

Other Matters Subject to Measures for Electronic Provision When Convening the 48th Ordinary General Meeting of Shareholders

Notes to Consolidated Financial Statements
Notes to Non-consolidated Financial Statements
(April 1, 2022 to March 31, 2023)

JCR Pharmaceuticals Co., Ltd.

Pursuant to laws and regulations and the provisions of Article 16 of the Articles of Incorporation, Notes to Consolidated Financial Statements and Notes to Non-consolidated Financial Statements are provided to shareholders by posting them on the Company's website (<https://www.jcrpharm.co.jp/en/site/en/index.html>).

Notes to Consolidated Financial Statements

Notes on Significant Matters Forming the Basis for Preparing Consolidated Financial Statements

1. Scope of consolidation

(1) Number and names of consolidated subsidiaries

Number of consolidated subsidiaries	8
Names of consolidated subsidiaries	Chromatech Co., Ltd. JCR Engineering Co., Ltd. JCR INTERNATIONAL SA JCR USA, Inc. ArmaGen, Inc. JCR DO BRASIL FARMACÊUTICOS IMPORTAÇÃO E EXPORTAÇÃO LTDA. JCR Luxembourg S.A. JCR Europe B.V.

Among them, since JCR Luxembourg S.A. and JCR Europe B.V. were established during the fiscal year under review, they have been included in the consolidated subsidiaries from the fiscal year under review.

(2) All subsidiaries are in the scope of consolidation.

2. Application of equity method

(1) Number and name of affiliated companies accounted for using the equity method

Number of affiliated companies accounted for using the equity method	2
Name of affiliated companies accounted for using the equity method	Mycenax Biotech Inc. AlliedCel Corporation

(2) The equity method is used for the investment in all affiliated companies

(3) Changes in the scope of the application of the equity method

As shares of Mycenax Biotech Inc. were acquired and AlliedCel Corporation, a joint venture with SYSMEX CORPORATION, was established, they have been included in the scope of companies accounted for using the equity method from the fiscal year under review.

(4) Fiscal year of affiliated companies accounted for using the equity method

Mycenax Biotech Inc. has a balance sheet date of December 31, and AlliedCel Corporation has a balance sheet date of March 31.

When creating consolidated financial statements, the financial statements of these companies as of the said balance sheet date are used.

3. Fiscal year, etc., of consolidated subsidiaries

Fiscal year of consolidated subsidiaries

All consolidated subsidiaries have a balance sheet date of December 31.

When creating consolidated financial statements, the financial statements of each company as of the same balance sheet date are used, and necessary adjustments for consolidation are made if there are material transactions between the balance sheet date and the consolidated balance sheet date.

4. Accounting policies

(1) Valuation criteria and methods for material assets

(i) Valuation criteria and methods for securities

Available-for-sale securities

Ones other than stocks without market price, etc.

Stated at fair value (valuation differences are included in a separate component of net assets, and cost of sales is calculated using the moving average method)

Stocks without market price, etc.

Stated at cost using the moving average method

(ii) Valuation criteria and methods for derivatives

Derivatives

Stated at fair value

(iii) Valuation criteria and methods for inventory assets

Valuation criteria are based on cost (book value is written down if profitability declines)

Finished goods and work in process

Gross average method

Raw materials

Monthly moving average method (however, for processing raw materials and supplementary materials, the gross average method is used.)

Supplies

Primarily, gross average method

(2) Depreciation method for material depreciable assets

(i) Property, plant and equipment

Property, plant and equipment other than leased assets

For the Kobe Plant and overseas subsidiaries, the straight-line method is used, and for other items, the declining-balance method. However, for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998 and facilities attached to buildings and structures acquired on or after April 1, 2016, the Company uses the straight-line method.

The main useful lives are as given below.

Buildings and structures 15-38 years

Machinery, equipment and vehicles 4-10 years

Leased assets

Leased assets under financial lease transactions in which ownership is not transferred

Straight-line method with the lease period as the useful life and zero residual value (if agreement stipulates a guaranteed amount of residual value, that guaranteed amount) is used.

(ii) Intangible assets

Intangible assets other than leased assets

Straight-line method

However, for software used for internal purposes, the straight-line method over the internally expected useful life (five years) is used.

Leased assets

Leased assets under financial lease transactions in which ownership is not transferred

The straight-line method is used with the lease period as the useful life and zero residual value.

