expected credit losses.

The Group evaluates whether the credit risk on a financial asset has significantly increased since initial recognition at the end of the reporting period. If the credit risk on a financial asset has not significantly increased since initial recognition, loss allowance is measured at an amount equal to the 12-month expected credit losses. If the credit risk on a financial asset has significantly increased since initial recognition, loss allowance is measured at an amount equal to the lifetime expected credit losses.

Whether credit risk has increased significantly is determined based on changes in the risk of a default occurring on a financial asset. When determining whether changes in the risk of a default occur on financial asset, significant change in the financial asset's external credit rating and past due information are considered.

The loss allowance for trade and other receivables is measured at an amount equal to the lifetime expected credit losses.

The expected credit loss is measured at the present value of the differences between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

The loss allowance for expected credit losses on a financial asset is recognized in profit or loss. The reversal of loss allowance for expected credit losses is also recognized in profit or loss.

c. Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire.

d. Recognition and measurement of financial liabilities

(a) Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortized cost and financial liabilities measured at fair value through profit or loss on initial recognition. Financial liabilities are initially recognized when the Group becomes a contractual party. Financial liabilities measured at fair value through profit or loss are initially measured at fair value. Financial liabilities measured at amortized cost are initially measured at fair value less transaction costs

that are directly attributable to the financial liabilities.

(b) Subsequent measurement

After initial recognition, financial liabilities are subsequently measured according to the following classifications:

(i) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest rate method and gains or losses arising from derecognition of the financial liability are recognized in profit or loss.

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

The net gains or losses, including interest expenses, arising from the financial liabilities measured at fair value through profit or loss, are recognized in profit or loss.

e. Derecognition of financial liabilities

The Group derecognizes a financial liability when it is extinguished i.e. when the obligation specified in the contract is discharged, cancelled, or has expired.

f. Compound instruments

The compound instruments issued by the Group are convertible bonds with share subscription rights. The liability component of a compound financial instrument is initially recognized at the fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized at the excess of the fair value of the compound financial instrument over the fair value of the liability component. Any directly attributable transaction costs are allocated to the equity and liability components of the compound financial instrument in proportion to their initial carrying values.

After initial recognition, the liability component of the compound financial instrument is measured at amortized cost using the effective interest method, while the equity component is not remeasured.

g. Derivatives and hedge accounting

The Group uses derivatives to hedge currency risk and interest rate risk. Derivatives mainly consist of forward exchange contracts, interest rate swaps, and cross-currency interest rate swaps. These derivatives are initially measured at the fair value when the derivative contracts are entered. After initial recognition, the derivatives are remeasured at fair value and the changes in fair value are generally recognized in profit or loss.

The Group designates certain derivatives as cash flow hedges to hedge against the exposure to variability in cash flows that is attributable to the risk of foreign currency exchange rates, interest rate fluctuations and highly probable forecast transactions.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationships to which hedge accounting is applied, between hedging instruments and hedged items, along with the risk management objectives and strategies. The documentation includes the hedging instrument, the hedged item or transaction, the nature of the risk being hedged, and how to assess whether the hedging instrument is highly effective in offsetting changes in cash flows of the hedged item attributable to the risks to be hedged. The Group evaluates the hedge effectiveness periodically. Specifically, when a hedging relationship meets all of the following hedge effective requirements, the hedge relationship is assessed as highly effective:

- there is an economic relationship between the hedged item and the hedging instrument which results in an offset;
- the effect of credit risk does not dominate the value changes that result from that economic relationship; and
- the hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

The Group discontinues hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria after taking into account any rebalancing of the hedging relationship.

The hedges that meet the requirements for hedge accounting are accounted for as follows:

The effective portion of the gain or loss on hedging instruments that are designated as cash flow hedges, is recognized in other comprehensive income. The ineffective portion is recognized in profit or loss.

The Group uses interest rate currency swaps for hedging. The Group designates the portion other than the foreign currency basis spread portion as the hedging instrument and recognizes any changes in the fair value of the foreign currency basis spread portion as the cost of hedging through other comprehensive income in equity.

The cumulative amount previously recognized in equity through other comprehensive income for gain or loss on the hedging instrument and the cost of hedging are reclassified to profit or loss in the same period when the hedged

forecast cash flows affect profit or loss.

Hedge accounting is discontinued prospectively if the hedge no longer meets the criteria for hedge accounting due to the expiration or sale of the hedging instrument. If the future cash flow is still expected to occur, the accumulated gains or losses recognized in other comprehensive income continue to be recognized in other comprehensive income. If the forecast transaction is no longer expected to occur, the amount accumulated in other comprehensive income is immediately reclassified to profit or loss.

(5) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value, and whose maturities are three months or less from the date of acquisition.

(6) Inventories

Inventories are measured at the lower of cost or net realizable value. Cost of inventories is mainly calculated by using the weighted average method and comprises all costs of purchase, costs of manufacturing, and other costs incurred in bringing the inventories to their present location and condition. Costs of manufacturing include allocated fixed and variable manufacturing overhead.

Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, plant and equipment

(a) Recognition and measurement

The Group measures property, plant and equipment by using the cost model under which it is measured at costs less accumulated depreciation and impairment losses.

Initial costs include costs directly attributable to the acquisition of property, plant and equipment, the initial estimated costs related to removing the asset and restoring the site, and borrowing costs that are qualified for capitalization.

In case that the useful life of each significant component of an item of property, plant and equipment is different, each significant component is accounted for separately.

Subsequent cost incurred after acquisition is included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the asset will flow to the Group and the cost of the asset can be measured reliably. Other repair and maintenance expenditures are recognized as expenses in the period in which they are incurred.

Property, plant and equipment are derecognized on disposal or when no future economic benefits are expected from their use or disposal. Gains or losses arising from the derecognition of property, plant and equipment are recognized in profit or loss at the difference between the net disposal proceeds and the carrying amount of the asset at the time of derecognition. The Group recognizes gains or losses arising from derecognition of property, plant and equipment in "Other income" or "Other expenses" in the Consolidated Statement of Profit or Loss.

(b) Depreciation

Property, plant, and equipment other than land and construction in progress are depreciated using the straight-line method over their estimated useful lives. Land and construction in progress are not depreciated.

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

- Buildings and structures 3 - 60 years
- Machinery and vehicles 4 - 15 years
- Tools, furniture and fixtures 2 - 20 years

The useful lives, residual values, and depreciation methods are reviewed at the end of each reporting period. Changes in useful lives, residual values, and depreciation methods are applied prospectively as changes of accounting estimates.

(8) Goodwill and intangible assets

a. Goodwill

The Group recognizes goodwill as the excess of the fair value of consideration transferred, including the amount of any non-controlling interests in the acquiree measured at the acquisition date, over the net of the amount (generally, fair value) of the identifiable assets acquired and liabilities assumed recognized at the acquisition date.

Goodwill is not amortized and is tested for impairment annually and whenever there is an indication that goodwill may be impaired. Impairment losses on goodwill are recognized in the Consolidated Statement of Profit or Loss and

are not reversed in subsequent periods. Goodwill is measured at cost determined at the acquisition date, less any accumulated impairment losses in the Consolidated Statement of Financial Position.

b. Intangible assets

(a) Recognition and measurement

The Group measures intangible assets using the cost model. Intangible assets acquired separately are measured at cost at initial recognition. Intangible assets recognized through a business combination are initially measured at fair value at the acquisition date.

Expenditures on research activities are recognized in profit or loss in the period in which they are incurred. Expenditures on development activities for which the Group can demonstrate that they meet the following conditions are recognized as an asset. Where expenditures on development activities do not meet the following conditions, the expenditures are recognized in profit or loss in the period in which they are incurred.

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial, and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development;

Expenditures on development activities that are capitalized as an asset are measured at cost less accumulated amortization and impairment losses.

(b) Amortization

After initial recognition, intangible assets other than those with indefinite useful lives are amortized over their respective estimated useful lives, and measured at cost less accumulated amortization and impairment losses.

Intangible assets are amortized from the date when they are available for use. The intangible assets, other than those with indefinite useful lives and those that are not available for use, are amortized on a straight-line basis over their estimated useful lives.

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

- | | |
|--------------------------|-----------------|
| • Development costs | mainly 20 years |
| • Software | 5 - 10 years |
| • Customer relationships | mainly 20 years |
| • Technologies | 10 - 20 years |

Estimated useful lives, amortization methods, and residual values are reviewed at the end of each reporting period. Changes in estimated useful lives, residual values and amortization methods are applied prospectively as changes of accounting estimates.

(9) Leases as a lessee

At the inception of a contract, the Group assesses whether the contract is, or contains a lease. It is determined that the contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

At the commencement date, the Group measures the right-of-use asset at cost and lease liability at the present value of the lease payments that are not paid at that date as a lessee. The cost of the right-of-use asset is initially measured at the amount of the initial measurement of the lease liability, together with adjustments for any initial direct costs and any advance lease payments. Right-of-use assets and lease liabilities are included in "Property, plant and equipment" and "Other financial liabilities", respectively, in the Consolidated Statement of Financial Position. After the initial measurement of a right-of-use asset and a lease liability, depreciation of the right-of-use asset and interest expense on the lease liability are recognized.

The Group determines the lease term as the non-cancellable period of a lease, together with both periods covered by an option to extend the lease if the lessee is reasonably certain to exercise that option and periods covered by an option to terminate the lease if the lessee is reasonably certain not to exercise that option. The lessee's incremental borrowing rate is used for measurement of the lease liability related to a right-of-use asset. A right-of-use asset is depreciated by

the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The Group elects not to recognize right-of-use assets and lease liabilities for short-term leases which have a lease term of 12 months or less and leases for which the underlying asset is of low value. The Group recognizes the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis.

(10) Impairment of non-financial assets

At the end of each reporting period, the Group reviews the carrying amounts of non-financial assets (except for inventories and deferred tax assets) and determines whether there is any indication of impairment. If any indication exists, the recoverable amount of the asset or the cash-generating unit to which the asset belongs is estimated. Goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use are tested for impairment when there is any indication of impairment, and at a certain time in a fiscal year, regardless of whether there is any indication of impairment. When performing impairment tests, assets are grouped into the smallest group of assets that generate cash inflows through continuous use of the asset that are largely independent of the cash inflows from other assets or cash-generating units. Goodwill arising from a business combination is allocated to cash-generating units or group of cash-generating units expected to obtain synergies from the business combination.

The recoverable amount of an asset, a cash-generating unit, or a group of cash-generating units is the higher of value in use or fair value less costs of disposal. Value in use is calculated by discounting the estimated future cash flows to their present value using a pretax discount rate that reflects the time value of money and the risks specific to the asset or the cash-generating unit.

Impairment losses are recognized, when the carrying amount of an asset, a cash-generating unit, or a group of cash-generating units is greater than the recoverable amount.

Impairment losses are recognized in profit or loss. Impairment loss recognized for a (group of) cash-generating unit which includes goodwill is first allocated to reduce the carrying amount of any goodwill allocated to the unit, and subsequently to other assets of the unit pro rata to the carrying amount of each asset in the unit.

Any impairment loss for goodwill is not reversed in subsequent periods. For assets other than goodwill, an impairment loss is reversed, to the extent of the carrying amount that would have been determined had no impairment loss been recognized, net of depreciation and amortization.

(11) Employee benefits

a. Post-retirement benefits

(a) Defined contribution plans

The contribution obligation of a defined contribution plan is recognized as an expense when employees render the related services. Prepayment of the contribution amount is recognized as an asset to the extent that the contribution amount would be returned or the future payment amount decreases.

(b) Defined benefit plans

A defined benefit plan is a retirement benefit plan other than a defined contribution plan.

Assets or liabilities recognized in the Consolidated Statement of Financial Position related to a defined benefit pension plan are calculated by deducting the fair value of the assets from the present value of the defined benefit obligations as of the end of the reporting period. Defined benefit obligations are calculated at the end of each reporting period using the projected unit credit method.

The discount rate is calculated based on the market yield of high quality corporate bonds on the reporting date, of which term and currency are generally the same as the defined benefit obligation of the Group.

Past service cost is recognized in profit or loss when incurred.

The Group recognizes rereasurement of the net defined benefit liabilities (assets) in other comprehensive income and immediately reclassifies from other components of equity to retained earnings.

b. Short-term employee benefits

Short-term employee benefits are recognized as an expense on an undiscounted basis at the time when employees render the related service. Bonuses and paid annual leave accruals are recognized as a liability in the amount estimated to be paid, when the Group has legal or constructive obligations to pay for the services rendered by employees in the past and reliable estimates of the obligation can be made.

(12) Share-based payments

(a) Stock option plan

The Group provides a stock option plan as an equity-settled share-based compensation plan. Stock options are recognized as expenses in the Consolidated Statement of Profit or Loss over the vesting period, considering the fair value at the grant date and the number of stock options expected to vest, and correspondingly the same amount is recognized as an increase of capital in the Consolidated Statement of Financial Position. The fair value of the option granted is measured using the Black-Scholes model based on the terms and conditions of the option. In addition, the terms and conditions are periodically reviewed and the estimated number of options expected to vest is revised as necessary.

(b) Restricted stock compensation plan

The Group has introduced a restricted stock compensation plan as an equity-settled share-based performance-related payment plan for the Company's Directors (excluding Directors who are Audit and Supervisory Committee Members and Outside Directors) and executive officers. The consideration for services received is measured at the fair value of the Company's shares at the grant date and is recognized as an expense over the vesting period (from the grant date to vesting date) in the Consolidated Statement of Profit or Loss. The corresponding amount is recognized as an increase in equity in the Consolidated Statement of Financial Position.

(13) Provisions

Provisions are recognized when the Group has legal or constructive obligations due to past events, it is probable that outflows of economic benefits will be required to settle the obligations, and reliable estimates of the obligation can be made. To determine the amount of a provision, the estimated future cash flows are discounted using a pre-tax discount rate that reflects the time value of money and the risks specific to the liability where necessary. Unwinding of the discount over time is recognized in finance costs.

- Asset retirement obligations

The Group recognizes a provision for asset retirement obligations, which are recognized and measured by estimating asset retirement obligations individually taking into account the status of each property based on expected usable years, and determined in light of past records of restoration and useful lives of internal fixtures in offices and other locations. The provision is made in relation to obligations for restoration of rental offices, buildings and sites and removal of harmful materials related to fixed assets.

