Consolidated Financial Statements for the Year Ended March 31, 2021
<under Japanese GAAP>

May 14, 2021

Listed Company Name: TAISHO PHARMACEUTICAL HOLDINGS CO., LTD. Stock Listing: TSE
Securities Code: 4581 (URL https://www.taisho.co.jp/global/)
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Scheduled date for annual shareholders' meeting: June 29, 2021
Scheduled date for filing Securities Report: June 29, 2021
Scheduled date of dividend payments: June 30, 2021
Supplementary material on financial results: Yes
Financial results briefing: Yes

** All amounts in this report are rounded down to the nearest million yen, unless otherwise noted.*

1. Consolidated Financial Results for Fiscal 2020 (April 1, 2020 to March 31, 2021)

(1) Consolidated Operating Results

Note: Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
For the year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
March 31, 2021	281,980	(2.3)	19,965	(5.5)	25,946	6.0	13,316	(34.0)
March 31, 2020	288,527	10.3	21,137	(32.3)	24,474	(40.1)	20,172	(58.5)

Note: Comprehensive income Fiscal 2020: ¥28,920 million [241.4%] Fiscal 2019: ¥8,470 million [(82.4)%]

	Basic earnings per share	Diluted earnings per share	Return on equity	Ordinary profit to total assets	Operating profit to net sales
For the year ended	Yen	Yen	%	%	%
March 31, 2021	166.84	166.63	1.9	3.0	7.1
March 31, 2020	252.74	252.44	2.8	2.9	7.3

Reference: Share of profit (loss) of entities accounted for using equity method
Fiscal 2020: ¥276 million Fiscal 2019: ¥272 million

Note: As the Company finalized the provisional accounting treatment of the business combination with UPSA SAS ("UPSA") in fiscal 2020, the figures for fiscal 2019 reflect the details of the finalization of the provisional accounting treatment.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
March 31, 2021	876,923	758,406	83.1	9,129.95
March 31, 2020	864,974	739,778	82.0	8,887.84

Reference: Equity As of March 31, 2021: ¥728,704 million As of March 31, 2020: ¥709,374 million

Note: As the Company finalized the provisional accounting treatment of the business combination with UPSA in fiscal 2020, the figures for fiscal 2019 reflect the details of the finalization of the provisional accounting treatment.

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of period
For the year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
March 31, 2021	42,026	(1,958)	(11,346)	215,346
March 31, 2020	41,992	(107,081)	(11,696)	186,941

2. Cash Dividends

	Annual dividends					Total cash dividends	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal 2019	–	50.00	–	60.00	110.00	8,787	43.5	1.2
Fiscal 2020	–	50.00	–	50.00	100.00	7,988	59.9	1.1
Fiscal 2021 (Forecast)	–	50.00	–	50.00	100.00		76.1	

Note: See “(5) Policy for Deciding Dividends of Retained Earnings and Dividends for Fiscal Year Under Review and Next Fiscal Year” of “1. Overview of Operating Results and Others” on page 6 of the Attached Material for details on our dividend policy.

3. Forecast of Consolidated Operating Results for Fiscal 2021 (April 1, 2021 to March 31, 2022)

Note: Percentages indicate changes over the same period in the previous fiscal year.

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	269,000	(4.6)	14,500	(27.4)	18,500	(28.7)	10,500	(21.1)	131.45

Note: The Company will apply the “Accounting Standard for Revenue Recognition” from fiscal 2021.

*** Notes**

(1) Changes in significant subsidiaries during the period (or changes in specified subsidiaries resulting in changes in scope of consolidation): No

(2) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

a. Changes in accounting policies due to revisions to accounting standards: No

b. Changes in accounting policies due to other reasons: No

c. Changes in accounting estimates: No

d. Restatement of prior period financial statements after error corrections: No

(3) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of March 31, 2021: 85,139,653 shares

As of March 31, 2020: 85,139,653 shares

b. Number of treasury shares at the end of the period

As of March 31, 2021: 5,324,936 shares

As of March 31, 2020: 5,325,613 shares

c. Average number of shares during the period

For the year ended March 31, 2021:	79,816,021 shares
For the year ended March 31, 2020:	79,815,242 shares

* Financial results reports are exempt from audit conducted by certified public accountants or an audit corporation.

* Disclaimer regarding appropriate use of forecasts and related points of note
The forecast statements shown in these materials are based on the information available at the time of preparation and certain assumptions that the Company deems rational. As such, they do not constitute guarantees by the Company of future performance. Actual performance and other results may differ materially from these forecasts due to various factors.

Attached Material

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1. Overview of Operating Results and Others

(1) Overview of Operating Results for the Fiscal Year

In the over-the-counter (OTC) drug market during the fiscal year under review, sales remained significantly lower year on year, mainly in categories such as general cold remedies and cough suppressants primarily due to people voluntarily staying at home due to the effects of the spread of the novel coronavirus disease (COVID-19) and a more widespread practice of preventive measures such as wearing masks, washing hands and gargling.

For the Prescription Pharmaceutical Operation Group, the business climate remains tough due to an increasing level of difficulty in discovering new drugs as well as effects of the promotion of government measures designated to curb healthcare costs and full-blown reform of the drug price system, and other factors.

Considering the current environment, the Self-Medication Operation Group is actively developing new fields to address growing interest in health consciousness among consumers, while also stepping up product development to create new products that satisfy consumer needs and generate new demand. In the area of sales, the group is implementing activities to expand contact points and spread our new brand concept to consumers, aiming for strong brands that attract consumers, while also focusing on expanding mail order system channels such as Taisho Pharmaceutical Direct and TAISHO BEAUTY ONLINE, which provides benefits to consumers.