Patents

Evenly amortized over the remaining patent period.

(iii) Long-term prepaid expenses

Straight-line method

(3) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

To provide for losses from bad debts including accounts receivable, the expected uncollectable amount is recorded based on the historical rate of default for ordinary receivables or based on individual consideration on the possibility of recovery for doubtful accounts and other specific receivables.

(ii) Provision for bonuses

A provision for bonuses is recorded based on the expected amount of bonuses to be paid to employees.

(iii) Provision for directors' bonuses

A provision for directors' bonuses is recorded based on the expected amount of bonuses to be paid to directors.

(iv) Provision for employee shares benefit

The expected amount of liabilities for share benefit at the end of the fiscal year under review is recorded in order to provide the Company's employees with the Company's shares based on the Share Benefit Rules.

(4) Criteria for recording material revenue and expenses

The Group recognizes revenue from contracts with customers based on the following five-step approach.

Step 1: Identify contracts with customers

Step 2: Identify performance obligations in contracts

Step 3: Calculate transaction price

Step 4: Allocate transaction price to performance obligations in contracts

Step 5: Recognize revenue when performance obligations are satisfied (or as they are satisfied)

(i) Revenue from pharmaceutical sales

For pharmaceutical sales, revenue is recognized when products are delivered to customers because customers normally obtain control of the products when they are delivered, and the Company is judged to have satisfied its performance obligations. For pharmaceutical sales within Japan, paragraph 98 of "Implementation Guidance on Accounting Standard for Revenue Recognition" is applied, and revenue is recognized when merchandise or products are shipped because the period from the time of shipment of the merchandise or products to the time when control of such merchandise or products is transferred to the customer is considered reasonable in light of the number of days required to ship and deliver merchandise and products in Japan. As for overseas pharmaceutical sales, revenue is primarily recognized when bearing of risk is transferred to customers based on the trade terms stipulated in Incoterms, etc.

The transaction price is measured using the promised compensation in contracts with customers less discounts, rebates, etc., estimated using the mode method based on contract terms, historical results, etc.

(ii) Revenue from licensing

Revenue from licensing related to the Group's developed products or finished goods (upfront, milestone, and sales-based royalty income) is recognized as revenue.

Upfront income is recognized as revenue at the time when the Company grants marketing rights, etc., in the case where it is judged to have satisfied its performance obligations at that time.

Milestone income is recognized as revenue when the contract-stipulated milestone is achieved, taking into consideration the possibility of a subsequent large reimbursement.

Sales-based royalty income is recognized as revenue when sales used to calculate the royalties are generated or when performance obligations allocated by sales-based royalties are satisfied, whichever is later.

Compensation related to revenue that the Group recognized is normally received within one year from when the performance obligations are satisfied, and they do not include material financial factors.

(5) Other significant matters forming the basis for preparing consolidated financial statements

(i) Hedge accounting

Deferred hedges are generally used. For forward exchange contracts that meet the requirements for the allocation method, the allocation method is used, and for interest rate swaps that meet the requirements for special treatment, the special treatment is used.

(ii) Accounting for retirement benefits

When calculating retirement benefit obligations, the method used to attribute expected retirement benefits to the period up to the end of the fiscal year under review is based on benefit calculation criteria.

Prior service costs are amortized by the straight-line method over a certain period within the average remaining service years for employees when the costs are recognized (five years), starting from the fiscal year in which the cost is recognized.

Actuarial differences are amortized by the straight-line method over a certain period within the average remaining service years for employees when differences are recognized (five years), starting from the fiscal year following the fiscal year in which the differences are recognized.

To prepare for paying retirement benefits for corporate officers of the Company, the amount that needs to be paid at the end of the fiscal year under review based on internal rules is recorded.

Notes on Changes in Accounting Policies

(Application of implementation guidance on accounting standard for fair value measurement)

The Company has applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021; hereinafter the "Guidance on Fair Value Measurement") from the beginning of the fiscal year under review, and it has applied new accounting policies stipulated in the Guidance on Fair Value Measurement prospectively, in accordance with the transitional treatment prescribed in paragraph 27-2 of the Guidance on Fair Value Measurement. This has no effect on the consolidated financial statements.