(14) Revenue

With regard to contracts with customers, except for interest and dividend income and similar items accounted for under IFRS 9, the Group recognizes revenue by applying the following steps based on IFRS 15:

- Step 1: Identify the contract with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognize revenue when the entity satisfies a performance obligation

The Group is primarily involved in the manufacture and sales of medical products and equipment. For the sales of these products, the performance obligation is to deliver the products and equipment to the customer based on the contract with the customer.

The Group primarily recognizes revenue at the time of delivery of a product since the customer obtains control over the product and performance obligations are satisfied at the time of delivery. Revenue is measured at the amount of promised consideration in contracts with customers less discounts and rebates, and reduced by the amount of sales returns. If the consideration from contracts with customers includes a variable amount, the variable consideration is included in the transaction price only to the extent that it is highly probable that a significant reversal of the cumulative amount of revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

The Group collects consideration from contracts with customers for product sales mainly from one month to six months from when products are delivered to customers. Since the Group receives the consideration within one year, the contracts do not contain a significant financing component.

(15) Government grants

Government grants are recognized and measured at fair value when there is reasonable assurance that the Group will comply with the conditions attached to them and that the grants will be received. Government grants that are intended to compensate for specific costs are recognized as income in the same period in which the Group recognized the corresponding expenses. Government grants relating to assets are recognized in “Other income” over the useful lives of the assets on a systematic basis and unrecognized grant receivables are recognized as deferred income in liabilities.

(16) Finance income and finance costs

Finance income mainly comprises interest income, dividend income, foreign exchange gains, gains arising from changes in fair value of financial assets measured at fair value through profit or loss, and gains on hedging instruments recognized in the profit or loss. Interest income is recognized as incurred using the effective interest method. Dividend income is recognized when the Group’s right to receive payment is earned.

Finance costs mainly comprise interest expense, unwinding of discounted provisions, foreign exchange losses, losses arising from changes in fair value of financial assets measured at fair value through profit or loss, and losses on hedging instruments recognized in profit or loss. Interest expense is recognized as incurred using the effective interest method.

Foreign exchange gains and losses are presented on a net basis as finance income or finance cost, depending on the net profit or loss position as a result of foreign exchange rate fluctuations.

(17) Corporate income tax

Income taxes consist of current and deferred taxes and are recognized in profit or loss, except for taxes related to business combinations and items that are recognized directly in equity or in other comprehensive income.

(a) Current tax

Current tax is measured at the amount expected to be paid to (refunded from) the taxation authorities on the current year’s taxable income(loss). In calculating the tax amount, the Group applies the tax rate and tax law and regulations enacted or substantially enacted by the end of the reporting period in jurisdictions where the Group conducts business activities and earns taxable income.

(b) Deferred tax

Deferred tax assets and liabilities are recognized for temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and their tax basis, and tax loss carryforwards and tax credits. Deferred tax assets and liabilities are not recognized for the following temporary differences:

- Temporary differences arising from the initial recognition of assets and liabilities related to transactions other than business combinations, that affect neither the accounting profit (loss) nor the taxable income (loss);
- Taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, where the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary differences will not reverse in the foreseeable future;
- Deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, to the extent that it is not probable that the temporary difference will reverse in the foreseeable future or taxable income will be available against which the temporary difference can be utilized; and
- Taxable temporary differences arising from the initial recognition of goodwill

In principle, deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized on all deductible temporary differences to the extent that it is probable that taxable income will be available against which the deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to realize all or part of the benefit of the deferred tax assets. At the end of each reporting period, unrecognized deferred tax assets are reassessed, and recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the temporary differences will reverse, based on tax laws that have been enacted or substantively enacted by the end of the reporting period.

Measurement of deferred taxes reflects the tax effect arising from intended collection or settlement of the carrying amount of assets and liabilities of the Group at reporting date.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to offset current tax

assets against current tax liabilities, and income taxes are levied by the same taxation authority on the same taxable entity.

(18) Earnings per share

Basic earnings per share is calculated by dividing profit for the year attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the reporting period, adjusted for the number of treasury shares acquired. Diluted earnings per share is calculated by adjusting the effect of all potential dilutive ordinary shares.

(19) Segment information

An operating segment is a component of an entity that engages in business activities that earn revenue and generate costs, including transactions with other operating segments. The results of all operating segments, of which separate financial information is available, are periodically monitored by the Board of Directors of the Group to determine the allocation of business resources and evaluate performance.

(20) Capital

(a) Ordinary shares

Proceeds from the Company's issuance of ordinary shares are recognized in share capital and capital surplus, and direct issue costs (after tax effect) are deducted from share capital and capital surplus.

(b) Treasury shares

Treasury shares are recognized at cost and deducted from equity. No gain or loss is recognized on the purchase, sale or retirement of the Company's treasury shares. Any difference between the carrying amount and consideration received on the sale of treasury shares is recognized in equity.

(21) Borrowing costs

A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Borrowing costs directly attributable to the acquisition, construction and production of a qualifying asset are capitalized as part of the cost of such asset. All other borrowing costs are recognized as expenses in the period when incurred.

(22) Dividends

Dividend distributions to shareholders of the Company are recognized as liabilities in the period in which the year-end dividends are resolved by the Company's Annual General Meeting of shareholders and interim dividends are resolved by the Board of Directors.

4. Business combinations

There is no material business combination for the fiscal year ended March 31, 2021 and 2022.

5. Segment information

(1) General information on reportable segments

The reportable segments of the Group represent business units for which separate financial information is available, and are reviewed regularly at the Board of Directors meeting to make decisions about allocation of management resources and assess the performance of the business.

The Group applies an in-house company system classified by product groups. The headquarter of each in-house company plans their own comprehensive domestic and international strategies and conducts their own business activities.

The three segments are Cardiac and Vascular Company, Medical Care Solutions Company, and Blood and Cell technologies Company.

Main products of each reportable segment are as follows:

Reportable Segments	Sub-segments	Main Products
Cardiac and Vascular Company	Interventional Systems (TIS)	Angiographic guidewires, Angiographic catheters, Introducer sheaths, Vascular closure devices, PTCA balloon catheters, Coronary stents, Self-expanding peripheral stents, IVUS, Imaging catheters and others
	Neurovascular	Coils, stents and intrasaccular devices for treating cerebral aneurysm, Embolization systems, Aspiration catheters and clot retrievers for treating ischemic stroke, and others
	Cardiovascular	Oxygenators, Cardio-pulmonary bypass systems and others
	Vascular Graft	Artificial vascular grafts, Stent grafts
Medical Care Solutions Company	Hospital Care Solutions	Syringes, Infusion pumps, Syringe pumps, Infusion lines, I.V. solutions, Peritoneal dialysis fluid, Pain management products, Nutritious food, Adhesion barriers and others
	Life Care Solutions	Blood glucose monitoring systems, Disposable needles for pen-injectors, Insulin patch pumps, Blood pressure monitors, Digital thermometers and others
	Pharmaceutical Solutions	Contract manufacturing of prefilled syringes, Devices to pharmaceutical companies for use in drug kits (Prefillable syringes, Needles for pharmaceutical packaging business) and others
Blood and Cell Technologies Company	-	Blood bags, Component collection systems, Automated blood processing systems, Pathogen reduction systems, Centrifugal apheresis systems, Cell expansion systems and others

(2) Reportable segment information

Revenue and operating results of the reportable segments of the Group are described below.

The accounting policies for the reportable segments are the same as the Group's accounting policies as described in Note 3 "Significant Accounting Policies".

For the fiscal year ended March 31, 2021

(Unit: Millions of yen)

	Reportable Segments			Total	Adjustments (Note 1)	Amount recorded on consolidated financial statements
	Cardiac and Vascular Company	Medical Care Solutions Company	Blood and Cell Technologies Company			
Revenue						
Revenue from sales to external customers	328,549	175,545	109,491	613,586	256	613,842
Segment Profit (Adjusted operating profit)	74,399	25,739	19,088	119,227	(3,300)	115,927
(Adjustment items)						
Amortization of intangible assets acquired through business combinations	(6,948)	-	(8,012)	(14,961)	328	(14,632)
Non-recurring profit or loss (Note 2)						(2,907)
Operating profit						98,386
Finance income						1,727
Finance costs						(2,337)
Share of profit/(loss) of investment accounted for using the equity method						(716)
Profit before tax						97,060
Other items						
Depreciation and amortization (Note 3)	27,216	13,057	14,802	55,075	(1,143)	53,932
Increase in property, plant and equipment and intangible assets	34,614	15,144	23,282	73,041	4,167	77,208

(Note 1) Amounts in "Adjustments" are as follows:

- (1) ¥256 million adjustment to Revenue from sales to external customers is mainly proceeds from outward temporary staffing that is not attributable to reportable segments.
- (2) ¥(3,300) million adjustment to Segment profit mainly includes ¥931 million for inventories and ¥(2,676) million for preparation expenses to comply with the Medical Device Regulation in the EU.

(Note 2) ¥(2,907) million Non-recurring profit or loss mainly includes ¥(1,365) million for the change in fair value of contingent consideration and ¥(692) million for business reorganization expenses.

(Note 3) Amortization expenses of acquired intangible assets in business combinations are included in "Depreciation and amortization".

For the fiscal year ended March 31, 2022

(Unit: Millions of yen)

	Reportable Segments			Total	Adjustments (Note 1)	Amount recorded on consolidated financial statements
	Cardiac and Vascular Company	Medical Care Solutions Company	Blood and Cell Technologies Company			
Revenue						
Revenue from sales to external customers	397,130	185,335	120,586	703,052	251	703,303
Segment Profit (Adjusted operating profit)	93,227	23,604	20,841	137,673	(3,232)	134,441
(Adjustment items)						
Amortization of intangible assets acquired through business combinations	(7,451)	-	(8,487)	(15,939)	(125)	(16,064)
Non-recurring profit or loss (Note 2)						(2,415)
Operating profit						115,960
Finance income						1,062
Finance costs						(2,961)
Share of profit/(loss) of investment accounted for using the equity method						440
Profit before tax						114,501
Other items						
Depreciation and amortization (Note 3)	29,776	14,178	15,613	59,568	(686)	58,882
Increase in property, plant and equipment and intangible assets	31,954	15,285	17,599	64,839	4,390	69,230

(Note 1) Amounts in “Adjustments” are as follows:

(1) ¥251 million adjustment to Revenue from sales to external customers is mainly proceeds from outward temporary staffing that is not attributable to reportable segments.

(2) ¥(3,232) million adjustment to Segment profit mainly includes ¥(301) million for inventories and ¥(2,630) million for preparation expenses to comply with the Medical Device Regulation in the EU.

(Note 2) ¥(2,415) million Non-recurring profit or loss mainly includes ¥(215) million for the change in fair value of contingent consideration and ¥(1,645) million for business reorganization expenses.

(Note 3) Amortization expenses of acquired intangible assets in business combinations are included in “Depreciation and amortization”.

(3) Information on changes in reportable segment

The reportable segment which was previously named “General Hospital Company” was changed to “Medical Care Solutions Company” from the fiscal year ended March 31, 2022. This change in name does not affect the segment information. In accordance with this change, the name of the reportable segment for the fiscal year ended March 31, 2021 was also changed to “Medical Care Solutions Company”.

Regarding sub-segments, the former “Hospital Systems”, “General Hospital Products” and “Pharmaceutical” sub-segments were combined into “Hospital Care Solutions”, and “DM and Consumer Healthcare” was renamed “Life Care Solutions”. In addition, the former “Alliance” sub-segment was renamed “Pharmaceutical Solutions”.

In accordance with this change, the name of reportable segment for the fiscal year ended March 31, 2021 has also been stated as “Medical Care Solutions Company”.

(4) Information on products and services

The information of products and services is omitted because it is the same as that of the reportable segments.

(5) Information on geographic areas

The components of revenue and non-current assets by geographic area are as follows:

(a) Revenue

(Unit: Millions of yen)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Japan	201,758	206,143
Europe	120,389	140,417
Americas	180,798	220,400
(including USA)	(157,882)	(191,409)
China	45,525	59,350
Asia and others	65,371	76,991
Total	<u>613,842</u>	<u>703,303</u>

(Note 1) Revenue is classified by country or region based on customer’s location.

(Note 2) The information related to China which was previously included in “Asia and others” is presented as “China” separately based on the group management from the fiscal year ended March 31, 2022. In accordance with this change, the information on geographic areas for the fiscal year ended March 31, 2021 has also been reclassified.

(b) Non-current assets

(Unit: Millions of yen)

	As of March 31, 2021	As of March 31, 2022
Japan	174,846	178,297
Europe	44,153	55,211
Americas	498,373	552,923
(including USA)	(481,075)	(526,312)
China	18,745	22,344
Asia and others	39,411	43,440
Total	<u>775,530</u>	<u>852,217</u>

(Note 1) Non-current assets are classified by country or region based on the Company and its subsidiaries’ location. Financial assets, deferred tax assets and retirement benefit assets are not included.

(Note 2) The information related to China which was previously included in “Asia and others” is presented as “China” separately based on the group management as of March 31, 2022. In accordance with this change, the information on geographic areas as of March 31, 2021 has also been reclassified.

(6) Information on major customers

Disclosure is omitted because there is no revenue from one specific external customer that accounts for 10% or more of the revenue in the Consolidated Statement of Profit or Loss.

6. Cash and cash equivalents

The breakdown of cash and cash equivalents is as follows:

	(Unit: Millions of yen)	
	<u>As of March 31, 2021</u>	<u>As of March 31, 2022</u>
Cash and demand deposits	200,770	205,251
Total	<u>200,770</u>	<u>205,251</u>

The ending balances of cash and cash equivalents in the Consolidated Statements of Financial Position on March 31, 2021, and March 31, 2022, respectively, are the same as the ending balances of cash and cash equivalents in the Consolidated Statements of Cash Flows.

There are no material cash and cash equivalents which have restrictions on withdrawal as of March 31, 2021, and March 31, 2022.

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

7. Trade and other receivables

The breakdown of trade and other receivables is as follows:

	(Unit: Millions of yen)	
	<u>As of March 31, 2021</u>	<u>As of March 31, 2022</u>
Trade receivables	125,908	132,699
Accounts receivable-other	2,862	3,298
Total	<u>128,770</u>	<u>135,998</u>

Trade and other receivables are classified as financial assets measured at amortized cost.