Outside Japan, since the full-scale entry into the OTC drug business in Asia in Fiscal 2009, the Group has been working to expand its OTC drug business mainly in Southeast Asian countries such as Indonesia, the Philippines, Thailand, and Malaysia. As Vietnam-based Duoc Hau Giang Pharmaceutical JSC ("DHG") became a consolidated subsidiary of the Company in May 2019, the Group is working to strengthen the pharmaceutical business operations in Vietnam by leveraging DHG's business base. The Company also made France-based UPSA a consolidated subsidiary in July 2019. With this, the Group aims to achieve sustainable growth by expanding the overseas business through a bipolar structure targeting the European market in addition to the Southeast Asian market.

The Prescription Pharmaceutical Operation Group is working to maximize sales of new drugs by carefully targeting the provision of information while focusing on priority areas. On the R&D front, the group is working to secure the early approval of compounds at the development stage and reinforce its R&D pipeline by licensing new drug candidates. Furthermore, in drug discovery research, the group is also strengthening cooperation with external research institutions and utilizing advanced technologies to support the ongoing discovery of original new drugs.

Consolidated net sales for the year ended March 31, 2021, decreased by ¥6.5 billion, or 2.3% year on year, to ¥282.0 billion.

**Please take note that all amounts given in billions of yen are rounded off to one decimal place.*

Performance by segment is provided below.

(Billions of yen)

Segment / Category	Amount	Increase (Decrease)	
		Amount	%
Self-Medication Operation Group	226.9	6.9	3.1
Japan	130.9	(16.2)	(11.0)
Overseas	92.5	23.0	33.2
Others	3.5	(0.0)	(1.3)
Prescription Pharmaceutical Operation Group	55.1	(13.4)	(19.6)
Ethical drugs	54.2	(12.8)	(19.1)
Others	0.9	(0.6)	(39.2)

Sales of major products were as follows:

< Self-Medication Operation Group >
Consolidated net sales for the fiscal year under review increased by ¥6.9 billion, or 3.1% year on year, to ¥226.9 billion.
With regard to our mainstay brands, sales of the *Lipovitan* series fell 10.0% to ¥45.8 billion. Sales of the *Pabron* series decreased by 29.1% to ¥21.1 billion. Sales of the *RiUP* series decreased by 0.2% to ¥14.9 billion. Sales of *Biofermin* series decreased by 8.8% to ¥9.8 billion.
Overseas, net sales for the Asia region decreased by 2.0% year on year to ¥41.6 billion and net sales for the Europe and Americas region increased by 92.8% to ¥49.7 billion due to the impact of DHG and UPSA becoming subsidiaries.

< Prescription Pharmaceutical Operation Group >
Consolidated net sales for the fiscal year under review decreased by ¥13.4 billion, or 19.6% year on year, to ¥55.1 billion.
Type 2 diabetes mellitus agent *Lusefi* increased by 51.5% to ¥10.8 billion and osteoporosis agent *Bonviva* was up 4.7% to ¥6.9 billion. On the other hand, osteoporosis agent *Edirol* decreased by 39.9% to ¥16.2 billion, transdermal antiinflammatory analgesic patch formulation *LOQOA* decreased by 2.3% to ¥3.8 billion, peripheral vasodilator *Palux* decreased by 24.2% to ¥2.4 billion and macrolide antibiotic *Clarith* decreased by 48.7% to ¥2.2 billion compared to the same period of the previous fiscal year partly due to the effects of NHI drug price revision and generic drugs, as well as the impact of people postponing medical examinations, etc. to prevent the spread of COVID-19.

Operating profit of the entire Group for the year ended March 31, 2021, decreased by ¥1.2 billion, or 5.5% year on year, to ¥20.0 billion and profit attributable to owners of parent decreased by ¥6.9 billion, or 34.0% year on year, to ¥13.3 billion.

The Group’s profit performance is provided below.

(Billions of yen)

	Amount	Increase (Decrease)	
		Amount	%
Net sales	282.0	(6.5)	(2.3)
Gross profit	175.9	(4.2)	(2.3)
Selling, general and administrative expenses	156.0	(3.2)	(2.0)
Research and development expenses	20.3	(2.6)	(11.5)
Advertising expenses	25.0	(1.0)	(4.0)
Promotion expenses	24.5	(2.9)	(10.6)
Personnel expenses	33.0	1.9	6.2
Operating profit	20.0	(1.2)	(5.5)
Ordinary profit	25.9	1.5	6.0
Profit attributable to owners of parent	13.3	(6.9)	(34.0)
Basic earnings per share (Yen)	166.84	(85.91)	–

Gross profit decreased ¥4.2 billion year on year to ¥175.9 billion, reflecting the effects of COVID-19, despite higher sales due to expanding the overseas business.

Selling, general and administrative expenses decreased ¥3.2 billion year on year to ¥156.0 billion due to decreases in research and development expenses, promotion expenses and advertising expenses. As a result of the above, operating profit decreased ¥1.2 billion, or 5.5% year on year, to ¥20.0 billion.

In addition, the operating profit margin fell 0.2 percentage points to 7.1%.

Non-operating income fell ¥0.1 billion year on year to ¥6.5 billion, reflecting a decrease in interest income due to redemption of bonds held by the Company, while non-operating expenses decreased ¥2.8 billion year on year to ¥0.5 billion due to the impact of foreign exchange losses in the previous year.