Notes on Revenue Recognition

1. Information on disaggregation of revenue from contracts with customers

	(million yen)
	Amount
Recombinant human growth hormone product GROWJECT®	12,261
Mucopolysaccharidosis Type II treatment IZCARGO®	4,428
Renal anemia treatments	4,696
Epoetin Alfa BS Inj. [JCR]	2,710
Darbepoetin Alfa BS Inj. [JCR]	1,986
Regenerative medical products TEMCELL® HS Inj.	3,404
Fabry disease treatment Agalsidase Beta BS I.V. Infusion [JCR]	964
Medical devices	103
Revenue from licensing	6,546
AZD1222 bulk solution	1,931
Others	6
Total	34,343

2. Fundamental information for understanding revenue from contracts with customers

This is omitted because the same information can be found in “(4) Criteria for recording material revenue and expenses” in “4. Accounting policies.”

3. Relationship between satisfying performance obligations based on contracts with customers and cash flows from those contracts and amount and timing of revenue projected to be recognized in the following fiscal year and after from contracts with existing customers as of the end of the fiscal year under review

(1) Balance of contract assets and contract liabilities

	(million yen)
	Fiscal year under review
Receivables from contract with customers (balance at the beginning of the fiscal year)	11,310
Receivables from contracts with customers (balance at the end of the fiscal year)	11,137
Contract assets (balance at the beginning of the fiscal year)	4,275
Contract assets (balance at the end of the fiscal year)	-
Contract liabilities (balance at the beginning of the fiscal year)	-
Contract liabilities (balance at the end of the fiscal year)	417

(Note) Contract liabilities are included in “other” under “current liabilities” and “other” under “non-current liabilities” on the consolidated balance sheet.

Contract liabilities are mainly the consideration received from customers before the provision of services for research and development support and others. Contract liabilities are written down as revenue is recognized.

Of revenue recognized during the fiscal year under review, there was no amount included in the balance of contract liabilities at the beginning of the fiscal year. Contract liabilities increased by 417 million yen because of a consideration received before the provision of services for research

and development support and others. In addition, contract assets decreased by 4,275 million yen on account of a decrease due to the collection of unclaimed compensation related to the obligation to supply bulk drugs of pharmaceuticals.

The amount of revenue recognized during the fiscal year under review because of the performance obligations that were fully or partially satisfied in the past was 680 million yen.

(2) Transaction price allocated to remaining performance obligation

Contracts with an initially expected contract period of within one year are not included because the Group adopts operationally expedient measures when noting the transaction price allocated to remaining performance obligations.

Of milestone income, revenue related to obligations to cooperate with R&D and clinical studies is not included in the transaction price allocated to remaining performance obligations because it is assumed that uncertainties cannot be eliminated until the milestones agreed to with related parties, such as filing an application for approval to regulatory authorities, are met.

Notes to Accounting Estimates

1. Valuation of intellectual property (patents)

Shares of U.S.-based ArmaGen, Inc. (ArmaGen) were acquired on April 10, 2020, and through the acquisition, intellectual property (patents) owned by ArmaGen that are widely applicable to the diseases, including lysosomal storage diseases, were acquired.

These patents are amortized over the remaining patent period, and as of the end of the fiscal year under review, the amount recorded on the consolidated financial statements was 2,434 million yen.

An impairment loss may be recorded if an event were to occur that had a material impact on the launch timing and market share of the Company's products or price of rival products assumed when calculating the fair values of the patents.

2. Valuation of investments in equity-method affiliates

The Company resolved to undertake capital increase through third-party allotment, carried out by the pharmaceutical manufacturing and development outsourcing company Mycenax Biotech Inc. (hereinafter "Mycenax"), and completed payment on October 11, 2022. Through this acquisition, Mycenax will become an equity-method affiliate of the Group. As of the end of the fiscal year under review, the amount of investment securities, including the amount equivalent to goodwill, on the consolidated balance sheet was 6,617 million yen.

When judging indications of impairment of assets, including the amount equivalent to goodwill, the Group decides whether or not excess earning power will be damaged by confirming the progress of the plan when acquiring shares. However, if profitability deteriorates from the plan at the time of acquisition due to changes in the future economic situation and other factors, impairment may occur.

Notes to Consolidated Balance Sheet

1. Cumulative depreciation of property, plant and equipment 16,868 million yen

2. Commitment line agreements

At the current time, the Group has not been impacted by the COVID-19 pandemic, but as it is now impossible to project future global conditions, the Group must ensure flexible and stable methods to procure funds in order to generate sustainable growth globally, and the Group has concluded commitment line agreements with various financial institutions as a backup for ensuring working capital.