8. Other financial assets

(1) Breakdown of other financial assets

The breakdown of other financial assets is as follows:

	<u>As of March 31, 2021</u>	<u>(Unit: Millions of yen)</u> <u>As of March 31, 2022</u>
Other current financial assets:		
Financial assets measured at fair value through profit or loss		
Derivative assets	1,056	3
Financial assets measured at amortized cost		
Time deposits	59	59
Total	<u>1,116</u>	<u>63</u>
Other non-current financial assets:		
Financial assets measured at fair value through profit or loss		
Derivative assets	-	4,125
Other	5,310	5,978
Financial assets measured at fair value through other comprehensive income		
Shares	7,967	8,090
Other	2,082	3,806
Financial assets measured at amortized cost		
Other	4,088	3,936
Total	<u>19,449</u>	<u>25,937</u>

(2) Equity instruments measured at fair value through other comprehensive income

The Group has designated shares held for purpose of expanding the earnings base or for maintaining relationships with business partners as financial assets measured at fair value through other comprehensive income. Dividend income arising from financial assets measured at fair value through other comprehensive income recognized in “Other financial assets” at the end of reporting period are as follows:

	<u>For the fiscal year ended</u> <u>March 31, 2021</u>	<u>(Unit: Millions of yen)</u> <u>For the fiscal year ended</u> <u>March 31, 2022</u>
Dividend income	123	130

Names of major investees and fair values of the investments that are classified as financial assets at fair value through other comprehensive income are as follows:

Company Name	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Mitsubishi UFJ Financial Group Inc.	1,637	2,104
Azbil Corporation	1,906	1,636
Alfresa Holdings Corporation	360	287
TOWA Corporation	236	272
Medipal Holdings Corporation	256	247
Toho Holdings Co., Ltd.	247	225
Dai-ichi Life Insurance Company, Limited	132	174
Suzuken Co., Ltd.	132	111
Hokuyaku Takeyama Holdings, Inc.	105	92
MEDIUS Holdings Co., Ltd.	67	69

(3) Derecognition of financial assets measured at fair value through other comprehensive income

The Group derecognizes financial assets measured at fair value through other comprehensive income when it sells a financial asset in order to improve capital efficiency or effective utilization.

The fair value at derecognition, cumulative gains or losses recognized in other comprehensive income, and dividend income for the fiscal years ended March 31, 2021 and 2022 are as follows:

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Fair value on the derecognition date	2,900	202
Cumulative gain/(loss) on the derecognition date	2,199	(584)
Dividend income	-	-

(4) Reclassifications to retained earnings

When an equity instrument investment designated as a financial asset measured at fair value through other comprehensive income is derecognized, or when fair value of the equity instrument declines significantly and the Group considers it remote for recovery of the fair value, the Group reclassifies any cumulative gain or loss recognized in other comprehensive income to retained earnings. The cumulative gains or losses (after tax) reclassified from other comprehensive income to retained earnings are ¥ 1,393 million and ¥ (172) million for the years ended March 31, 2021 and 2022, respectively.

9. Inventories

The breakdown of inventories is as follows:

	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Merchandise and finished products	116,181	124,800
Work-in-progress	15,095	17,017
Raw materials and others	44,300	56,718
Total	175,576	198,536

The amount of write-down of inventories recognized as an expense in the Consolidated Statement of Profit or Loss is ¥ 4,402 million and ¥ 4,598 million for the years ended March 31, 2021 and 2022, respectively.

10. Other assets

The breakdown of other assets is as follows:

	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Other current assets:		
Prepaid expenses	8,800	9,723
Other	8,421	8,362
Total	<u>17,222</u>	<u>18,086</u>
Other non-current assets:		
Retirement benefit assets	4,871	12,492
Long-term prepaid expenses	4,016	3,551
Total	<u>8,887</u>	<u>16,043</u>

11. Property, plant and equipment

(1) Movements in carrying amount

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

Acquisition cost, accumulated depreciation and accumulated impairment losses

As of April 1, 2020

	(Unit: Millions of yen)					
	Land	Buildings and structures	Equipment and transportation vehicles	Furniture, fixtures, and equipment	Construction in progress	Total
Acquisition cost	19,632	236,189	273,037	58,195	51,308	638,364
Accumulated depreciation and accumulated impairment loss	(1,134)	(125,251)	(205,695)	(41,066)	(809)	(373,957)
Carrying amount	<u>18,498</u>	<u>110,938</u>	<u>67,342</u>	<u>17,128</u>	<u>50,499</u>	<u>264,407</u>

As of March 31, 2021

	(Unit: Millions of yen)					
	Land	Buildings and structures	Equipment and transportation vehicles	Furniture, fixtures, and equipment	Construction in progress	Total
Acquisition cost	20,951	249,866	294,253	60,316	72,612	698,000
Accumulated depreciation and accumulated impairment loss	(1,489)	(133,581)	(218,672)	(43,758)	(818)	(398,320)
Carrying amount	<u>19,462</u>	<u>116,285</u>	<u>75,580</u>	<u>16,557</u>	<u>71,793</u>	<u>299,679</u>

As of March 31, 2022

	(Unit: Millions of yen)					
	Land	Buildings and Structures	Equipment and transportation vehicles	Furniture, fixtures, and equipment	Construction in progress	Total
Acquisition cost	22,136	273,475	327,375	66,757	79,261	769,006
Accumulated depreciation and accumulated impairment loss	(1,755)	(146,284)	(238,976)	(47,251)	(875)	(435,142)
Carrying amount	<u>20,381</u>	<u>127,191</u>	<u>88,399</u>	<u>19,506</u>	<u>78,385</u>	<u>333,864</u>

Carrying amount

(Unit: Millions of yen)

	Land	Buildings and structures	Equipment and transportation vehicles	Furniture, fixtures, and equipment	Construction in progress	Total
Balance as of April 1, 2020	18,498	110,938	67,342	17,128	50,499	264,407
Additions	1,050	5,207	4,379	597	52,852	64,088
Acquisitions through business combinations	-	78	90	4	-	173
Depreciation	(306)	(10,153)	(16,033)	(4,870)	-	(31,364)
Reclassification from construction in progress	11	9,758	18,845	3,621	(32,236)	-
Sales and disposals	(23)	(443)	(586)	(100)	(19)	(1,173)
Exchange differences on translation of foreign operations	127	1,729	1,523	(2)	1,873	5,251
Other	105	(829)	19	178	(1,175)	(1,702)
Balance as of March 31, 2021	<u>19,462</u>	<u>116,285</u>	<u>75,580</u>	<u>16,557</u>	<u>71,793</u>	<u>299,679</u>
Additions	220	4,839	4,985	1,093	43,393	54,532
Depreciation	(236)	(11,184)	(17,852)	(5,233)	-	(34,506)
Reclassification from construction in progress	197	15,993	20,154	4,530	(40,875)	-
Sales and disposals	-	(201)	(343)	(112)	(10)	(667)
Exchange differences on translation of foreign operations	737	5,546	4,634	484	4,707	16,110
Other	-	(4,088)	1,240	2,185	(622)	(1,284)
Balance as of March 31, 2022	<u>20,381</u>	<u>127,191</u>	<u>88,399</u>	<u>19,506</u>	<u>78,385</u>	<u>333,864</u>

(Note 1) The depreciation expenses related to property, plant and equipment are included mainly in “Cost of sales” and “Selling, general and administrative expenses” in the Consolidated Statement of Profit or Loss.

(Note 2) There is no restriction on the ownership of property, plant and equipment, except for right-of-use assets.

(2) Details of carrying amount of right-of-use assets

The breakdown of right-of-use assets is as follows:

As of March 31, 2021

(Unit: Millions of yen)

	Classification of underlying assets				Total
	Land	Buildings and structures	Equipment and transportation vehicles	Furniture, fixtures, and equipment	
Carrying amount of right-of-use assets	4,278	22,218	2,071	476	29,045

(Note) The increase in right-of-use assets for the fiscal year ended March 31, 2021 is ¥ 6,294 million.

As of March 31, 2022

(Unit: Millions of yen)

	Classification of underlying assets				Total
	Land	Buildings and structures	Equipment and transportation vehicles	Furniture, fixtures, and equipment	
Carrying amount of right-of-use assets	4,471	22,784	1,935	481	29,673

(Note) The increase in right-of-use assets for the fiscal year ended March 31, 2022 is ¥ 5,467 million.

12. Goodwill and intangible assets

(1) Movements in carrying amount

The amount of acquisition cost, accumulated amortization and accumulated impairment losses and the movements in carrying amounts of goodwill and intangible assets are as follows:

Acquisition cost, accumulated amortization and accumulated impairment losses

As of April 1, 2020

(Unit: Millions of yen)

	Goodwill	Intangible assets					Total
		Development costs	Software	Customer relationships	Technologies	Other	
Acquisition cost	219,642	42,312	66,173	119,809	130,295	21,064	599,298
Accumulated amortization and accumulated impairment loss	-	(6,014)	(30,563)	(53,616)	(38,945)	(8,652)	(137,792)
Carrying amount	219,642	36,297	35,609	66,193	91,349	12,412	461,506

As of March 31, 2021

(Unit: Millions of yen)

	Goodwill	Intangible assets					Total
		Development costs	Software	Customer relationships	Technologies	Other	
Acquisition cost	226,582	47,947	79,996	121,870	134,552	20,415	631,364
Accumulated amortization and accumulated impairment loss	-	(7,688)	(36,839)	(60,712)	(48,006)	(6,282)	(159,529)
Carrying amount	226,582	40,258	43,157	61,157	86,545	14,133	471,834

As of March 31, 2022

(Unit: Millions of yen)

	Goodwill	Intangible assets					Total
		Development costs	Software	Customer relationships	Technologies	Other	
Acquisition cost	250,680	58,965	94,666	135,670	148,273	24,370	712,627
Accumulated amortization and accumulated impairment loss	-	(10,248)	(43,313)	(73,987)	(61,972)	(8,304)	(197,825)
Carrying amount	250,680	48,717	51,353	61,683	86,301	16,066	514,801

Carrying amount

(Unit: Millions of yen)

	Intangible assets						Total
	Goodwill	Development costs	Software	Customer relationships	Technologies	Other	
Balance as of April 1, 2020	219,642	36,297	35,609	66,193	91,349	12,412	461,506
Additions	-	-	12,743	-	-	988	13,731
Acquisitions through business combinations	2,308	-	758	-	795	1,600	5,463
Internally developed	-	5,559	-	-	-	-	5,559
Amortization	-	(1,500)	(6,472)	(5,907)	(7,855)	(831)	(22,568)
Sale and disposal	-	-	(20)	-	-	(305)	(325)
Exchange differences on translation of foreign operations	4,893	852	602	922	1,622	341	9,235
Other	(261)	(951)	(64)	(50)	632	(73)	(767)
Balance as of March 31, 2021	226,582	40,258	43,157	61,157	86,545	14,133	471,834
Additions	-	-	12,957	-	-	1,686	14,644
Acquisitions through business combinations	624	-	-	875	-	-	1,499
Internally developed	-	5,521	-	-	-	-	5,521
Amortization	-	(1,608)	(7,187)	(6,300)	(8,277)	(1,001)	(24,375)
Sale and disposal	-	-	(41)	-	-	(9)	(50)
Exchange differences on translation of foreign operations	23,201	4,545	2,194	5,928	8,381	1,264	45,517
Other	271	-	272	22	(348)	(7)	210
Balance as of March 31, 2022	250,680	48,717	51,353	61,683	86,301	16,066	514,801

(Note 1) The amortization expenses of intangible assets are included in “Cost of sales” and “Selling, general and administrative expenses” in the Consolidated Statement of Profit or Loss.

(Note 2) “Acquisitions through business combinations” for the year ended March 31, 2021 mainly represents the acquisition of Quirem Medical B.V.

(2) Individually material intangible assets

Individually material intangible assets included in the Consolidated Statement of Financial Position comprise of customer relationships and technologies.

Customer relationships were mainly generated by the acquisition of 100% of the shares of Caridian BCT Holding Corp. (now known as Terumo BCT Holding Corp.) amounting to ¥ 89,574 million on April 13, 2011 by the Company. The carrying amounts of customer relationships were ¥ 63,986 million, ¥ 59,174 million and ¥ 58,875 million as of April 1, 2020, March 31, 2021 and March 31, 2022, respectively. The remaining amortization period as of March 31, 2022 is 9 years and the amortization method is the straight-line method.

Technologies were mainly generated by the acquisition of vascular closure device business of St. Jude Medical, Inc. (US) amounting to ¥ 74,495 million on January 20, 2017, the acquisition of 100% of the shares of Caridian BCT Holding Corp. (now known as Terumo BCT Holding Corp.) amounting to ¥ 23,290 million on April 13, 2011, and the acquisition of Bolton Medical, Inc. (US) and two other companies and related businesses amounting to ¥ 10,658 million. Technologies relating to the transfer of business by St. Jude Medical, Inc. (US) mainly relate to the vascular closure device “Angioseal”, and the carrying amounts were ¥ 54,401 million, ¥ 50,431 million and ¥ 50,145 million as of April 1, 2020, March 31, 2021 and March 31, 2022, respectively. The remaining amortization period as of March 31, 2022 is 9 years and the amortization method is the straight-line method. Technologies relating to the acquisition of shares of Caridian BCT Holding Corp. (now known as Terumo BCT Holding Corp.) mainly relate to the component blood collection device “Trima”, and the carrying amounts were ¥ 16,166 million, ¥ 14,950 million, and ¥ 14,875 million as of April 1, 2020, March 31, 2021 and March 31, 2022, respectively. The remaining amortization period as of March 31, 2022 is 9 years and the amortization method is the straight-line method. Technologies relating to the acquisition of Bolton Medical, Inc. (US) and two other companies and related businesses mainly relate to the stent grafts used in the treatment of aortic aneurysms “Relayplus”, and the carrying amounts were ¥ 8,788 million, ¥ 8,413 million and ¥ 8,720 million as of April 1, 2020, March 31, 2021 and March 31, 2022, respectively. The remaining amortization period as of March 31, 2022 is 15 years and the amortization method is the straight-line method.