As a result of the above, ordinary profit increased ¥1.5 billion, or 6.0% year on year, to ¥25.9 billion. In addition, the ordinary profit margin rose 0.7 percentage points to 9.2%.

Extraordinary income decreased ¥6.1 billion to ¥0.0 billion due to the impact of gain on step acquisitions in the previous year, while extraordinary losses increased ¥2.2 billion year on year to ¥3.0 billion due to an increase in impairment loss.

As a result of the above, profit before income taxes decreased ¥6.8 billion, or 22.8% year on year, to ¥23.0 billion. After adjusting for income taxes - current, income taxes - deferred and profit attributable to non-controlling interests, profit attributable to owners of parent decreased ¥6.9 billion, or 34.0% year on year, to ¥13.3 billion.

In addition, basic earnings per share was ¥166.84 and the return on equity (ROE) declined 1.0 percentage point to 1.9%.

Regarding the business combination with UPSA on July 1, 2019, the Company applied provisional accounting treatment from the previous fiscal year. However, as the provisional accounting treatment was finalized in the fiscal year ended March 31, 2021, year-on-year comparison with the previous fiscal year uses the figures that reflect finalization of the provisional accounting.

(2) Overview of Financial Position for the Fiscal Year

Total assets as of March 31, 2021, stood at ¥876.9 billion, up ¥11.9 billion from the previous fiscal year-end.

Cash and deposits increased by ¥26.4 billion, and investment securities increased by ¥10.2 billion, but notes and accounts receivable - trade decreased by ¥13.9 billion.

Liabilities amounted to ¥118.5 billion, a decrease of ¥6.7 billion from the previous fiscal year-end. Notes and accounts payable - trade decreased by ¥3.4 billion and accrued expenses decreased by ¥3.9 billion.

Net assets amounted to ¥758.4 billion, an increase of ¥18.6 billion from the previous fiscal year-end. The main factors of increase were ¥13.3 billion in profit attributable to owners of parent, valuation difference on available-for-sale securities of ¥9.2 billion and remeasurements of defined benefit plans of ¥4.4 billion, while the main factor of decrease was dividends of surplus of ¥8.8 billion.

The Company finalized the provisional accounting treatment of the business combination with UPSA in the fiscal year ended March 31, 2021, and restated the financial figures as of March 31, 2020. As a result, goodwill decreased by ¥36.7 billion to ¥133.2 billion. As other main items affected by the restatement, trademark right increased by ¥48.5 billion and deferred tax liabilities increased by ¥13.1 billion.

(3) Overview of Cash flows for the Fiscal Year

Cash and cash equivalents (hereinafter, “net cash”) stood at ¥215.3 billion as of March 31, 2021, representing an increase of ¥28.4 billion from the previous fiscal year-end.

Cash flows during the fiscal year under review and their causes are as follows.

(Cash flows from operating activities)
Net cash provided by operating activities was ¥42.0 billion, a year-on-year increase of ¥0.0 billion, mainly attributable to income taxes paid of ¥11.6 billion, despite profit before income taxes of ¥23.0 billion and a decrease in trade receivables of ¥13.7 billion.

(Cash flows from investing activities)
Net cash used in investing activities was ¥2.0 billion, a year-on-year decrease of ¥105.1 billion, mainly attributable to purchase of property, plant and equipment of ¥10.3 billion, despite proceeds from sale and redemption of securities of ¥14.0 billion.

(Cash flows from financing activities)
Net cash used in financing activities was ¥11.3 billion, a year-on-year decrease of ¥0.4 billion, mainly attributable to dividends paid of ¥8.8 billion.

(Reference) Indicators related to cash flows

	Year ended March 2020	Year ended March 2021
Equity ratio (%)	82.0	83.1
Equity ratio on a fair value basis (%)	61.3	65.0
Interest-bearing debt to cash flow ratio (%)	0.1	0.1
Interest coverage ratio (times)	352.2	241.9

(Notes)
Equity ratio = Equity / Total assets
Equity ratio on a fair value basis = Market capitalization / Total assets
Interest-bearing debt to cash flow ratio = Interest-bearing debt / Cash flow
Interest coverage ratio = Cash flow / Interest paid

* The above indicators are calculated based on consolidated financial figures.
* Market capitalization is calculated using the closing stock price at the end of the fiscal year multiplied by the number of issued shares at the end of the fiscal year (excluding treasury shares).
* Cash flow represents net cash provided by operating activities.
* Interest-bearing debt represents all liabilities posted on the consolidated balance sheets subject to interest payments. Interest paid is the amount of interest paid as shown on the consolidated statements of cash flows.

(4) Future Outlook

Because the Company does not expect to see recovery to pre-COVID-19-pandemic levels in the market in Japan, the forecast of operating results has been created after giving consideration to the impact that was experienced in the fiscal year that has passed and taking into account the situation in the respective countries in which we have operations overseas.
In addition, the figures presented in the forecast of operating results reflect the application of the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018). As a result of applying this accounting standard, net sales and gross profit decreased, but operating profit, ordinary profit and profit attributable to owners of parent were unaffected.
Note that the figures shown below for sales by brand, etc. are figures before the application of the standard.

– Self-Medication Operation Group sales forecast

For Fiscal 2021, the Company forecasts net sales of ¥231.1 billion for the Self-Medication Operation Group, up 1.9% year on year.

Net sales in Japan are expected to increase by 0.3% to ¥131.3 billion. With respect to mainstay products, the Company projects sales of ¥49.0 billion (up 6.9%) for the *Lipovita*n series, ¥22.0 billion (up 4.1%) for the *Pabron* series and ¥15.3 billion (up 2.9%) for the *RiUP* series.