	(million yen)
	Fiscal year under review (As of March 31, 2023)
Total amount of commitment lines	15,500
Balance of borrowings	6,000
Difference	9,500

3. Of accounts receivable - trade and contract assets, the amounts of contract assets and receivables from contract with customers are given in section 3. (1) of Notes on Revenue Recognition. The amount of contract liabilities included in “other” under current liabilities and “other” under non-current liabilities is also given in section 3. (1) of Notes on Revenue Recognition.

Notes to Consolidated Statements of Changes in Equity

1. Type and total number of outstanding shares as of the end of the fiscal year under review

Common shares 129,686,308 shares

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Reference date	Effective date
The meeting of Board of Directors on May 12, 2022	Common shares	1,489	12.00	March 31, 2022	June 23, 2022
The meeting of Board of Directors on October 26, 2022	Common shares	1,251	10.00	September 30, 2022	December 9, 2022
Total		2,740			

- (Notes) 1. The total amounts of dividends based on the resolution of the meeting of Board of Directors on May 12, 2022 and the meeting of Board of Directors on October 26, 2022 respectively include 4 million yen and 3 million yen of dividends for the Company’s shares held in trust in the Benefit Trust Scheme.
2. The dividend per share based on the resolution of the meeting of Board of Directors on May 12, 2022 includes a special dividend of 2.00 yen.

- (2) Dividends whose reference date falls in the fiscal year under review but whose effective date is in the following fiscal year

Resolution	Type of shares	Source of dividends	Total amount of dividends (million yen)	Dividend per share (yen)	Reference date	Effective date
The meeting of Board of Directors on May 11, 2023	Common shares	Retained earnings	1,251	10.00	March 31, 2023	June 22, 2023

(Note) The total amount of dividends includes 3 million yen of dividends for the Company's shares held in trust in the Benefit Trust Scheme.

- (3) Number of shares to be acquired by exercise of new share acquisition rights as of end of the fiscal year under review

(Shares)

Breakdown	Type of shares to be acquired by exercise of new share acquisition rights	Number of shares to be acquired by exercise of new share acquisition rights
2009 No. 1 share acquisition rights (issued on July 1, 2009)	Common shares	24,000
2010 No. 1 share acquisition rights (issued on August 23, 2010)	Common shares	32,000
2011 No. 1 share acquisition rights (issued on July 15, 2011)	Common shares	24,000
2012 No. 1 share acquisition rights (issued on July 17, 2012)	Common shares	32,000
2013 No. 1 share acquisition rights (issued on July 10, 2013)	Common shares	8,000
2014 No. 1 share acquisition rights (issued on August 15, 2014)	Common shares	20,000
2015 No. 1 share acquisition rights (issued on July 15, 2015)	Common shares	44,000
2016 No. 1 share acquisition rights (issued on July 13, 2016)	Common shares	44,000
2017 No. 1 share acquisition rights (issued on July 14, 2017)	Common shares	44,000
2018 No. 1 share acquisition rights (issued on November 9, 2018)	Common shares	50,000
2019 No. 1 share acquisition rights (issued on July 12, 2019)	Common shares	50,000
2020 No. 1 share acquisition rights (issued on July 14, 2020)	Common shares	46,000
2021 No. 1 share acquisition rights (issued on July 13, 2021)	Common shares	54,000
2022 No. 1 share acquisition rights (issued on July 12, 2022)	Common shares	78,500

(Note) The Company conducted a four-for-one stock split on October 1, 2020. Therefore, the number of shares to be acquired by exercise of new share acquisition rights provided are those after the stock split.

Notes on Financial Instruments

1. Status of financial instruments

The core of the Group's financing is from cash income from operating activities and loans from financial institutions. Financial instruments such as deposits and highly safe bonds are used to manage funds in the short and medium term. Derivatives are used to reduce not only the foreign exchange fluctuation risks related to the import of raw materials, etc., and held foreign currency but also the interest rate fluctuation risks related to interest on loans payable.

The Company works to quickly ascertain and mitigate not only client credit risk related to accounts receivable - trade and contract assets by managing the payment date and balance for each client but also price fluctuation risk related to securities and investment securities by regularly ascertaining fair value.