(3) Impairment test of goodwill

The carrying amounts of goodwill allocated to each cash-generating unit or each group of cash-generating units are as follows:

Segment	Cash-generating unit/ Group of cash-generating units	(Unit: Millions of yen)	
		As of March 31, 2021	As of March 31, 2022
Cardiac and Vascular Company	Interventional Systems (TIS)	60,624	67,230
	Neurovascular	29,674	33,477
	Vascular Graft	9,888	10,277
Blood and Cell Technologies Company	Blood and Cell Technologies Company	126,394	139,695
	Total	226,582	250,680

The recoverable amount of goodwill allocated to each cash-generating units or groups of cash-generating units is calculated based on value in use. Value in use is calculated by discounting the future cash flows expected to be generated from the cash-generating unit or the group of cash-generating units to the present value. The Group uses the latest business plan approved by management to calculate the future cash flows. The future cash flows stated in the business plan are calculated based on past performance, management's forecast of market trends, current industry trends, and long-term inflation forecast for each territory. Cost is estimated by considering the changes in revenue. A five-year cash flow forecast period is used to calculate the value in use. After the fifth year, growth rate estimated based on the relevant GDP growth rate is used. The pre-tax discount rate is calculated based on the specific risks associated with the relevant segment and the country in which the operating activities are carried out. The terminal value growth rate is the growth rate, which reflects the country in which the cash-generating unit or the group of cash-generating units is located and the industry situation, which does not exceed the average long-term growth rate of the market.

For Cardiac and Vascular Company, the pre-tax discount rate used to calculate the value in use of the cash-generating unit or the group of cash-generating units to which goodwill is allocated is 7.1-7.4% and 7.5-8.0%, and the terminal value growth rate is 1.6-2.2% and 1.6-2.2% as of March 31, 2021 and March 31, 2022, respectively.

For Blood and Cell Technologies Company, the pre-tax discount rate used to calculate the value in use of the cash-generating unit or the group of cash-generating units to which goodwill is allocated is 8.5% and 9.4%, and the terminal value growth rate is 2.4% and 2.2% as of March 31, 2021 and March 31, 2022, respectively.

There are risks that the carrying amount of goodwill for which impairment losses have not previously been recognized, exceed its recoverable value and recognition of impairment loss is needed, if there is a change in the key assumptions used in the impairment test.

For Cardiac and Vascular Company, the value in use is sufficiently greater than the carrying amount. The probability of a significant impairment loss to be incurred is low, even if the discount rate and the terminal value growth rate used for the impairment test are changed within a reasonable range.

The recoverable amount will be equal to the carrying amount of goodwill, if the pre-tax discount rate of the Blood and Cell Technologies Company increases by 2.6% and 2.9%, or the terminal value growth rate decreases by 3.5% and 4.2% as of March 31, 2021 and March 31, 2022, respectively.

Management has evaluated the possibility of a change in other key assumptions and determined that the carrying amount of the cash-generating unit or the group of cash-generating units will not exceed the recoverable value.

13. Trade and other payables

The breakdown of trade and other payables is as follows:

	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Notes and accounts payable	46,644	46,244
Accounts payable-other	23,646	26,050
Equipment-related notes payable and other payables	13,237	9,249
Total	83,528	81,545

Trade and other payables are classified as financial liabilities measured at amortized cost.

14. Bonds and borrowing

(1) Details of bonds and borrowings

The breakdown of bonds and borrowings is as follows:

	(Unit: Millions of yen)			
	As of March 31, 2021	As of March 31, 2022	Average interest rate (%)	Repayment due date
Current liabilities:				
Current portion of bonds payable (Note 3)	10,458	-	-	-
Current portion of long-term borrowings	31,614	1,121	3.440	June 2022 - March 2023
Total	42,072	1,121		
Non-current liabilities:				
Bonds (Note 3)	29,942	29,956	-	-
Long-term borrowings (excluding borrowings due within one year)	188,554	194,919	0.954	June 2023 - June 2027
Total	218,497	224,875		

(Note 1) Bonds and borrowings are classified as financial liabilities measured at amortized cost.

(Note 2) The average interest rate is calculated using the ending balance and the interest rate for the current year.

(Note 3) The conditions of issuance of bonds are described in below (2) Details of bonds.

(2) Details of bonds

A summary of the issuance condition of bonds is as follows:

							(Unit: Millions of yen)	
Company	Series	Issuance date	As of March 31, 2021	As of March 31, 2022	Rate (%)	Guarantee	Redemption due date	
Terumo Corporation	Euro-yen denominated convertible bonds with share subscription rights with a maturity date of 2021 (Note 2)	December 4, 2014	458 (458)	-	-	Nil	December 6, 2021	
”	5th unsecured bonds	April 19, 2016	9,999 (9,999)	-	0.080	Nil	April 19, 2021	
”	6th unsecured bonds	April 19, 2016	9,988	9,994	0.170	Nil	April 19, 2023	
”	7th unsecured bonds	April 19, 2016	9,979	9,983	0.240	Nil	April 17, 2026	
”	9th unsecured bonds	April 26, 2017	9,974	9,978	0.255	Nil	April 26, 2027	
Total			40,401 (10,458)	29,956 (-)				

(Note 1) Bonds to be redeemed within 1 year as of March 31, 2021 and March 31, 2022 are presented in parentheses.

(Note 2) There are provisions that advanced redemption under certain circumstances is allowed.

(3) Pledged assets

There are no assets pledged for bonds and borrowings.

15. Other financial liabilities

The breakdown of other financial liabilities is as follows:

	As of March 31, 2021	(Unit: Millions of yen) As of March 31, 2022
Other financial liabilities (current):		
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities	288	890
Contingent consideration	1,188	601
Lease liabilities	6,307	5,736
Total	<u>7,784</u>	<u>7,228</u>
Other financial liabilities (non-current):		
Financial liabilities measured at fair value through profit or loss		
Derivative liabilities	3,017	-
Contingent consideration	2,469	2,583
Financial liabilities measured at amortized cost		
Guarantee deposit	432	436
Lease liabilities	26,202	27,276
Total	<u>32,122</u>	<u>30,297</u>

16. Leases

Leases as a lessee

(1) Nature of right-of-use assets

The Group leases mainly offices, land, company housing, transportation vehicles, warehouses and IT equipment.

(2) Right-of-use assets

The breakdown of carrying amount of right-of-use assets and the amount of increase are presented in Note 11 “Property, plant and equipment”.

(3) Lease liabilities

The maturity analysis of lease liabilities is presented in Note 31 “Financial instruments - (4) Liquidity risk”.

(4) Amounts recognized in profit or loss

The lease-related amounts recognized in profit or loss are as follows:

Expense items	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Depreciation of right-of-use assets as the underlying asset		
Land	306	229
Buildings and structures	3,790	4,170
Equipment and transportation vehicles	1,181	1,096
Furniture, fixtures, and equipment	244	230
Total	<u>5,523</u>	<u>5,726</u>
Finance costs		
Interest expense on lease liability	561	677
Lease expenses		
Short-term lease expenses	467	296
Lease expenses for which the underlying asset is of low value (excluding short-term lease portion)	580	622
Total	<u>1,047</u>	<u>919</u>

(5) Amount recognized as cash outflow

The total cash outflow for leases is as follows:

	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Total cash outflow for leases	<u>7,868</u>	<u>8,347</u>

(6) Options to extend and terminate leases

The Group has various contract terms as each company is responsible for lease management and negotiates lease terms individually.

Some lease contracts include options to extend or terminate a lease. Options to extend and terminate a lease are mainly included in lease contracts for properties such as the Group's offices and company housing. These options are used when necessary for utilizing the properties in business operations.

17. Movements in liabilities from financing activities

Movements in liabilities related to cash flows arising from financing activities are as follows:

(Unit: Millions of yen)

	Short-term borrowings	Long-term borrowings	Bonds	Derivative assets and liabilities held for hedging liabilities arising from financing activities	Lease liabilities
Balance as of April 1, 2020	40,324	148,600	57,269	4,277	31,822
Cash flow from financing activities	(40,000)	70,000	(10,000)	-	(6,277)
Changes in foreign exchange rates	-	1,533	-	-	546
New lease contracts	-	-	-	-	6,171
Changes in fair value	-	-	-	(2,276)	-
Conversion of convertible bonds	-	-	(6,896)	-	-
Other	(324)	35	27	-	247
Balance as of March 31, 2021	-	220,168	40,401	2,000	32,510
Cash flow from financing activities	-	(32,424)	(10,000)	1,753	(6,750)
Changes in foreign exchange rates	-	8,265	-	-	1,287
New lease contracts	-	-	-	-	5,467
Changes in fair value	-	-	-	(7,880)	-
Conversion of convertible bonds	-	-	(460)	-	-
Other	-	30	15	-	498
Balance as of March 31, 2022	-	196,040	29,956	(4,125)	33,012

18. Income taxes

(1) Deferred tax assets and deferred tax liabilities

The breakdown of deferred tax assets and deferred tax liabilities by origination is as follows:

	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Deferred tax assets		
Retirement benefit liabilities	4,706	2,501
Property, plant and equipment	6,420	5,954
Write-down of inventories	2,155	2,461
Accrued bonuses	3,928	4,588
Tax losses carry forward	2,444	2,578
Accrued expenses	9,182	9,347
Unrealized profit	11,177	12,197
Other	5,842	8,152
Subtotal of deferred tax assets	<u>45,858</u>	<u>47,781</u>
Deferred tax liabilities		
Property, plant and equipment	(5,368)	(7,567)
Intangible assets	(28,467)	(27,939)
Other	(4,255)	(4,823)
Subtotal of deferred tax liabilities	<u>(38,091)</u>	<u>(40,330)</u>
Net deferred tax assets (liabilities)	<u>7,766</u>	<u>7,451</u>

Movements in deferred tax assets and deferred tax liabilities are as follows:

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Beginning balance	6,947	7,766
Amount in deferred tax expenses	6,885	3,867
Amount in other comprehensive income	(6,688)	(2,999)
Effect of business combinations	(535)	(266)
Other	1,157	(917)
Ending balance	<u>7,766</u>	<u>7,451</u>

(2) Unrecognized deferred tax assets and deferred tax liabilities

As a result of the assessment of the recoverability of deferred tax assets, the Group does not recognize deferred tax assets for certain deductible temporary differences, tax loss carryforwards, and tax credit carryforwards. The amounts of deductible temporary differences, tax loss carryforwards, and tax credit carryforwards for which deferred tax assets are not recognized, are set out below. Deductible temporary differences and tax loss carryforwards are presented on taxable income basis, while tax credit carryforwards are presented on amount of tax basis.

The tax loss carryforwards are primarily related to US state tax and the tax rate is less than 10%.

	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Deductible temporary differences	64,576	65,824
Tax loss carryforwards	19,808	18,011
Tax credit carryforwards	827	951

The breakdown of tax loss carryforwards for which no deferred tax asset is recognized by expiration date is as follows:

Expiration date	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Within 1 year	2,810	90
1 to 4 years	750	9
Over than 4 years	16,247	17,911
Total	19,808	18,011

The Group does not recognize deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries because the Group can control the timing of the reversal of these taxable temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future. The aggregate amounts of taxable temporary differences associated with investments in subsidiaries for which deferred tax liabilities have not been recognized were ¥ 227,430 million, and ¥ 345,647 million, as of March 31, 2021 and March 31, 2022, respectively.

(3) Income tax expenses

The breakdown of income tax expenses is as follows:

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Current tax expenses	26,745	29,555
Deferred tax expenses	(6,885)	(3,867)
Total	19,859	25,687

(4) Income tax recognized in other comprehensive income

The details of income taxes recognized in other comprehensive income are presented in Note 29 "Other comprehensive income".

(5) Reconciliation of statutory effective tax rate

The reasons for the difference between the statutory effective tax rate and the actual tax rate are as follows. The actual tax rate represents the ratio of income tax expenses occurred to profit before income tax for the year of the Group.

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
		(Unit: %)
Statutory effective tax rate	31.5	31.5
Permanent non-deductible items (such as entertainment expenses)	0.9	0.8
Tax credits for research and development expenses	(3.8)	(3.2)
Difference in tax rate applied to foreign subsidiaries	(8.4)	(6.9)
Other	0.3	0.2
Actual tax rate	<u>20.5</u>	<u>22.4</u>

19. Other liabilities

The breakdown of other liabilities is as follows:

	As of March 31, 2021	As of March 31, 2022
		(Unit: Millions of yen)
Other current liabilities:		
Accrued expenses	32,227	39,782
Accrued bonuses	16,571	17,807
Accrued consumption tax	1,438	2,312
Other	13,057	13,320
Total	<u>63,295</u>	<u>73,222</u>
Other non-current liabilities:		
Deferred income	1,898	1,476
Other long-term employee benefit obligations	5,308	6,060
Other	2,638	2,276
Total	<u>9,845</u>	<u>9,813</u>

Deferred income includes government grants received for purchasing property, plant and equipment. These government grants are not associated with unfulfilled conditions or other contingent events.

20. Post-employment benefits

The Group operates a defined benefit corporate pension plan and a lump-sum retirement plan (unfunded) as post-employment benefit plans for employees.

Certain consolidated subsidiaries have defined contribution plans in addition to the defined benefit plans.

(1) Defined benefit plans

(a) Overview of defined benefit plan

The Company and certain domestic consolidated subsidiaries apply a point system for their retirement benefit plans. The benefit amount is calculated based on the accumulated number of points granted, which are determined by the years of service and other factors. The defined benefit plan is exposed to actuarial risks – such as discount rate and other assumptions – and investment risk relating to financial instruments. In addition, in the event that the fund is unable to generate sufficient investment income corresponding to the retirement benefit obligation, additional contribution may be required.

The Company's pension plans are administered by the Company's pension fund (hereinafter referred to as "the Fund") which is legally independent of the Company. The Director of the Fund has the fiduciary duty to comply with relevant laws, the directives by the Minister of Health, Labor and Welfare, and the Director-Generals of Regional Bureaus of Health and Welfare made pursuant to those laws, the by-laws of the Fund and the decisions made by the Board of Representatives of the Fund.

The Company is required to make contributions to the Fund and is obligated to make contributions in the amount stipulated by the Fund. Contributions are regularly reviewed and adjusted as necessary to the extent permitted by laws and regulations.

Significant fluctuations in the discount rate or liability under the current market environment are not expected. Therefore, using the asset-liability matching strategy, the fund maintains an investment strategy which mid- to long-term aims for expected returns to exceed the discount rate and reduces asset-liability mismatch. The investment strategy focuses mainly on strengthening management of risk, not maximizing profit. This investment policy is expected to generate returns required to fulfill long-term commitments.