Net sales overseas are expected to increase by 6.0% to ¥98.0 billion. Net sales are expected to increase by 10.8% to ¥46.1 billion in the Asia region and increase by 2.5% to ¥50.9 billion in the Europe and Americas region.

– Prescription Pharmaceutical Operation Group sales forecast

The Company forecasts net sales of ¥37.9 billion for the Prescription Pharmaceutical Operation Group, down 31.2% year on year.

Net sales of ethical drugs are expected to decrease by 32.1% to ¥36.8 billion. The main products for which the Company forecasts sales growth are *Lusefi*, for which sales are expected to be ¥14.0 billion (up 29.6%), *Bonviva*, for which sales are expected to be ¥7.1 billion (up 3.1%), *Biofermin*, for which sales are expected to be ¥4.5 billion (up 32.4%), and *LOQOA*, for which sales are expected to be ¥4.5 billion (up 18.2%). Meanwhile, the main products for which the Company projects sales decreases are *Clarith*, for which sales are expected to be ¥1.9 billion (down 13.1%), and *Palux*, for which sales are expected to be ¥1.9 billion (down 20.2%). Note that sales of *Edirol* have ended effective April 10, 2021 due to the expiry of the sales cooperation agreement with Chugai Pharmaceutical Co., Ltd.

– Consolidated earnings forecast

With respect to profits, although net sales and gross profit have been increasing before the application of "Accounting Standard for Revenue Recognition," they are expected to decreased as a result of the application of this standard. As for selling, general and administrative expenses, the Company expects to increase advertising expenses to strengthen and grow medium-term brands and to increase research and development investments to expand the pipeline. As a result, as shown below, on an operating profit basis, the Company expects a decline in profit.

(Billions of yen)

	Fiscal 2021 (full year)	Changes (%)
Net sales	2,690	(4.6)
Operating profit	145	(27.4)
Ordinary profit	185	(28.7)
Profit attributable to owners of parent	105	(21.1)

(5) Policy for Deciding Dividends of Retained Earnings and Dividends for Fiscal Year Under Review and Next Fiscal Year

Regarding the basic policy for deciding dividends of retained earnings, the Company works to increase its retained earnings to maintain stable dividends over the long term at a high level while strengthening the Company. In line with the Company's policy to strengthen the competitiveness and expand and develop businesses, these retained earnings will be appropriated for investments that include R&D, capital investment, licensing-in of products, equity-based business alliances and new business development. Furthermore, the Company plans to acquire treasury shares in a flexible manner with the aims of improving capital efficiency and achieving a dynamic financial policy, while comprehensively assessing fund requirements.

The Company's dividend policy has been set to roughly correspond to the consolidated operating results for each business term. The goal has been a dividend payout ratio of 30% of profit attributable to owners of parent excluding extraordinary gains and losses. The Company intends to maintain its annual dividend at the minimum of ¥100 per share even if it is apparent that the dividend payout ratio will exceed 30%, unless there are exceptional circumstances.

For the fiscal year under review, the Company plans to pay a dividend of ¥100 per share (an interim dividend of ¥50 and a year-end dividend of ¥50) as previously announced.

For the next fiscal year, the Company plans to pay a dividend of ¥100 per share (an interim dividend of ¥50 and a year-end dividend of ¥50).

(6) Business and Other Risks

The Group faces a number of risks as part of its business activities. Listed items in the table below are the main risks that could have a material impact on investment decisions. In addition, the Group is faced with various other risks, including risks associated with dependency on licenses for products developed by other companies. The above-described risks do not constitute all the risks inherent in the Group's business activities.

Risks	Description of risks	Countermeasures against risks
(i) Legal risks and risks related to healthcare policy	- There is a possibility that changes in laws and regulations governing pharmaceutical affairs could necessitate additional measures and expenses to make products conform with standards. In the worst case, this could lead to delays in approval of applications for new drugs or revocation of approval for existing products. - Depending on trends in healthcare policy, health insurance systems and other changes, drug prices could decline more than expected.	- Quickly ascertain the direction of revisions to laws and regulations governing pharmaceutical affairs and prepare for revisions in advance, such as examining the need for any additional measures. - Consult with the administration and request increases in drug prices, etc. - Revise cost structures in anticipation of reduced drug prices.
(ii) Risks related to pharmaceutical quality, side effects and other issues	- The Company could incur expenses related to product recalls and sales halts due to unanticipated side effects or quality issues.	- Pay close attention to harmful effects and quality complaints concerning products and quickly take measures such as implementing a recall to minimize the impacts.
(iii) Risks related to pharmaceutical development and commercialization	- Despite requiring a lengthy development process and a substantial amount of capital investment, there are uncertainties regarding the successful launch of products and businesses.	- Expand the development pipeline using in-licensing and alliances, etc. - Maximize opportunities while distributing resources and risks by using joint research and joint development, etc.
(iv) Risks related to the proper protection of intellectual property rights	- The Group's competitive advantage in the market may be reduced by third-party use of its technologies, etc. - There is the risk that the Group might encroach on the intellectual property rights of third parties.	- Obtain and use intellectual property rights with the appropriate timing and coverage. - Ascertain third parties' intellectual property rights through prior surveys and consider policies for dealing with them.
(v) Risks related to expiration of patents	- Generic drugs emerge as patents expire. - Sales decline due to the switch to generic drugs, etc.	- Conduct product life cycle management. - Promote initiatives for continuously bringing new pharmaceuticals to market.
(vi) Risks from lawsuits	- The Group files lawsuits during the course of its business related to product liability, environmental issues and other matters.	- Share information with a consulting lawyer regarding matters that may become the subject of lawsuits and make contingency preparations. - Take out product liability insurance to cover product incidents.
(vii) Risks from fluctuations in foreign exchange rates	- Earnings, etc., of overseas subsidiaries are affected by fluctuations in foreign exchange rates.	- Examine and implement risk hedging measures such as foreign exchange forward contracts.
(viii) Risks related to impairment loss	- Acquired subsidiaries, etc., may not achieve their business plans. - Stock prices and interest rates may fluctuate rapidly.	- Judge the appropriateness of acquisition pricing. - Accurately promote business management after acquisitions. - Monitor the macroeconomic environment regularly.
(ix) Risks related to COVID-19	- Employees in the Company may be infected with COVID-19, halting operations.	- Thoroughly implement body temperature management (such as temperature checks upon arrival at work), frequent hand washing, disinfection of hands and fingers, wearing of masks, etc. - For production and logistics divisions, revise the operations structure to enable continued stable supply.