Loans payable are used as working capital and funds for capital investments, and derivatives (interest rate swaps) are used to mitigate interest rate fluctuation risk of loans payable based on variable interest rate. Furthermore, derivatives (forward exchange contract and currency options) are used to reduce foreign exchange fluctuation risks related to the import of raw materials, etc., and held foreign currency.

2. Fair value of financial instruments, etc.

(million yen)

	Consolidated balance sheet carrying amount	Fair value	Difference
Securities and investment securities (*2) (*3)	8,760	9,354	593
Total assets	8,760	9,354	593
(1) Current portion of bonds payable	500	499	(0)
(2) Long-term loans payable (*4)	7,200	7,196	(3)
Total liabilities	7,700	7,695	(4)

*1 Cash and deposits; accounts receivable - trade and contract assets; accounts payable - trade; short-term loans payable; accounts payable - other; and income taxes payable are omitted because the fair value approximates book value as they are settled in a short time.

*2 Stocks without market price, etc., are not included in "Securities and investment securities." The following is the carrying amount of these financial instruments on the consolidated balance sheet.

(million yen)

Category	Fiscal year under review
Unlisted shares	13
Shares of subsidiaries and associates	92

*3 Shares of listed affiliates using the equity method are included in investment securities, and the difference is due to the valuation of the fair value of these shares.

*4 Includes current portion of long-term loans payable.

3. Breakdown of fair value level of financial instruments

The fair values of financial instruments are categorized into one of the following three levels based on the materiality and observability of inputs used in measuring the fair value.

Level 1 fair value:

Among observable inputs related to fair value measurement, the fair value measured using the market price of assets or liabilities subject to measurement of the fair value that is formed in an active market

Level 2 fair value:

Among observable inputs related to fair value measurement, the fair value measured using other observable inputs related to fair value measurement than those for level 1

Level 3 fair value:

The fair value measured using unobservable inputs related to fair value measurement

If multiple inputs that have a material impact on the measurement of fair value are used, the fair value is categorized into the lowest level in terms of priority in fair value measurement among levels to which the various inputs belong.

(1) Financial instruments recorded on consolidated balance sheet using fair value

(million yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Stocks	925	–	–	925
Investment trusts	1,217	–	–	1,217
Total assets	2,142	–	–	2,142

(2) Financial instruments other than those recorded on consolidated balance sheet using fair value

(million yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Investment securities				
Shares of subsidiaries and associates	7,211	–	–	7,211
Total assets	7,211	–	–	7,211
Current portion of bonds payable	–	499	–	499
Long-term loans payable	–	7,196	–	7,196
Total liabilities	–	7,695	–	7,695

(Note) Explanation of valuation techniques used when and inputs for measuring fair value

Securities and investment securities

Listed stocks, investment trusts and listed shares of subsidiaries and associates are valued using the market price. The fair values of listed stocks, investment trusts and listed shares of subsidiaries and associates are categorized as level 1 fair value because these instruments are traded on active markets.

Current portion of bonds payable

The fair values of bonds issued by the Company are categorized as level 2 fair value because it is measured using the discounted present value of principal and interest based on an interest rate that reflects the remaining maturity and credit risk of the corresponding bond.

Long-term loans payable

The fair values of long-term loans payable are categorized as level 2 fair value because it is measured using the discounted present value of principal and interest based on an interest rate that reflects the remaining maturity and credit risk of the corresponding liability.

Notes on Per Share Information

1. Net assets per share 412.11 yen
2. Earnings per share 30.35 yen

(Note) The number of the Company's shares held by the trust in the Benefit Trust Scheme recorded as treasury shares in shareholders' equity are included in the number of treasury shares deducted when calculating average number of shares during the fiscal year used when determining earnings per share. They are also included in the number of treasury shares deducted from the total number of outstanding shares at the end of the fiscal year when calculating net assets per share.

The average number of treasury shares during the fiscal year deducted when calculating earnings per share totals 331,246 shares, and the number of these treasury shares at the end of the fiscal year deducted when calculating net assets per share totals 324,900 shares.

Other Notes

(Impact of the COVID-19)

As for the impact of COVID-19, it is expected that it will take some time to get the pandemic under control, but the pandemic's impact on the Company's earnings is judged to be minor.

Notes to Non-consolidated Financial Statements

Notes to Significant Accounting Policies

1. Valuation criteria and methods for assets

(1) Valuation criteria and methods for securities

Shares of subsidiaries and affiliated companies

Stated at cost using the moving average method

Available-for-sale securities

Ones other than stocks without market price, etc.