(b) Reconciliation of defined benefit liabilities and plan assets

The retirement benefit liabilities and assets recognized in the Consolidated Statement of Financial Position relating to the defined benefit plans is as follows:

	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Defined benefit liabilities (funded)	121,225	119,789
Fair value of plan assets	121,180	128,366
Total	44	(8,576)
Defined benefit liabilities (unfunded)	1,723	1,895
Net defined benefit liabilities	1,768	(6,681)
Balances in the Consolidated Statement of Financial Position:		
Retirement benefit liabilities	6,639	5,811
Retirement benefit assets	(4,871)	(12,492)
Net amounts of retirement benefit assets and liabilities	1,768	(6,681)

(c) Movements in the present value of defined benefit liabilities

Movements in the present value of defined benefit liabilities are as follows:

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Beginning balance	122,101	122,948
Service cost	4,461	4,254
Interest cost	1,157	1,363
Remeasurement:		
Actuarial (gains)/losses arising from changes in demographic assumptions	(215)	(160)
Actuarial (gains)/losses arising from changes in financial assumptions	(2,110)	(4,396)
Amendment to actual result	45	(156)
Benefits paid from plan	(4,364)	(4,357)
Exchange differences on translation of foreign operations	1,557	2,019
Other	314	170
Ending balance	<u>122,948</u>	<u>121,685</u>

(d) Maturity analysis of the defined benefit obligation

Japan

The weighted average duration of the defined benefit obligation is 18 years as of March 31, 2022 and 2021.

Overseas

The weighted average duration of the defined benefit obligation is 13 years and 14 years as of March 31, 2022 and 2021, respectively.

(e) Movements in the fair value of plan assets

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

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Fair value of plan assets at the beginning of the year	103,644	121,180
Interest income	958	1,272
Remeasurements		
Return on plan assets	15,335	4,847
Contributions from employer	4,218	3,682
Benefits paid from plan	(4,224)	(4,124)
Exchange differences on translation of foreign operations	1,217	1,678
Other	30	(169)
Fair value of plan assets at the end of the year	<u>121,180</u>	<u>128,366</u>

The estimated amount of contributions to the defined benefit plans for the next year (from April 1, 2022 to March 31, 2023) is ¥ 3,057 million.

(f) Components of plan assets

The Fund related to the defined benefit plan is independent from the Group, and is funded solely by contributions from the Group.

The aim of the Fund's investment policy for plan assets is to ensure total medium-to-long term returns that are available to provide future payments of pension benefits with acceptable risk.

The components of plan assets are as follows:

	(Unit: Millions of yen)			
	Plan assets with quoted prices in active markets		Plan assets without quoted prices in active markets	
	As of March 31, 2021	As of March 31, 2022	As of March 31, 2021	As of March 31, 2022
Shares (Domestic)	8,840	11,316	15,195	15,619
Shares (Overseas)	7,890	8,456	17,877	20,890
Bonds (Domestic)	-	-	34,747	35,649
Bonds (Overseas)	4,275	4,446	9,937	10,349
Cash and cash equivalents	2,752	3,136	-	-
Other	2,750	2,498	16,912	16,002
Total	<u>26,508</u>	<u>29,854</u>	<u>94,671</u>	<u>98,512</u>

In respect to the management of the plan assets, the Fund considers the risks and returns of assets under management and sets an asset mix policy with an optimal asset combination in future years. The Fund reviews the asset portfolio periodically and monitors the performance of assets.

(g) Significant actuarial assumptions

The significant actuarial assumptions are as follows:

	(Unit: %)			
	As of March 31, 2021		As of March 31, 2022	
	Japan	Overseas	Japan	Overseas
Discount rate	0.74	3.29	0.91	3.68

In addition to the above, actuarial assumptions also include expected salary increase rate, death rate, and retirement rate.

(h) Sensitivity analysis

If the discount rate increases by 0.5%, the defined benefit obligation will decrease by ¥ 8,773 million and ¥ 8,390 million as of March 31, 2021 and March 31, 2022, respectively.

If the discount rate decreases by 0.5%, the defined benefit obligation will increase by ¥ 10,380 million and ¥ 9,978 million as of March 31, 2021 and March 31, 2022, respectively.

The sensitivity analysis above assumes that actuarial assumptions other than the discount rate are constant.

(i) Retirement benefit expenses

Components of retirement benefit expenses are as follows:

	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Service cost	4,461	4,254
Interest cost	1,157	1,363
Interest income	(958)	(1,272)
Total	<u>4,661</u>	<u>4,345</u>

Retirement benefit expenses are included in “Cost of sales”, and “Selling, general and administrative expenses” in the Consolidated Statement of Profit or Loss.

(2) Defined contribution plans

Total expenses recognized for the defined contribution plans are ¥ 4,510 million and ¥ 5,511 million for the years ended March 31, 2021 and March 31, 2022, respectively. Expenses related to defined contribution plans are included in “Cost of sales” and “Selling, general and administrative expenses” in the Consolidated Statement of Profit or Loss.

21. Paid-up capital and other capital

(1) Share capital and capital surplus

	Number of authorized shares (shares)	Number of outstanding shares (shares)
As of April 1, 2020	3,038,000,000	759,521,040
Increase/decrease during the year	-	-
As of March 31, 2021	3,038,000,000	759,521,040
Increase/decrease during the year	-	-
As of March 31, 2022	3,038,000,000	759,521,040

(Note 1) The shares issued by the Company are ordinary shares that have no par value. Shareholders of ordinary share have the right to receive dividends each time the dividend is declared and have one voting right per 100 shares at the general shareholders' meeting.

(Note 2) All ordinary shares have an equal right to the Company's residual assets.

(Note 3) Outstanding shares have been fully paid.

The Japanese Corporate Law (hereinafter referred to as "the Law") requires that at least 50% of the proceeds upon issuance of shares is credited to share capital and the remainder of the proceeds is credited to capital reserve included in "capital surplus". The Law permits, upon approval at the general meeting of shareholders, the transfer of amount from capital reserve to share capital.

Amounts classified as equity elements at the timing of issuance of convertible bond with share subscription rights are included in "capital surplus" as equity components of compound financial products.

(2) Treasury shares

Movements in the number of treasury shares are as follows:

	Number of shares (shares)
As of April 1, 2020	7,236,929
Increase during the year	831
Decrease during the year	(3,729,713)
As of March 31, 2021	3,508,047
Increase during the year	668
Decrease during the year	(313,739)
As of March 31, 2022	3,194,976

(Note 1) Increase in the number of treasury shares for the fiscal year ended March 31, 2021 (831 shares) is due to a purchase of shares of less than one standard unit.

Decrease in the number of treasury shares for the fiscal year ended March 31, 2021 (3,729,713 shares) is due to the exercise of stock options (49,700 shares), disposal of shares as restricted stock compensation (50,883 shares), and conversion to shares by convertible bonds with share subscription rights (3,629,130 shares).

(Note 2) Increase in the number of treasury shares for the fiscal year ended March 31, 2022 (668 shares) is due to purchase of shares of less than one standard unit.

Decrease in the number of treasury shares for the fiscal year ended March 31, 2022 (313,739 shares) is due to the exercise of stock options (25,368 shares), disposal of shares as restricted stock compensation (46,995 shares), and conversion to shares by convertible bonds with share subscription rights (241,376 shares).

(3) Retained earnings

The Law provides that 10% of dividends from retained earnings shall be appropriated as capital reserve or as legal reserve until the aggregate amount of capital reserve and legal reserve equals to 25% of share capital. Accumulated legal reserve may be used to eliminate or reduce a deficit, or transferred to retained earnings upon approval at the general meeting of shareholders.

(4) Other components of equity

Movements in other components of equity for the fiscal year ended March 31, 2021 and March 31, 2022 are as follows:

(Unit: Millions of yen)

	Share subscription right	Remeasure ments of defined benefit plans	Changes in financial assets measured at fair value through other comprehensive income	Cash flow hedges	Cost of hedging	Exchange differences on translation of foreign operations	Total
As of April 1, 2020	745	-	2,284	(986)	148	(29,617)	(27,423)
Other comprehensive income	-	11,803	1,448	667	220	24,392	38,533
Disposal of treasury shares	(82)	-	-	-	-	-	(82)
Transfer from other components of equity to retained earnings	-	(11,803)	(1,393)	-	-	-	(13,197)
Share-based payment transactions	47	-	-	-	-	-	47
As of March 31, 2021	<u>710</u>	<u>-</u>	<u>2,340</u>	<u>(318)</u>	<u>369</u>	<u>(5,224)</u>	<u>(2,123)</u>
Other comprehensive income	-	6,699	(29)	(458)	340	83,029	89,581
Disposal of treasury shares	(38)	-	-	-	-	-	(38)
Transfer from other components of equity to retained earnings	-	(6,699)	172	-	-	-	(6,527)
Share-based payment transactions	35	-	-	-	-	-	35
As of March 31, 2022	<u>707</u>	<u>-</u>	<u>2,482</u>	<u>(776)</u>	<u>709</u>	<u>77,804</u>	<u>80,926</u>

All amounts stated above are after tax.

(a) Share subscription rights

The Company has a stock option plan and issues stock acquisition rights based on the Law. The details of contract terms and amounts are described in Note 23 “Share-based payments”.

(b) Remeasurements of defined benefit plans

This consists of changes arising from the remeasurements of defined benefit plans.

(c) Changes in financial assets measured at fair value through other comprehensive income

This consists of changes in financial assets measured at fair value through other comprehensive income.

(d) Cash flow hedges

This consists of the effective portion of the net changes in fair value of hedging instruments that are designated as cash flow hedges.

(e) Cost of hedging

This consists of the effective portion of the net change in fair value of the basis spread of cross-currency interest rate swaps that are designated as hedging instruments.

(f) Exchange differences on translation of foreign operations

This consists of foreign currency translation differences arising from the translation of the foreign operations’ financial statements.

22. Dividends

(1) Dividend payments

The amounts of dividend payments for each year are as follows:

For the fiscal year ended March 31, 2021

Resolution	Class of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting held on June 25, 2020	Ordinary share	10,531	14	March 31, 2020	June 26, 2020
Board of Directors' meeting held on November 5, 2020	Ordinary share	10,577	14	September 30, 2020	December 2, 2020

For the fiscal year ended March 31, 2022

Resolution	Class of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting held on June 22, 2021	Ordinary share	11,340	15	March 31, 2021	June 23, 2021
Board of Directors' meeting held on November 4, 2021	Ordinary share	12,100	16	September 30, 2021	December 3, 2021

(2) Dividends which will become effective in the next year

Dividends which will become effective in the next year are as follows:

For the fiscal year ended March 31, 2021

Resolution	Class of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting held on June 22, 2021	Ordinary share	11,340	15	March 31, 2021	June 23, 2021

For the fiscal year ended March 31, 2022

Resolution	Class of shares	Total dividends (millions of yen)	Dividends per share (yen)	Record date	Effective date
Annual shareholders' meeting held on June 22, 2022	Ordinary share	13,613	18	March 31, 2022	June 23, 2022

23. Share-based payments

(1) Stock option plans

(a) Nature of the stock option plans

The Company grants stock options to its directors, executives and employees by resolution of the General Meeting of Shareholders and the Board of Directors meeting. All stock options issued by the Company are equity-settled share-based payments. The exercise period is stipulated in the allotment agreement, and if it is not exercised within that period, the option will be forfeited. Stock compensation for stock option plans is treated as equity-settled share-based payments.

Stock options can be exercised on the earlier of the day after three years have elapsed from the grant date and the day following retirement day of the director, executive, or employee. Stock option A issued in 2016, 2017 and 2018 can be exercised from the day immediately after the director retires. Stock option B and stock options issued on and after 2019 can be exercised from the day immediately after the executive and fellow lose all of their positions.

The Group's stock option plans for the fiscal years ended March 31, 2021 and March 31, 2022 are shown below. The two-for-one stock splits on April 1, 2014 and April 1, 2019 are reflected in the amounts shown below.

	Stock options (2013)	Stock options (2014)	Stock options (2015)	Stock options Type A (2016)
Grantees	Directors -7 people Senior executives - 6 people	Directors -9 people Company executives - 26 people	Directors - 10 people Company executives - 26 people	Directors - 9 people
Number of stock options by type of stock	Ordinary shares 95,084 shares	Ordinary shares 110,700 shares	Ordinary shares 104,204 shares	Ordinary shares 50,780 shares
Grant date	August 22, 2013	August 27, 2014	August 25, 2015	August 25, 2016
Duration of service	Not applicable	Not applicable	Not applicable	Not applicable
Exercise period	From August 23, 2013 to August 22, 2043	From August 28, 2014 to August 27, 2044	From August 26, 2015 to August 25, 2045	From August 26, 2016 to August 25, 2046
	Stock options Type B (2016)	Stock options Type A (2017)	Stock options Type B (2017)	Stock options Type A (2018)
Grantees	Company executives - 29 people Fellows - 4 people	Directors - 6 people	Company executives - 27 people Fellows - 4 people	Directors - 5 people
Number of stock options by type of stock	Ordinary shares 56,184 shares	Ordinary shares 45,412 shares	Ordinary shares 52,468 shares	Ordinary shares 32,736 shares
Grant date	August 25, 2016	August 24, 2017	August 24, 2017	August 29, 2018
Duration of service	Not applicable	Not applicable	Not applicable	Not applicable
Exercise period	From August 26, 2016 to August 25, 2046	From August 25, 2017 to August 24, 2047	From August 25, 2017 to August 24, 2047	From August 30, 2018 to August 29, 2048
	Stock options Type B (2018)	Stock options (2019)	Stock options (2020)	Stock options (2021)
Grantees	Company executives - 28 people Fellows - 5 people	Company executives - 8 people Fellows - 4 people	Company executives - 9 people Fellows - 3 people	Company executives - 8 people Fellows - 3 people
Number of stock options by type of stock	Ordinary shares 41,696 shares	Ordinary shares 13,600 shares	Ordinary shares 12,440 shares	Ordinary shares 8,448 shares
Grant date	August 29, 2018	August 1, 2019	August 5, 2020	August 3, 2021
Duration of service	Not applicable	Not applicable	Not applicable	Not applicable
Exercise period	From August 30, 2018 to August 29, 2048	From August 2, 2019 to August 1, 2049	From August 6, 2020 to August 5, 2050	From August 4, 2021 to August 3, 2051

(b) Number of stock options and weighted average share prices

	For the fiscal year ended March 31, 2021		For the fiscal year ended March 31, 2022	
	Number of shares (shares)	Weighted average exercise price (yen)	Number of shares (shares)	Weighted average exercise price (yen)
Beginning balance	395,572	1	357,880	1
Granted	12,440	1	8,448	1
Exercised	(49,700)	1	(25,368)	1
Expired	(432)	1	-	-
Closing balance	357,880	1	340,960	1
Ending balance of unexercised grants	126,720	1	109,728	1

(Note 1) The weighted average share prices at the day when the options were exercised during the period are ¥ 3,961 and ¥ 4,307 for the fiscal years ended March 31, 2021 and March 31, 2022, respectively.