Risks	Description of risks	Countermeasures against risks
(x) Other risks	- Sudden occurrence of natural disasters, deterioration in sociopolitical stability overseas, and other events could be such as the destruction of business infrastructures, or downsizing or withdrawal from its businesses.	- Formulate business continuity plans (BCPs) and make ongoing improvements. - Regularly monitor the risk level in each country.

2. Management Policies

(1) The Company's Basic Management Philosophy

The Group's mission is to contribute to society by creating and offering superior pharmaceuticals and health-related products as well as healthcare-related information and services in socially responsible ways that enrich people's lives by improving health and beauty. We aim to provide total support for consumer health and beauty, including health promotion and disease prevention through treatment, while aiming to realize a sustainable society.

(2) Medium- and Long-Term Management Strategies

In line with this mission, the Group is building a stronger business foundation so that it can steadily grow and develop even in the face of international competition, while achieving well-balanced growth of its Self-Medication Operation Group, which handles OTC drugs and health-related products, and its Prescription Pharmaceutical Operation Group, which handles ethical drugs and related businesses.
In its business activities, the Group will fulfill the following obligations expected by stakeholders and continue to drive sustained growth.

(i) Consumers	Strive to help realize healthier and more enriched lives based on the theme of health in various fields
(ii) Business customers and suppliers	Establish and maintain fair and reasonable relationships
(iii) Employees	Respect the human rights and dignity of each individual and endeavor to provide secure employment
(iv) Shareholders	Disclose proper information in a fair and timely manner
(v) Local communities	Actively engaged in the community as a corporate citizen while striving to protect the environment and build mutually beneficial relationships

(3) Issues to be Addressed

In the current business environment surrounding the Group, the globalization of people, money, goods, technology and information has brought about an increasing number of affluent countries and people, the emergence of a society with an aging population and longevity, and a shift to a society where "the consumer is king." At the same time, a range of issues have surfaced such as various disparities, overexploitation of earth resources, greenhouse gas emissions, and problems with political and economic systems.

In response to this change, a number of developments are taking place, including a deepening of international cooperation. With the establishment of the Sustainable Development Goals (SDGs), companies are expected to contribute to society through CSR activities and investors through ESG investments, leading to a movement to reduce disparities and use resources wisely.

In addition, expectations are rising for the realization of the Fourth Industrial Revolution, "Society 5.0," as a result of technological innovation. The Third Industrial Revolution developed the concept of digitization, namely converting all text and pictures into a digital format. On the basis of this concept, digitized information became used in a wider range of ways and domains through open innovation. This has generated cross-domain integration, which is now beginning to bring solutions to social problems and helping create new economic value.

In the midst of these trends, the business environment surrounding the Group is also undergoing significant changes.

In the Self-Medication Operation Group domain, certain retailers have grown through mergers and acquisitions, thereby strengthening the power of the buyer and transforming business relationships. We are also witnessing a significant increase in Foods for Specified Health Use and Foods with Function Claims, with the scale of the market closing in on ¥2 trillion. On the other hand, with the background impacts on healthcare financing and social welfare systems from a rapidly aging population, consumers are required to adopt the new concept of "one is responsible for protecting one's own health." To help turn this idea into action, industry groups are leading efforts to further expand Japan's self-medication tax system.

The Prescription Pharmaceutical Operation Group continued to face a difficult business environment due to an increasing level of difficulty in the discovery of new drugs, the effects of the promotion of government measures designated to curb healthcare costs and reform of the drug price system, and other factors. In addition, generic drugs are becoming increasingly popular as a means to decrease medical expenses in response to the tightening of healthcare finances, while reforms continue to be made in the NHI drug price system.

(i) Status by segment < Self-Medication Operation Group >

In the Self-Medication Operation Group, which handles OTC drugs and health-related products, the Company is using its strength of holding the No. 1 market share in domestic OTC drug manufacturing to contribute to consumer self-medication by handling its mainstay brands such as the *Lipovitan* series, *Pabron* series, and *RiUP* series, as well as products with various medicinal effects. In addition to OTC drugs, the Group is also providing products to meet consumers' health needs, including health-related products such as health foods and cosmetics.

In the OTC drug market, sales remained significantly lower year on year due to a sharp decline in demand primarily for general cold remedies and energy drinks. This decline was caused mainly by a progressive decline in the Japanese population, people voluntarily staying at home the effects of the spread of COVID-19, a more widespread practice of preventive measures such as wearing masks, washing hands and gargling, and a decline in the number of overseas visitors. Moreover, as consumers' health needs change, a rising awareness of disease prevention and treatment using health foods, among other trends, have expanded demand for health-related products other than OTC drugs. Due to these factors, the market environment is not conducive to business growth based on domestic OTC drug products alone, and the Group must look to drive business growth by expanding its domains and so forth.