Stated at fair value based on market price on the balance sheet date, etc. (valuation differences are included in a separate component of net assets, and cost of sales is calculated using the moving average method)

Stocks without market price, etc.

Stated at cost based on moving average method

(2) Valuation criteria and methods for derivatives

Derivatives

Stated at fair value

(3) Valuation criteria and methods for inventory assets

Valuation criteria are based on cost (book value is written down if profitability declines)

Finished goods and work in process

Gross average method

Raw materials

Monthly moving average method (however, processing raw materials and supplementary materials, the gross average method is used.)

Supplies

Primarily, gross average method

2. Depreciation method for non-current assets

(1) Property, plant and equipment

Property, plant and equipment other than leased assets

For the Kobe Plant, the straight-line method is used, and for other items, the declining-balance method. However, for buildings (excluding facilities attached to buildings) acquired on or after April 1, 1998, and facilities attached to buildings and structures acquired on or after April 1, 2016, the straight-line method is used.

The main useful lives are as given below.

Buildings	15-38 years
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Machinery and equipment	4-10 years
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Leased assets

Leased assets under financial lease transactions in which ownership is not transferred

Straight-line method with the lease period as the useful life and zero residual value (if agreement stipulates a guaranteed amount of residual value, that guaranteed amount) is used

(2) Intangible assets

Intangible assets other than leased assets

Straight-line method

However, for software used for internal purposes, the straight-line method over the internally expected useful life (five years) is used.

Leased assets

Leased assets under financial lease transactions in which ownership is not transferred

The straight-line method is used with the lease period as the useful life and zero residual value.

(3) Long-term prepaid expenses

Straight-line method

3. Accounting policy for provisions

(1) Allowance for doubtful accounts

To provide for losses from bad debts including accounts receivable, the expected uncollectable amount is recorded based on the historical rate of default for ordinary receivables or based on individual consideration on the possibility of recovery for doubtful accounts and other specific receivables.

(2) Provision for bonuses

A provision for bonuses is recorded based on the expected amount of bonuses to be paid to employees.

(3) Provision for directors' bonuses

A provision for directors' bonuses is recorded based on the expected amount of bonuses to be paid to directors.

(4) Provision for retirement benefits

To prepare for employee retirement benefits, the amount deemed to have been generated at the end of the fiscal year under review based on the expected amount of retirement benefit obligations and pension assets at the end of the fiscal year is recorded.

When calculating retirement benefit obligations, the method used to attribute expected retirement benefits to the period up to the fiscal year under review is based on benefit calculation criteria.

Prior service costs are amortized by the straight-line method over a certain period within the average remaining service years for employees when the costs are recognized (five years), starting from the fiscal year in which the cost is recognized.

Actuarial differences are amortized by the straight-line method over a certain period within the average remaining service years for employees when differences are recognized (five years), starting from the fiscal year following the fiscal year in which the differences are recognized.

To prepare for paying retirement benefits for corporate officers, the amount that needs to be paid at the end of the fiscal year under review based on internal rules is recorded.

(5) Provision for employee shares benefit

The expected amount of liabilities for share benefit at the end of the fiscal year under review is recorded in order to provide the Company's employees with the Company's shares based on the Share Benefit Rules.

4. Criteria for recording material revenue and expenses

The Company recognizes revenue from contracts with customers based on the following five-step approach.

Step 1: Identify contracts with customers

Step 2: Identify performance obligations in contracts

Step 3: Calculate transaction price

Step 4: Allocate transaction price to performance obligations in contracts

Step 5: Recognize revenue when performance obligations are satisfied (or as they are satisfied)

(i) Revenue from pharmaceutical sales

For pharmaceutical sales, revenue is recognized when products are delivered to customers because customers normally obtain control of the products when they are delivered, and the Company is judged to have satisfied its performance obligations. For pharmaceutical sales within Japan, paragraph 98 of “Implementation Guidance on Accounting Standard for Revenue Recognition” is applied, and revenue is recognized when merchandise or products are shipped because it takes several days to ship and deliver items in Japan and it is rational to think that this is the amount of time from when merchandise or products are shipped to when control over them is transferred to customers. As for overseas pharmaceutical sales, revenue is primarily recognized when bearing of risk is transferred to customers based on the trade terms stipulated in Incoterms, etc.