(Note 2) The weighted average remaining contractual lives of outstanding stock options as of the reporting date are 25.6 years and 24.8 years as of March 31, 2021 and March 31, 2022, respectively.

(c) Fair value of stock options granted during the period

The fair value of stock options granted during the period is evaluated using the Black-Scholes model based on the following assumptions.

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
	Stock options (2020)	Stock options (2021)
Fair value (yen)	3,941	4,171
Share price on grant date (yen)	4,088	4,317
Exercise price (yen)	1	1
Expected volatility (%)	29.724	27.698
Expected remaining life (years)	5.3	5.1
Expected dividend	28 yen/share	29 yen/share
Risk free rate (%)	(0.126)	(0.135)

(d) Amounts recorded in the Consolidated Statement of Profit or Loss

The amount of stock-based compensation expense included in “Selling, general and administrative expenses” in the Consolidated Statement of Profit or Loss is ¥ 47 million and ¥ 35 million for the fiscal years ended March 31, 2021 and March 31, 2022, respectively.

(2) Restricted stock compensation plan

(a) Nature of the restricted stock compensation plan

The Company has introduced a restricted stock compensation plan (hereinafter “the Plan”) so that the Company’s Directors (excluding Directors who are Audit and Supervisory Committee Members and Outside Directors) and executive officers (hereinafter “Eligible Directors”) may share benefits and risks of stock price movements with shareholders and further enhance their motivation in contributing to increases in stock prices and improvement of enterprise value. Eligible Directors make in-kind contributions by claims for monetary remuneration provided by the Company according to the Plan, and the Company issues and disposes the Company’s common stock to Eligible Directors.

The Company enters into a restricted stock allotment agreement (hereinafter “Allotment Agreement”) with Eligible Directors, and Eligible Directors are not allowed to transfer, pledge or dispose of the Company’s common stock granted during a certain period stipulated in the Allotment Agreement (hereinafter “Transfer Restriction Period”) (hereinafter “Transfer Restriction”). The Transfer Restriction is lifted for all the stocks held by Eligible Directors at the expiration of the Transfer Restriction, under the condition that Eligible Directors continuously hold a position of the Company’s director for a certain period. However, if the Eligible Directors resign from the position of Director of the Company before the expiration of the Transfer Restriction Period for reasons deemed valid by the Company’s Board of Directors, transfer restriction on the Stock will be lifted at the time of resignation. On the other hand, in principle, stocks held by Eligible Directors are to be acquired by the Company without any payment upon the occurrence of specified events.

(b) Number of shares granted during the year and fair values

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Grant date	July 15, 2020	July 14, 2021
Number of shares granted (shares)	50,883	46,995
Fair value at grant date (yen)	3,960	4,409
Transfer Restriction Period (years)	30	30
Measurement method for fair value	Measured based on the closing price of the Company’s common stock on the Tokyo Stock Exchange on the business day preceding the date when the Board of Directors adopted a resolution.	Measured based on the closing price of the Company’s common stock on the Tokyo Stock Exchange on the business day preceding the date when the Board of Directors adopted a resolution.

(c) Amounts recorded in the Consolidated Statement of Profit or Loss

Expense related to the Plan was ¥ 201 million and ¥ 205 million for the fiscal year ended March 31, 2021 and March 31, 2022, respectively, which was recorded in “Selling, general and administrative expenses” in the Consolidated Statement of Profit or Loss.

24. Revenue

(1) Breakdown of revenue

The Group mainly comprises three reportable segments being the “Cardiac and Vascular Company”, “Medical Care Solutions Company” and “Blood and Cell Technologies Company”. As the reportable segments of the Group are reviewed regularly at the Board of Directors meeting to make decisions about allocation of management resources and assess the performance of the business, the Group discloses the revenue of three reportable segments. In addition, revenue is classified by country or region based on customer’s location.

The reportable segment which was previously named “General Hospital Company” was changed to “Medical Care Solutions Company” from the fiscal year ended March 31, 2022. The details are described in Note 5 “Segment information”.

The breakdown of revenue by geographic areas and reportable segments is as follows:

For the fiscal year ended March 31, 2021

	(Unit: Millions of yen)					
	Cardiac and Vascular Company	Medical Care Solutions Company	Blood and Cell Technologies Company	Total	Adjustments	Amount recorded on consolidated financial statements
Japan	50,208	139,139	12,154	201,502	256	201,758
Europe	82,523	10,241	27,624	120,389	-	120,389
Americas	126,978	9,053	44,765	180,798	-	180,798
China	37,019	2,422	6,082	45,525	-	45,525
Asia and others	31,818	14,688	18,864	65,371	-	65,371
Total	328,549	175,545	109,491	613,586	256	613,842

For the fiscal year ended March 31, 2022

	(Unit: Millions of yen)					
	Cardiac and Vascular Company	Medical Care Solutions Company	Blood and Cell Technologies Company	Total	Adjustments	Amount recorded on consolidated financial statements
Japan	51,144	142,735	12,012	205,892	251	206,143
Europe	99,796	11,063	29,558	140,417	-	140,417
Americas	159,570	10,608	50,221	220,400	-	220,400
China	48,942	2,666	7,741	59,350	-	59,350
Asia and others	37,677	18,262	21,052	76,991	-	76,991
Total	397,130	185,335	120,586	703,052	251	703,303

The information related to China which was previously included in “Asia and others” is presented as “China” separately based on the group management from the fiscal year ended March 31, 2022. In accordance with this change, the information on geographic areas for the fiscal year ended March 31, 2021 has also been reclassified.

“Cardiac and Vascular Company” sells products related to Interventional Systems (TIS), Neurovascular, Cardiovascular and Vascular Graft.

“Medical Care Solutions Company” sells products related to Hospital Care Solutions, Life Care Solutions and Pharmaceutical Solutions.

“Blood and Cell Technologies Company” sells products related to Blood and Cell Technologies.

“Adjustments” includes mainly proceeds from outward temporary staffing to external customers that are not attributable to reportable segments.

(2) Contract assets and contract liabilities

Contract assets and contract liabilities from contracts with customers are as follows:

	As of April 1, 2020	(Unit: Millions of yen) As of March 31, 2021
Contract assets	586	1,489
Contract liabilities	1,309	1,925

	As of April 1, 2021	(Unit: Millions of yen) As of March 31, 2022
Contract assets	1,489	1,267
Contract liabilities	1,925	6,522

The contract assets primarily relate to the Group's rights to consideration for performance obligation satisfied but not billed at the reporting date. In particular, some consolidated subsidiaries provide a bundle of some maintenance services and consumable goods, etc. The revenue related to the maintenance services is recognized over the contract period, but portions that are unbilled as of the reporting date are considered contract assets as rights to consideration for performance obligations. The contract assets are transferred to receivables when the rights for the payments become unconditional.

The contract liabilities primarily relate to the consideration received from customers in advance of delivery of products. The contract liabilities are recognized when payments are received from customers, and reclassified to revenue when the Group satisfies a performance obligation based on the contract. The amount of revenue recognized during the fiscal years ended March 31, 2021 and 2022 that was included in the contract liability balance as of April 1, 2020 and 2021 was immaterial.

Furthermore, the amount of revenue recognized during the fiscal years ended March 31, 2021 and 2022 from performance obligations satisfied in each previous period was immaterial.

(3) Transaction price allocated to the remaining performance obligations

The Group uses the practical expedient of omitting the disclosure of information on the remaining performance obligations because it has no significant individual transaction with expected contractual terms exceeding one year. In addition, there is no significant consideration from contracts with customers that is not included in transaction prices.

(4) Assets recognized related to the costs of obtaining or fulfilling contracts with customers

The amount of assets recognized related to the costs of obtaining or fulfilling contracts with customers during the fiscal year ended March 31, 2022 was immaterial. In addition, if the amortization period of the assets that the Group otherwise would have recognized is one year or less, the Group uses the practical expedient of recognizing the incremental costs of obtaining the contract as an expense when incurred.

25. Selling, general and administrative expenses

The breakdown of selling, general and administrative expenses is as follows:

	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Employee benefit expenses	93,362	101,677
Promotion expenses	12,825	15,961
Depreciation and amortization	19,095	20,266
Freight expenses	14,365	15,735
Research and development expenses	49,096	51,837
Travel expenses	3,680	6,234
Other	36,140	39,178
Total	<u>228,566</u>	<u>250,891</u>

26. Employee benefit expenses

The employee benefit expenses included in the Consolidated Statement of Profit or Loss are ¥ 163,803 million and ¥ 179,292 million for the years ended March 31, 2021 and March 31, 2022, respectively.

The employee benefit expenses mainly include salaries, bonuses, statutory welfare expenses and employee retirement benefit expenses and are included in “Cost of sales” and “Selling, general and administrative expenses” in the Consolidated Statement of Profit or Loss.

27. Other income and other expenses

(1) Other income

The breakdown of other income is as follows:

	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Gain on sale of fixed assets	11	25
Subsidy income	2,133	1,414
Changes in fair value of contingent consideration	779	-
Other	890	1,060
Total	3,814	2,500

(2) Other expenses

The breakdown of other expenses is as follows:

	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Business reorganization cost	692	1,645
Loss on disposal of fixed assets	509	498
Depreciation	363	329
Other	1,920	2,516
Total	3,485	4,990

28. Finance income and finance costs

(1) Finance income

The breakdown of finance income is as follows:

	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Interest income		
Financial assets measured at amortized cost	415	510
Dividend income		
Equity instruments designated as financial assets measured at fair value through other comprehensive income	123	130
Gain arising from change in the fair value of financial instruments		
Financial assets measured at fair value through profit or loss	-	39
Foreign exchange gain	219	-
Other	968	381
Total	<u>1,727</u>	<u>1,062</u>

(2) Finance costs

The breakdown of finance costs is as follows:

	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Interest expense		
Financial liabilities measured at amortized cost	1,651	961
Lease liabilities	561	677
Foreign exchange loss	-	1,128
Changes in fair value of contingent consideration	124	193
Total	<u>2,337</u>	<u>2,961</u>

29. Other comprehensive income

The breakdown of each item of other comprehensive income and the related tax effect is as follows:

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Items that will not be reclassified to profit or loss		
Changes in financial assets measured at fair value through other comprehensive income:		
Amount in current year	1,920	153
Tax effect	(471)	(183)
After tax effect adjustment	1,448	(29)
Remeasurements of defined benefit plans:		
Amount in current year	17,615	9,561
Tax effect	(5,811)	(2,861)
After tax effect adjustment	11,803	6,699
Sub-total	13,252	6,670
Items that are or may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations:		
Amount in current year	24,390	83,029
Cash flow hedges:		
Amount in current year	2,639	7,419
Reclassification adjustment	(1,667)	(8,081)
Amount before tax	971	(661)
Tax effect	(304)	203
After tax effect adjustment	667	(458)
Cost of hedging		
Amount in current year	914	1,119
Reclassification adjustment	(592)	(621)
Amount before tax	321	498
Tax effect	(101)	(158)
After tax effect adjustment	220	340
Sub-total	25,278	82,910
Total of other comprehensive income	38,531	89,581

30. Earnings per share

The basis for calculating basic earnings per share and diluted earnings per share attributable to the Company's ordinary shareholders is as follows:

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Profit for the year attributable to owners of the parent (millions of yen)	77,268	88,813
Profit for the year adjustments		
Adjustments relating to convertible bonds with share subscription rights (millions of yen)	4	0
Profit for the year used to calculate diluted earnings per share (millions of yen)	<u>77,273</u>	<u>88,813</u>
Weighted average number of ordinary shares (shares)	755,097,852	756,209,050
Increase in the number of ordinary shares		
Convertible bond with share subscription rights (shares)	1,292,609	100,892
Stock option plan (shares)	<u>372,721</u>	<u>350,982</u>
Weighted average number of ordinary shares after dilution (shares)	<u>756,763,182</u>	<u>756,660,924</u>
Basic earnings per share (yen)	102.33	117.45
Diluted earnings per share (yen)	102.11	117.38

(Note) Basic earnings per share is calculated by dividing profit for the year attributable to ordinary shareholders of the parent by the weighted average number of ordinary shares outstanding during the year.

31. Financial instruments

(1) Capital management

The Group's capital management policy is to maximize corporate value by pursuing growth opportunities which are greater than cost of capital, increasing asset efficiency through improvement of business operations, and building a financially sound optimal capital structure.

The Group monitors financial indicators to maintain an optimal capital structure. The Group monitors mainly credit ratings for financial soundness and flexibility of capital as appropriate, and mainly return on invested capital ("ROIC") and return on equity attributable to owners of the parent ("ROE") for capital efficiency.

(Unit: %)

	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
ROIC	7.2	7.4
ROE	9.6	9.5

ROIC: Operating profit after-tax for the year / (Interest bearing debt + Total equity) (average of the beginning and end of the periods)

ROE: Profit for the year attributable to owners of the parent / Equity attributable to owners of the parent (average of the beginning and end of the periods)

The Group is not subject to significant regulatory capital requirements, except for those under the Law and related laws.

(2) Financial risk management

The Group is exposed to a variety of financial risks, such as credit risk, liquidity risk, market risks (currency risk, interest rate risk, and price risk) in its operations. The Company manages its risks to reduce these financial risks. The basic policy of risk management covers the risks associated with business operations, but not for speculative transactions.

(3) Credit risk

Credit risk is the risk of financial loss due to counterparties' inability to fulfill their obligations.