In response to this market environment, the Group has broadly divided its Self-Medication Operations Group activities between Japan and overseas.

In Japan, the Company will work to further enhance the value of existing brands in the OTC drug market, such as the *Lipovitan* series, *Pabron* series, and *RiUP* series, while working to develop new brands. At the same time, it will respond to changes in consumer needs by expanding its domains to include health-related products other than OCT drugs, such as food and cosmetics. In addition, in order to respond to the shift in consumers' purchasing behavior to the Internet channel, we have developed Taisho Pharmaceutical Direct and TAISHO BEAUTY ONLINE, and are working to improve purchasing convenience for consumers.

Outside Japan, since the full-scale entre into the OTC drug business in Asia in Fiscal 2009, the Group has strengthened its businesses centered on OTC drugs by acquiring brand assets with strong local connections through M&As and brand acquisitions and leveraging such assets. In Fiscal 2019, the Company made DHG in Vietnam and UPSA in France into consolidated subsidiaries. With these, the Group has established a strong business base in Europe centered on France, including Eastern Europe, and West Africa. From now on, through a bipolar structure targeting the European market in addition to the Southeast Asian market, the Group will proceed to centralize and standardize quality management, manufacturing management, information management, and so forth, utilizing the business model that it has cultivated in Japan to open new markets in an effort to promote the spread of self-medication and expand the business.

(ii) Status by segment < Prescription Pharmaceutical Operation Group >

The Prescription Pharmaceutical Operation Group continued to face a difficult business environment due to an increasing level of difficulty in the discovery of new drugs, the effects of the promotion of government measures designated to curb healthcare costs and reform of the drug price system, and other factors.

In this market environment, as an R&D-oriented pharmaceutical company, the Group is engaged in four key domains: orthopedic disorders, metabolic diseases, infectious diseases, and the CNS (central nervous system) diseases.

On the sales front, the Prescription Pharmaceutical Operation Group is working to maximize sales of its original in-house products, *Lusefi* and *LOQOA*, by carefully targeting the provision of information. On the R&D front, the group is working to secure the early approval of compounds at the development stage and reinforce its R&D pipeline by licensing new drug candidates. Furthermore, in drug discovery research, the group is also strengthening cooperation with external research institutions and utilizing advanced technologies to support the ongoing discovery of original new drugs.

The market environment in the pharmaceuticals industry is becoming increasingly challenging, and the ability to grow depends on a vigorous response to these changes. The Group is taking new steps, such as exploring new business seeds rather than focusing exclusively on its existing business domains. The Group will aim to increase its ability to create value across the entire Group, striving to build a framework that can make management decisions flexibly in response to environmental changes while also strengthening its corporate governance.

COVID-19 is continuing to spread worldwide, and the situation still remains unpredictable. On the other hand, the coexistence of infectious prevention and economic activities, called “with COVID-19,” is becoming a major trend. Given this, demand for OTC drugs is expected to recover in the medium to long term.

The Company has made accounting estimates on the assumption that the infection will have a limited impact on the Group’s business activities for a certain period of time during the fiscal year ending March 31, 2022, while the Group’s business activities will recover gradually.

However, if the impact of the spread of COVID-19 deviates from this assumption, the financial position and operating results of the Group may be affected.

3. Basic Rationale for Selecting the Accounting Standard

The Group adopts the generally accepted accounting standards in Japan (Japanese GAAP). This is because, as a result of undergoing convergence with international accounting standards, the Japanese GAAP is high quality, compares favorably internationally, and it is evaluated by the relevant authorities in Europe as being equivalent to IFRS.

The Group is preparing for the adoption of IFRS in the future. While taking into consideration the trend of foreign shareholder ratio and the trend of other Japanese companies in the same industry adopting IFRS, the Group is taking various measures such as acquiring knowledge of IFRS, performing gap analysis with Japanese GAAP, and investigating the impact of introducing the IFRS. However, the Group remains undecided on a timeframe for the adoption of the IFRS.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
ASSETS		
Current assets		
Cash and deposits	223,814	250,178
Notes and accounts receivable - trade	65,463	51,609
Securities	14,089	4,017
Merchandise and finished goods	26,616	27,696
Work in process	3,176	3,158
Raw materials and supplies	13,577	15,529
Other	9,334	5,974
Allowance for doubtful accounts	(449)	(433)
Total current assets	355,623	357,731
Non-current assets		
Property, plant and equipment		
Buildings and structures	174,309	172,499
Accumulated depreciation and impairment loss	(120,310)	(120,623)
Buildings and structures, net	53,999	51,876
Machinery, equipment and vehicles	113,393	112,041
Accumulated depreciation and impairment loss	(98,333)	(97,546)
Machinery, equipment and vehicles, net	15,059	14,494
Land	38,170	37,429
Construction in progress	2,490	6,577
Other	33,024	33,129
Accumulated depreciation and impairment loss	(30,096)	(30,313)
Other, net	2,928	2,816
Total property, plant and equipment	112,648	113,194
Intangible assets		
Goodwill	133,169	128,612
Sales rights	690	453
Trademark right	73,144	69,258
Software	6,570	10,341
Other	8,236	7,867
Total intangible assets	221,811	216,532
Investments and other assets		
Investment securities	145,831	156,055
Shares of subsidiaries and associates	11,644	12,261
Long-term prepaid expenses	1,009	1,051
Retirement benefit asset	4,642	10,620
Deferred tax assets	11,134	8,892
Other	862	814
Allowance for doubtful accounts	(233)	(231)
Total investments and other assets	174,891	189,464
Total non-current assets	509,351	519,192
Total assets	864,974	876,923