The Group regularly monitors the conditions of its major customers, and manages the due date and balance of trade receivables by customers according to the Group's internal policy for credit management, for the purpose of identifying recoverability concerns due to deterioration of a customer's financial situation at an early stage and revising and improving the protection of trade receivables. As a result, there are no material past due trade receivables. In regard to derivative transactions, the Group only deals with highly creditworthy financial institutions, and therefore the credit risk is considered as to be low.

The Group is not exposed to excessive credit risk associated with specific customers that require exceptional management.

The Group's maximum exposures to credit risk are the carrying amount of the financial assets in the Consolidated Statement of Financial Position. Trade receivables are categorized according to customers' credit risk features, and loss allowance for trade receivables is measured based on the historical credit loss ratio and expected future economic conditions for each category based on a simplified approach.

Movements in loss allowance

The Group reviews collectability of trade and other receivables based on the credit conditions of customers and recognizes loss allowance. The carrying amount of total trade receivables and movements in loss allowance are as follows:

	(Unit: Millions of yen)	
	<u>As of March 31, 2021</u>	<u>As of March 31, 2022</u>
Trade receivables	128,073	134,706

	(Unit: Millions of yen)	
	<u>For the fiscal year ended March 31, 2021</u>	<u>For the fiscal year ended March 31, 2022</u>
Beginning balance	(1,427)	(2,165)
Increases	(1,119)	(296)
Decreases (intended use)	125	138
Decreases (reversal)	320	317
Other	(64)	(1)
Ending balance	<u>(2,165)</u>	<u>(2,007)</u>

(4) Liquidity risk

Liquidity risk is the risk of facing difficulties in fulfilling obligations related to financial liabilities settled by cash or other financial assets. The Group procures necessary funds through bank borrowings and corporate bonds; however, these liabilities are exposed to liquidity risk of failure for making payments on due dates due to the deterioration of funding environment or other factors.

The Group creates and revises the procurement of funding schedule based on the annual business plan, understands and consolidates the liquidity on hand and the status of the interest-bearing debt, and reports to the Board of Directors on a timely basis. The Group monitors the ongoing forecast for funding demand and maintains sufficient unused portion of the contractual borrowing facilities.

Maturity analysis

The table below shows the remaining contractual maturities of the Group's non-derivative financial liabilities and derivative financial liabilities as of March 31, 2021 and March 31, 2022, respectively. The contractual amounts shown in the table below are undiscounted cash flows.

<u>As of March 31, 2021</u>				
	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
(Unit: Millions of yen)				
Non-derivative financial liabilities				
Trade and other payables	83,528	-	-	83,528
Bonds and borrowings	43,170	160,949	60,112	264,232
Lease liabilities	6,672	15,363	12,860	34,896
Other financial liabilities	1,196	2,997	925	5,119
Derivative financial liabilities				
Other financial liabilities	(115)	1,479	-	1,363
<u>As of March 31, 2022</u>				
	<u>Within 1 year</u>	<u>1-5 years</u>	<u>Over 5 years</u>	<u>Total</u>
(Unit: Millions of yen)				
Non-derivative financial liabilities				
Trade and other payables	81,545	-	-	81,545
Bonds and borrowings	3,063	197,518	30,015	230,598
Lease liabilities	6,212	17,099	12,497	35,809
Other financial liabilities	611	2,997	974	4,583
Derivative financial liabilities				
Other financial liabilities	(66)	(7,449)	-	(7,515)

Derivative financial assets and derivative financial liabilities are presented on a net basis.

(5) Market risks

The Group is exposed to market risks related to currency risk associated with foreign currency-denominated transactions, interest rate risk associated with raising funds, and market price risk associated with the listed stocks held by the Group.

a. Currency risk

(a) Currency risk and management policy

The Group is exposed to currency risk that arises from import and export transactions and overseas transactions denominated in foreign currencies. Currency risk arises from forecast transactions such as future sales, financing and repayment, or assets and liabilities that have been already recognized.

The Group continuously monitors foreign exchange rates to manage such risks.

The Group has entered into foreign currency forward contracts to hedge the currency risks arising from forecast transactions such as future sales, financial assets and financial liabilities denominated in foreign currency transactions. In addition, to hedge future cash flows arising from the borrowings denominated in foreign currency, the Group has entered into a cross-currency interest rate swap contract with the same maturity as the redemption date of the underlying transactions.

Consequently, receivables and liabilities denominated in foreign currencies are exposed to the risk arising from fluctuations in foreign exchange rates. However, the impact of the risk is limited due to the offset effect by foreign currency forward contracts.

(b) Sensitivity analysis on currency risk

With respect to foreign currency-denominated financial instruments held by the Group, the impact on profit before tax that would result from 1% appreciation of the Japanese yen against the U.S. dollar is ¥ (3) million and ¥ 6 million for the fiscal years ended March 31, 2021 and March 31, 2022, respectively. The impact on profit before tax that would result from 1% appreciation of the Japanese yen against Euro is ¥ (65) million and ¥ (97) million for the fiscal years ended March 31, 2021 and March 31, 2022, respectively. The impact on profit before tax that would result from 1% appreciation of the U.S. dollar against Euro is ¥ (138) million and ¥ (104) million for the fiscal years ended March 31, 2021 and March 31, 2022, respectively.

This analysis does not include the foreign exchange gain or loss arising from financial instruments denominated in the functional currency, the translation of income and expenses denominated in foreign currencies, and the translation of assets and liabilities of foreign operations into the presentation currency.

The impact of a 1% depreciation of the Japanese yen against the U.S. dollar and Euro, and U.S. dollar against Euro on the profit before tax would be equal but opposite to the amounts stated above, assuming all other variables are constant.

(c) Derivatives (foreign currency forward contracts)

Foreign currency forward contracts for hedging currency risk are as follows:

1. Derivative transactions to which hedge accounting is not applied

	As of March 31, 2021		(Unit: Millions of yen) As of March 31, 2022	
	Carrying amount		Carrying amount	
	Other financial assets	Other financial liabilities	Other financial assets	Other financial liabilities
Foreign currency forward contracts	39	288	-	890

	As of March 31, 2021			(Unit: Millions of yen) As of March 31, 2022		
	Notional amount	Notional		Notional amount	Notional	
		amount greater than 1 year	Fair value		amount greater than 1 year	Fair value
Foreign currency forward contracts						
Selling						
AUD	727	-	1	901	-	(27)
THB	2,511	-	10	1,889	-	(65)
EUR	9,512	-	(232)	9,775	-	(512)
KRW	457	-	(15)	410	-	(31)
TWD	618	-	(11)	737	-	(29)
BRL	633	-	(1)	822	-	(223)
Total	14,461	-	(249)	14,536	-	(890)

2. Derivative transactions to which hedge accounting is applied

	(Unit: Millions of yen)			
	As of March 31, 2021		As of March 31, 2022	
	Carrying amount		Carrying amount	
	Other financial assets	Other financial liabilities	Other financial assets	Other financial liabilities
Foreign currency forward contracts	1	-	3	-

	(Unit: Millions of yen)					
	As of March 31, 2021			As of March 31, 2022		
	Notional amount	Notional amount greater than 1 year	Fair value	Notional amount	Notional amount greater than 1 year	Fair value
Foreign exchange forward contracts						
Selling						
JPY	68	-	1	98	-	3
Total	68	-	1	98	-	3

The Group enters into foreign currency forward contracts to hedge currency risks. Hedge accounting is applied, if the transactions meet the requirements of hedge accounting.

The Group's risk management policies are to achieve roughly 100% hedge against the estimated currency risk arising from sales forecast for the next three months. The Group enters into foreign currency forward contracts to hedge currency risk, most of which mature within one year from the reporting date. The Group designates the entire foreign currency forward contracts as a hedging instrument.

The impacts of the foreign exchange-related hedging instruments on the Group's financial position and performance are set out below. The cross-currency interest rate swap is stated below in b. "Interest rate risk".

	As of March 31, 2021	As of March 31, 2022
Carrying amount (millions of yen)	1	3
Contractual amount (millions of yen)	68	98
Maturity date	April 2021	April 2022
Accounts for hedging instruments in the statement of financial position	Other financial assets	Other financial assets
Hedge ratio (Note 1)	1	1
Changes in fair value of hedging instruments for measurement of hedge ineffectiveness	193	(73)
Changes in fair value of hedged item for measurement of hedge ineffectiveness (Note 2)	(193)	73
Weighted average forward exchange rates	0.01 GBP/JPY -JPY/USD -GBP/USD	0.01 GBP/JPY -JPY/USD -GBP/USD

(Note 1) Foreign currency forward contracts are denominated in the same currency as the forecast foreign currency transactions, hence the hedge ratio is 1:1.

(Note 2) The Group's foreign currency forward contracts designated as hedging instruments do not have any ineffective portions.

The amounts recognized for the Group's designated hedging instruments are as follows (before tax):

For the fiscal year ended March 31, 2021

	Amounts recognized in other comprehensive income for cash flow hedge	Amounts reclassified from other components of equity	(Unit: Millions of yen) Accounts affected by the reclassification in Consolidated Statement of Profit or Loss
Foreign currency forward contracts	193	(189)	Finance income

For the fiscal year ended March 31, 2022

	Amounts recognized in other comprehensive income for cash flow hedge	Amounts reclassified from other components of equity	(Unit: Millions of yen) Accounts affected by the reclassification in Consolidated Statement of Profit or Loss
Foreign currency forward contracts	(73)	75	Finance costs

The reconciliation of the Group's other components of equity and the analysis of other comprehensive income are as follows:

Cash flow hedge	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Beginning balance	(3)	1
Changes in fair value		
Currency risk	193	(73)
Reclassification to profit or loss		
Currency risk	(189)	75
Ending balance	<u>1</u>	<u>3</u>

b. Interest rate risk

(a) Interest rate risk and management policies

Interest rate risk is the risk arising from the changes in market interest rates affecting changes in the fair value or future cash flows of financial instruments. The Group's exposure to interest rate risk is mainly related to liabilities, such as bonds and borrowings, and receivables, such as interest-bearing deposits. The Group is exposed to the risk of fluctuation of future cash flows resulting from the risk of interest rate fluctuation on part of its funding borrowed from financial institutions at the floating rate.

In order to hedge its exposure to an increase in future interest payments resulting from an increase in interest rates, the Group raises funds through issuance of corporate bonds with fixed interest rates or enters into mainly interest rate swap transactions to hedge interest rate risk associated with the floating rate on borrowings in order to make cash flows stable.

Interest Rate Benchmark Reform amendments

A fundamental reform of major interest rate benchmarks is being undertaken globally. The London Interbank Offered Rate ("LIBOR"), except for certain US dollar LIBOR settings, ceased after December 31, 2021, and the publication of remaining US dollar LIBOR settings will cease after June 30, 2023.

The Group is affected by this Interest Rate Benchmark Reform, and is monitoring the trend, assessing the impact, and preparing for the transition to an alternative index interest rate for LIBOR. Transactions that apply cash flow hedging with borrowings that refer to US dollar LIBOR as hedged items and interest rate currency swaps as hedging instruments are affected by the Interest Rate Benchmark Reform as they have not yet transitioned to alternative interest rate indicators. As of March 31, 2022, the notional amount of interest rate currency swaps referring to US Dollar

LIBOR in the transaction is 75,881 million yen. These hedging instruments are designated as a means of hedging specific cash flows from borrowing at variable interest rates due to fluctuations in US dollar LIBOR.

The Group will continue to apply IFRS 9 and continue hedging accounting until the uncertainty associated with the Interest Rate Benchmark Reform ends. The Group also assumes that this uncertainty will continue until the alternative interest rate index and related spread adjustments are finalized. The Group believes that there will be no change in the risk management strategy for the Group's hedge accounting.

(b) Sensitivity analysis of interest rate risk

With respect to long-term borrowings with floating rates exposed to interest rate risk, the Group uses mainly interest rate swaps for which hedge accounting is applied, to maintain stable future cash flows and hedge risk. Since the Group's exposure to interest rate risk is limited and the impact of interest rate fluctuations on the Group's consolidated financial statements are immaterial, interest rate sensitivity analysis is not presented.

(c) Derivatives (Cross-currency interest rate swaps)

Details of cash flow hedge related to cross-currency interest rate swaps are as follows:

1. Derivative transactions to which hedge accounting is applied

Hedging instruments	(Unit: Millions of yen)							
	As of March 31, 2021				As of March 31, 2022			
	Notional amount		Fair value		Notional amount		Fair value	
	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities	Assets	Liabilities
Interest rate risk and Currency risk								
Cross-currency interest rate swaps	-	89,498	1,016	3,017	-	71,858	4,125	-

(Note) Cross-currency interest rate swaps to which hedge accounting is applied, are used to swap floating rates with fixed interest rates. The Group has adopted the policy to hedge partial or all exposure to interest rate risk for borrowings with floating rates to fixed interest rates.

Cross-currency interest rate swaps

The Group entered into cross-currency interest rate swap agreements based on the same or closely aligned with key terms of the hedged items, such as reference interest rate, date of interest rate update, date of repayment, maturity, and principals.

	As of March 31, 2021	As of March 31, 2022
Carrying amount (millions of yen)	(2,000)	4,125
Contractual amount (millions of yen)	89,498	71,858
Maturity date	January 2022 - April 2024	April 2024
Accounts for hedging instruments in the statement of financial position	Other financial assets Other financial liabilities	Other financial assets
Hedge ratio (Note 1)	1	1
Changes in fair value of hedging instruments for measurement of hedge ineffectiveness	2,813	7,177
Changes in fair value of hedged item for measurement of hedge ineffectiveness (Note 2)	(2,420)	(7,492)
Weighted average hedging interest rate (fixed interest rate) (%)	0.1341	0.1550

(Note 1) The borrowings with floating rates are hedged by cross-currency interest rate swaps with the same or closely aligned with key terms. The Group applies a hedge ratio of 1:1.

(Note 2) The ineffective portion related to the cross-currency interest rate swaps designated as hedging instruments is immaterial.

The amounts recognized for the designated hedging instruments are as follows (before tax):

For the fiscal year ended March 31, 2021

	(Unit: Millions of yen)				
	Amounts recognized in other comprehensive income for cash flow hedges	Amounts reclassified from other components of equity for cash flow hedges	Amounts of cost of hedging recognized in other comprehensive income	Amounts of cost of hedging reclassified from other components of equity	Accounts affected by the reclassification in Consolidated Statement of Profit or Loss
Cross-currency interest rate swaps	2,445	(1,478)	914	(592)	Finance income and Finance costs

For the fiscal year ended March 31, 2022

	(Unit: Millions of yen)				
	Amounts recognized in other comprehensive income for cash flow hedges	Amounts reclassified from other components of equity for cash flow hedges	Amounts of cost of hedging recognized in other comprehensive income	Amounts of cost of hedging reclassified from other components of equity	Accounts affected by the reclassification in Consolidated Statement of Profit or Loss
Cross-currency interest rate swaps	7,492	(8,156)	1,119	(621)	Finance income and Finance costs

The reconciliation of the Group other components of equity and the analysis of other comprehensive income are as follows:

(1) Cash flow hedge

Cash flow hedge	For the fiscal year ended March 31, 2021	(Unit: Millions of yen) For the fiscal year ended March 31, 2022
Beginning balance	(982)	(319)
Changes in fair value		
Risks of foreign exchange rate and interest rate	2,445	7,492
Reclassification to profit or loss		
Risks of foreign exchange rate and interest rate	(1,478)	(8,156)
Income tax arising from changes in the period	(304)	203
Ending balance	(319)	(780)

(2) Cost of hedging

Cost of hedging	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Beginning balance	148	369
Changes in fair value		
Risks of foreign exchange rate and interest rate	914	1,119
Reclassification to profit or loss		
Risks of foreign exchange rate and interest rate	(592)	(621)
Income tax arising from changes in the period	(101)	(158)
Ending balance	369	709

Cost of hedging represents the amount arising from foreign currency basis spreads of hedging instruments that are hedging against time-period related hedged items.

c. Price risk of equity instruments

Nature of price risk and management policies

The price risk of equity instruments is the risk arising from changes in market prices affecting the changes in fair value or future cash flows of financial instruments (excluding changes arising from interest rate risk and currency risk).

The Group is exposed to price risk arising from the equity instruments it holds. Shares with market prices, which are not for trading purpose, are classified as financial assets measured at fair value through other comprehensive income.

To manage price risk arising from such equity instruments, the Group makes basic policies in relation to the investment in such equity instruments that shall be complied within the Group. In addition, it is obligated to report to and obtain approval from the Board of Directors on a timely basis regarding significant investments in equity instruments. The Group reviews the economic rational and purpose of equity instruments held by the group from a mid-to-long term perspective and, in addition, significant equity instruments are regularly reviewed by the Board of Directors.

32. Fair value of financial instruments

(1) Classification of fair value hierarchy

Financial instruments measured at fair value are classified from level 1 to level 3 in the fair value hierarchy with reference to the observability and significance of the inputs used in the valuation technique. The fair value hierarchy is defined as follows:

Level 1: Fair value is measured using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair value is measured using the observable inputs which fail to meet level 1, either directly or indirectly.

Level 3: Fair value is measured using unobservable inputs.

(2) Fair value of financial assets and financial liabilities measured at fair value on a recurring basis

a. Fair value hierarchy

The financial assets and financial liabilities measured at fair value in the Consolidated Statement of Financial Position by each level of the fair value hierarchy are as follows:

As of March 31, 2021

	(Unit: Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial assets measured at fair value through profit or loss				
Derivatives	-	1,056	-	1,056
Other	-	5,310	-	5,310
Financial assets measured at fair value through other comprehensive income				
Shares	5,199	-	2,768	7,967
Other	-	-	2,082	2,082
Total	<u>5,199</u>	<u>6,366</u>	<u>4,851</u>	<u>16,417</u>
Financial liabilities				
Other financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	-	3,305	-	3,305
Contingent considerations	-	-	3,658	3,658
Total	<u>-</u>	<u>3,305</u>	<u>3,658</u>	<u>6,963</u>

As of March 31, 2022

	(Unit: Millions of yen)			
	Level 1	Level 2	Level 3	Total
Financial assets				
Other financial assets				
Financial assets measured at fair value through profit or loss				
Derivatives	-	4,129	-	4,129
Other	-	5,978	-	5,978
Financial assets measured at fair value through other comprehensive income				
Shares	5,335	-	2,754	8,090
Other	-	-	3,806	3,806
Total	<u>5,335</u>	<u>10,108</u>	<u>6,560</u>	<u>22,004</u>
Financial liabilities				
Other financial liabilities				
Financial liabilities measured at fair value through profit or loss				
Derivatives	-	890	-	890
Contingent considerations	-	-	3,185	3,185
Total	<u>-</u>	<u>890</u>	<u>3,185</u>	<u>4,075</u>

Transfers of financial instruments between levels of the fair value hierarchy are assessed at each reporting date. There were no significant transfers between level 1 and level 2 for the fiscal years ended March 31, 2021 and 2022.

b. Valuation techniques for fair value measurement of financial assets and financial liabilities

(a) Shares

The fair value of listed stocks is measured at the quoted market prices on stock exchanges and is categorized into level 1.

(b) Derivatives

The fair value of foreign currency forward contracts is measured at the present value calculated using the forward exchange rate at the end of the reporting period. The fair value of cross-currency interest rate swaps is measured based on observable market data such as interest rate. Therefore, foreign currency forward contracts and cross-currency interest rate swaps are categorized as level 2.

(c) Contingent consideration

For the fiscal year ended March 31, 2021

Contingent consideration arising from business combinations resulted from the acquisitions of the large bore vascular closure business from Medeon Biodesign, Inc. and Qirem Medical B.V., which became a 100% subsidiary of the Company by additional acquisition of the shares during the fiscal year ended March 31, 2021.

The contingent consideration for the acquisition of the business from Medeon Biodesign is based on the completion of the development and the period of FDA approval. According to the achievement of milestones, a payment of up to USD30 million will be made. The fair value of the contingent consideration is measured using a discounted cash flows valuation technique and calculated based on the periods and the expected payments corresponding to the achievement of milestones, probability of occurrence and time value of money.

The contingent consideration for the acquisition of Qirem Medical B.V. is based on the acquisition of CE marking certification for the development of next-generation microspheres and achievement of specific performance indicators. According to the achievement of milestones, a maximum payment of USD25 million will be made. The fair value of the contingent consideration is measured using a discounted cash flows valuation technique and calculated based on the periods and the expected payments corresponding to the achievement of milestones, probability of occurrence and time value of money.

The contingent consideration is categorized as level 3 measured using a valuation technique with reference to unobservable inputs.

For the fiscal year ended March 31, 2022

Contingent consideration arising from business combinations resulted from the acquisitions of the large bore vascular closure business from Medeon Biodesign, Inc. and Qirem Medical B.V., which became a 100% subsidiary of the Company by additional acquisition of the shares during the fiscal year ended March 31, 2021.

The contingent consideration for the acquisition of the business from Medeon Biodesign is based on the completion of the development and the period of FDA approval. According to the achievement of milestones, a payment of up to USD20 million will be made. The fair value of the contingent consideration is measured using a discounted cash flows valuation technique and calculated based on the periods and the expected payments corresponding to the achievement of milestones, probability of occurrence and time value of money.

The contingent consideration for the acquisition of Qirem Medical B.V. is based on the acquisition of CE marking certification for the development of next-generation microspheres and achievement of specific performance indicators. According to the achievement of milestones, a maximum payment of USD20 million will be made. The fair value of the contingent consideration is measured using a discounted cash flows valuation technique and calculated based on the periods and the expected payments corresponding to the achievement of milestones, probability of occurrence and time value of money.

The contingent consideration is categorized as level 3 measured using a valuation technique with reference to unobservable inputs.

c. Movements in financial assets and financial liabilities classified as level 3

The movements in financial assets classified as level 3 are as follows:

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Beginning balance	3,057	4,851
Total gains or losses		
Profit or loss (Note 1)	(115)	39
Other comprehensive income (Note 2)	(32)	356
Additions	1,941	1,555
Sales	-	(202)
Other	-	(39)
Ending balance	<u>4,851</u>	<u>6,560</u>
Gains or losses recognized in profit or loss attributable to the change in unrealized gains or losses relating to those assets held at the end of the reporting period (Note 1)	(115)	-

(Note 1) Gains and losses recognized in profit or loss are associated with the financial assets measured at fair value through profit or loss, which are presented in “Other expenses” and “Finance income” in the Consolidated Statement of Profit or Loss.

(Note 2) Gains and losses recognized in other comprehensive income are associated with the financial assets measured at fair value through other comprehensive income, which are presented in “Changes in financial assets measured at fair value through other comprehensive income” and “Exchange differences on translation of foreign operations” in the Consolidated Statement of Comprehensive Income.

The movements in financial liabilities classified as level 3 are as follows:

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Beginning balance	836	3,658
Business combinations	1,151	282
Settlements	(482)	(1,424)
Changes in fair value (Note 2)	1,967	409
Exchange differences on translation of foreign operations	185	260
Ending balance	<u>3,658</u>	<u>3,185</u>
Gains or losses recognized in profit or loss attributable to the change in unrealized gains or losses relating to those liabilities held at the end of the reporting period (Note 3)	2,003	185

(Note 1) The financial liabilities are contingent consideration described in b. (c) above.

(Note 2) Changes in fair value are included in “Selling, general and administrative expenses”, “Other income”, “Other expenses” and “Finance costs” in the Consolidated Statement of Profit or Loss.

(Note 3) Gains or losses recognized in profit or loss are included in “Selling, general and administrative expenses”, “Other expenses” and “Finance costs” in the Consolidated Statement of Profit or Loss.

(3) Financial assets and financial liabilities that are not measured at fair value on a recurring basis

a. Fair value and carrying amounts

The carrying amounts and fair values of the financial instruments, which have disclosed fair values but not measured at fair value on a recurring basis, are described below. Carrying amounts shown below do not include financial instruments for which the carrying amounts reasonably approximate to their fair values.

	(Unit: Millions of yen)			
	As of March 31, 2021		As of March 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	40,401	40,508	29,956	29,959
Long-term borrowings	220,168	220,645	196,040	195,561

(Note) The above table includes current portion of long-term borrowings and corporate bonds that are due within one year.

b. Fair value measurements of financial instruments

The valuation techniques for fair value measurement for the financial instruments described above are as follows:

(a) Long-term borrowings

The fair value of long-term borrowings with floating rates reflecting short-term interest rates, are measured at book value, considering the carrying amounts approximate to the fair value, as the Company's credit conditions do not fluctuate significantly from having the borrowings. The fair value of long-term borrowings with fixed interest rates are measured at the present value of the total amount of principal and interest for the remaining borrowing period, using an interest rate that would be applied for new borrowings. Therefore, these borrowings are classified as level 3.

(b) Corporate bonds

The fair value of corporate bonds excluding convertible bonds with share subscription rights is measured using quoted prices that are observable in markets that are not active markets. The fair value of convertible bonds with stock acquisition rights is measured by reference to similar bonds that do not have an equity conversion option. Although corporate bonds have quoted prices, as they are not traded in active markets, the fair value of corporate bonds are classified as level 2.

33. Significant subsidiaries

(1) Significant subsidiaries

The table below includes the details of significant subsidiaries as of March 31, 2022. Unless stated otherwise, equity of subsidiary comprises of ordinary shares directly owned by the Group and equity interest is the same as the voting rights belonging to the Group. The location of the subsidiary is the same as the location of the main business office.

Company name	Location	Core business	Percentage of voting rights held (%)	
			As of March 31, 2021	As of March 31, 2022
Terumo Europe N.V.	Belgium	Manufacture and sale of products related to Cardiac and Vascular Company and Medical Care Solutions Company	100	100
Terumo Americas Holding, Inc.	U.S.	Supervision of American subsidiaries	100	100
Terumo Medical Corp.	U.S.	Manufacture and sale of products related to Cardiac and Vascular Company and Medical Care Solutions Company	100	100
MicroVention, Inc.	U.S.	Manufacture and sale of products related to Cardiac and Vascular Company	100	100
Terumo BCT Holding Corp.	U.S.	Supervision of BCT Group subsidiaries	100	100
Terumo BCT, Inc.	U.S.	Manufacture and sale of products related to Blood and Cell Technologies Company	100	100
Terumo BCT Europe NV	Belgium	Manufacture and sale of products related to Blood and Cell Technologies Company	100	100
Terumo (China) Holding Co., Ltd.	China	Supervision of China subsidiaries	100	100
Terumo Asia Holdings Pte. Ltd.	Singapore	Supervision of Asian subsidiaries (excluding China)	100	100

(2) Material non-controlling interests in subsidiaries

There are no material non-controlling interests in subsidiaries.

34. Related parties

(1) Related party transactions

Disclosure has been omitted because there are no significant transactions between the Group and related parties. Transactions have been carried out under the same conditions as ordinary transactions.

(2) Compensation for key management personnel

Compensation for key management personnel of the Group is as follows:

	(Unit: Millions of yen)	
	For the fiscal year ended March 31, 2021	For the fiscal year ended March 31, 2022
Remuneration and bonuses	439	479
Share-based payments	112	115
Total	552	595

Compensation for key management personnel is the remuneration to the directors (including external directors) of the Company.

35. Commitments

Commitments related to expenditures as of each reporting date are as follows:

	(Unit: Millions of yen)	
	As of March 31, 2021	As of March 31, 2022
Property, plant and equipment	4,345	10,711
Intangible assets	1,230	412
Total	<u>5,576</u>	<u>11,124</u>

36. Contingent liabilities

There are no contingent liabilities as of March 31, 2022.

37. Subsequent Events

Acquisition and Cancellation of Treasury Shares

During the board of directors meeting held on May 12, 2022, the Company resolved an acquisition of its treasury shares under Article 156 of the Corporate Law, as applied pursuant to Article 165, Paragraph 3 of the same law, and a cancellation of its treasury shares under Article 178 of the Corporate Law.

(1) Reason for the acquisition and cancellation of treasury stock

To improve shareholder returns and capital efficiency.

(2) Details of the share acquisition

(a) Class of shares to be acquired

The Company's common stock

(b) Total number of shares to be acquired

15,000,000 shares (maximum)

(Percentage to total number of issued shares excluding treasury shares: 1.98%)

(c) Total value of shares to be acquired

50 billion yen (maximum)

(d) Acquisition period

From May 13, 2022 to December 30, 2022

(e) Acquisition method

Purchase on the market of Tokyo Stock Exchange

(3) Details of matters related to the cancellation

(a) Class of shares to be cancelled

The Company's common stock

(b) Number of shares to be canceled

All of the shares acquired as stated in (2) above

(c) Scheduled date of cancellation:

January 13, 2023