(Millions of yen)

	As of March 31, 2020	As of March 31, 2021
LIABILITIES		
Current liabilities		
Notes and accounts payable - trade	18,045	14,672
Accounts payable - other	15,743	16,068
Income taxes payable	5,414	3,275
Accrued expenses	19,310	15,411
Provision for sales returns	767	704
Provision for bonuses	3,769	3,523
Other	3,404	4,010
Total current liabilities	66,456	57,666
Non-current liabilities		
Provision for retirement benefits for directors (and other officers)	1,006	944
Retirement benefit liability	21,029	21,321
Deferred tax liabilities	30,042	32,747
Other	6,660	5,836
Total non-current liabilities	58,739	60,849
Total liabilities	125,196	118,516
NET ASSETS		
Shareholders’ equity		
Share capital	30,000	30,000
Capital surplus	–	12
Retained earnings	698,223	703,036
Treasury shares	(35,454)	(35,450)
Total shareholders’ equity	692,768	697,598
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	20,796	30,026
Foreign currency translation adjustment	(1,145)	(235)
Remeasurements of defined benefit plans	(3,046)	1,315
Total accumulated other comprehensive income	16,605	31,105
Share acquisition rights	773	801
Non-controlling interests	29,630	28,900
Total net assets	739,778	758,406
Total liabilities and net assets	864,974	876,923

(2) Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Consolidated Statements of Income

(Millions of yen)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Net sales	288,527	281,980
Cost of sales	108,386	106,050
Gross profit	180,140	175,929
Reversal of provision for sales returns	853	659
Provision for sales returns	660	602
Gross profit - net	180,333	175,986
Selling, general and administrative expenses	159,196	156,021
Operating profit	21,137	19,965
Non-operating income		
Interest income	3,769	1,690
Dividend income	1,990	1,928
Share of profit of entities accounted for using equity method	272	276
Foreign exchange gains	–	1,958
Other	586	629
Total non-operating income	6,619	6,483
Non-operating expenses		
Interest expenses	118	156
Foreign exchange losses	2,746	–
Commission expenses	81	82
Loss on investments in investment partnerships	21	51
Other	314	212
Total non-operating expenses	3,282	502
Ordinary profit	24,474	25,946
Extraordinary income		
Gain on sale of non-current assets	39	19
Gain on sale of investment securities	–	5
Gain on step acquisitions	6,093	–
Total extraordinary income	6,133	24
Extraordinary losses		
Loss on disposal of non-current assets	240	518
Loss on sale of investment securities	–	72
Loss on valuation of investment securities	–	152
Impairment loss	592	2,250
Total extraordinary losses	832	2,994
Profit before income taxes	29,775	22,976
Income taxes - current	10,042	8,460
Income taxes - deferred	(1,796)	(678)
Total income taxes	8,245	7,782
Profit	21,529	15,194
Profit attributable to non-controlling interests	1,356	1,878
Profit attributable to owners of parent	20,172	13,316

Consolidated Statements of Comprehensive Income

(Millions of yen)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Profit	21,529	15,194
Other comprehensive income		
Valuation difference on available-for-sale securities	(11,139)	8,828
Deferred gains or losses on hedges	(2,181)	–
Foreign currency translation adjustment	647	64
Remeasurements of defined benefit plans, net of tax	(548)	4,292
Share of other comprehensive income of entities accounted for using equity method	162	540
Total other comprehensive income	(13,058)	13,725
Comprehensive income	8,470	28,920
(Comprehensive income attributable to)		
Comprehensive income attributable to owners of parent	7,175	27,816
Comprehensive income attributable to non-controlling interests	1,295	1,103

(3) Consolidated Statements of Changes in Equity

For the year ended March 31, 2020 (Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	30,000	14,924	706,742	(68,641)	683,025
Changes during period					
Purchase of treasury shares				(48)	(48)
Disposal of treasury shares				35	35
Cancellation of treasury shares		(33,199)		33,199	–
Transfer from retained earnings to capital surplus		18,274	(18,274)		–
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Dividends of surplus			(9,586)		(9,586)
Profit attributable to owners of parent			20,172		20,172
Change in treasury shares arising from change in equity in entities accounted for using equity method				0	0
Other			(830)		(830)
Net changes in items other than shareholders' equity					
Total changes during period	–	(14,924)	(8,518)	33,186	9,743
Balance at end of period	30,000	–	698,223	(35,454)	692,768

(Millions of yen)

	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumulated other comprehen-sive income	Share acquisition rights	Non-controlling interests	Total net assets
Balance at beginning of period	32,017	2,181	(2,130)	(2,809)	29,258	687	11,165	724,137
Changes during period								
Purchase of treasury shares								(48)
Disposal of treasury shares								35
Cancellation of treasury shares								–
Transfer from retained earnings to capital surplus								–
Change in ownership interest of parent due to transactions with non-controlling interests								(0)
Dividends of surplus								(9,586)
Profit attributable to owners of parent								20,172
Change in treasury shares arising from change in equity in entities accounted for using equity method								0
Other								(830)
Net changes in items other than shareholders' equity	(11,221)	(2,181)	985	(236)	(12,653)	86	18,465	5,898
Total changes during period	(11,221)	(2,181)	985	(236)	(12,653)	86	18,465	15,641
Balance at end of period	20,796	–	(1,145)	(3,046)	16,605	773	29,630	739,778

For the year ended March 31, 2021 (Millions of yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of period	30,000	–	698,223	(35,454)	692,768
Changes during period					
Exercise of share acquisition rights		13		50	63
Purchase of treasury shares				(46)	(46)
Change in ownership interest of parent due to transactions with non-controlling interests		(0)			(0)
Dividends of surplus			(8,787)		(8,787)
Profit attributable to owners of parent			13,316		13,316
Change in treasury shares arising from change in equity in entities accounted for using equity method				0	0
Other			283		283
Net changes in items other than shareholders' equity					
Total changes during period	–	12	4,812	4	4,829
Balance at end of period	30,000	12	703,036	(35,450)	697,598

(Millions of yen)

	Accumulated other comprehensive income				Share acquisition rights	Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of period	20,796	(1,145)	(3,046)	16,605	773	29,630	739,778
Changes during period							
Exercise of share acquisition rights							63
Purchase of treasury shares							(46)
Change in ownership interest of parent due to transactions with non-controlling interests							(0)
Dividends of surplus							(8,787)
Profit attributable to owners of parent							13,316
Change in treasury shares arising from change in equity in entities accounted for using equity method							0
Other							283
Net changes in items other than shareholders' equity	9,230	909	4,361	14,500	27	(729)	13,798
Total changes during period	9,230	909	4,361	14,500	27	(729)	18,628
Balance at end of period	30,026	(235)	1,315	31,105	801	28,900	758,406

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Cash flows from operating activities		
Profit before income taxes	29,775	22,976
Depreciation	12,610	14,700
Amortization of goodwill	4,410	7,341
Gain on sale of non-current assets	74	(11)
Loss on disposal of non-current assets	127	510
Loss on sale of investment securities	–	67
Loss on valuation of investment securities	–	152
Impairment loss	592	2,250
Loss on step acquisitions	(6,093)	–
Interest and dividend income	(5,760)	(3,619)
Interest expenses	118	156
Foreign exchange losses (gains)	3,831	(1,730)
Share of profit of entities accounted for using equity method	(272)	(276)
Increase (decrease) in allowance for doubtful accounts	60	(9)
Increase (decrease) in retirement benefit liability	(47)	228
Decrease (increase) in retirement benefit asset	833	(23)
Increase (decrease) in provision for retirement benefits for directors (and other officers)	(0)	(61)
Decrease in provision for bonuses	(1,897)	(271)
Increase in trade receivables	11,849	13,662
Decrease (increase) in inventories	1,601	(2,905)
Decrease in trade payables	(4,927)	(3,303)
Increase (decrease) in accrued expenses	3,214	(4,141)
Decrease in long-term accounts payable - other	(543)	(22)
Other	803	(1,324)
Subtotal	50,359	44,345
Interest and dividends received	5,892	4,043
Interest paid	(119)	(173)
Income taxes paid	(16,513)	(11,615)
Income taxes refund	2,373	5,427
Net cash provided by operating activities	41,992	42,026
Cash flows from investing activities		
Decrease (increase) in time deposits	(10,286)	1,362
Proceeds from sale and redemption of securities	74,500	14,000
Purchase of property, plant and equipment	(5,456)	(10,251)
Proceeds from sale of property, plant and equipment	321	37
Purchase of intangible assets	(3,665)	(4,121)
Purchase of investment securities	(1,858)	(2,068)
Proceeds from sale and redemption of investment securities	111	39
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(160,497)	–
Purchase of long-term prepaid expenses	(499)	(374)

(Millions of yen)

	For the year ended March 31, 2020	For the year ended March 31, 2021
Other	250	(580)
Net cash provided by (used in) investing activities	(107,081)	(1,958)
Cash flows from financing activities		
Proceeds from short-term borrowings	270	4,854
Repayments of short-term borrowings	(1,534)	(5,037)
Repayments of finance lease obligations	(73)	(503)
Purchase of treasury shares	(48)	(41)
Dividends paid	(9,586)	(8,787)
Dividends paid to non-controlling interests	(722)	(1,830)
Other	(0)	(0)
Net cash used in financing activities	(11,696)	(11,346)
Effect of exchange rate change on cash and cash equivalents	177	(317)
Net increase (decrease) in cash and cash equivalents	(76,607)	28,404
Cash and cash equivalents at beginning of period	263,549	186,941
Cash and cash equivalents at end of period	186,941	215,346

(Reference)

(Significant subsequent events)

1. Execution of the Share Exchange Agreement to Make Biofermin Pharmaceutical Co., Ltd. a Wholly-owned Subsidiary
   The Company and Biofermin Pharmaceutical Co., Ltd. resolved at their respective boards of directors meetings held today to conduct a share exchange through which the Company will become a wholly-owning parent company and Biofermin will become a wholly-owned subsidiary, and executed a share exchange agreement between the companies today. For details, please see “Notice Concerning the Execution of the Share Exchange Agreement to Make Biofermin Pharmaceutical Co., Ltd. a Wholly-owned Subsidiary of Taisho Pharmaceutical Holdings Co., Ltd.,” which was released today.

2. Change of the Accounting Auditor
   The Company resolved at the Audit & Supervisory Board meeting held today to change the Accounting Auditor who carries out the audits in Article 193-2, Paragraph 1 and Paragraph 2 of the Financial Instruments and Exchange Act, and resolved at the Board of Directors meeting held today to submit “Appointment of Accounting Auditor” at the 10th Ordinary General Meeting of Shareholders to be held on June 29, 2021. For details, please see “Notice of Change of Certified Public Accountant” which was released today.