The transaction price is measured using the promised compensation in contracts with customers less discounts, rebates, etc., estimated using the mode method based on contract terms, historical results, etc.

(ii) Revenue from licensing

Revenue from the licensing related to Company’s developed products or finished goods (upfront, milestone, and sales-based royalty income) is recognized as revenue.

Upfront income is recognized as revenue at the time when the Company grants marketing rights, etc., in the case where it is judged to have satisfied its performance obligations at that time.

Milestone income is recognized as revenue when the contract-stipulated milestone is achieved, taking into consideration the possibility of a subsequent large reimbursement.

Sales-based royalty income is recognized as revenue when sales used to calculate the royalties are generated or when performance obligations allocated by sales-based royalties are satisfied, whichever is later.

Compensation related to revenue that the Company recognized is normally received within one year from when the performance obligations are satisfied, and they do not include material financial factors.

5. Other significant matters forming the basis for preparing non-consolidated financial statements

Hedge accounting

Deferred hedges are generally used. For forward exchange contracts that meet the requirements for the allocation method, the allocation method is used, and for interest rate swaps that meet the requirements for special treatment, the special treatment is used.

Notes on Changes in Accounting Policies

(Application of implementation guidance on accounting standard for fair value measurement)

The Company has applied the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No. 31, June 17, 2021; hereinafter the “Guidance on Fair Value Measurement”) from the beginning of the fiscal year under review, and it has applied new accounting policies stipulated in the Guidance on Fair Value Measurement prospectively, in accordance with the transitional treatment prescribed in paragraph 27-2 of the Guidance on Fair Value Measurement. This has no effect on the non-consolidated financial statements.

Notes to Revenue Recognition

1. Information on disaggregation of revenue from contracts with customers

This is omitted because consolidated financial statements are created.

2. Fundamental information for understanding revenue from contracts with customers

This is omitted because the same information can be found in “4. Criteria for recording material revenue and expenses” in Notes to Significant Accounting Policies.

3. Relationship between satisfying performance obligations based on contracts with customers and cash flows from those contracts and amount and timing of revenue projected to be recognized in the following fiscal year and after from contracts with existing customers as of the end of the fiscal year under review

This is omitted because consolidated financial statements are created.

Notes to Accounting Estimates

Shares of U.S.-based ArmaGen, Inc. (ArmaGen) were acquired on April 10, 2020, and through the acquisition, intellectual property (patents) owned by ArmaGen that are widely applicable to diseases, including lysosomal storage diseases, were acquired.

The valuation of these shares is reduced as the patents are amortized over the remaining patent period, and as of the end of the fiscal year under review, the valuation on the non-consolidated financial statements was 2,497 million yen.

Regarding patent rights, an impairment loss may be recorded if an event were to occur that had a material impact on the launch timing and market share of the Company’s products or price of rival products assumed when calculating the fair values of the patents, and in that case, an impairment loss on shares of ArmaGen would also be recorded.

Notes to Balance Sheet

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|--|--------------------|
| 1. Cumulative depreciation of property, plant and equipment | 16,916 million yen |
| 2. Monetary receivables and payables to affiliated companies | |
| Short-term monetary receivables | 23 million yen |
| Short-term monetary payables | 402 million yen |
| 3. Commitment line agreements | |

At the current time, the Company has not been impacted by the COVID-19 pandemic, but as it is now impossible to project future global conditions, the Company must ensure flexible and stable methods to procure funds in order to generate sustainable growth globally, and the Company has concluded commitment line agreements with various financial institutions as a backup for ensuring working capital.

(million yen)

	Fiscal year under review (As of March 31, 2023)
Total amount of commitment lines	15,500
Balance of borrowings	6,000
Difference	9,500

Notes to Statement of Income

1. Transaction volume with affiliated companies

Sales transactions

Net sales	4,000 million yen
Selling, general, and administrative expenses	1,855 million yen
Transaction volume other than sales	3 million yen

2. The loss on valuation of stocks of subsidiaries and affiliates recorded under non-operating expenses is the result of valuation loss for shares of the subsidiary ArmaGen. The loss on these shares will be recognized along with amortization over the remaining period of the patents ArmaGen holds.

Notes to Statements of Changes in Equity

Type and number of treasury shares

Type of shares	Number at beginning of the fiscal year	Increase	Decrease	Number at end of the fiscal year
Common shares	5,929,344 shares	129 shares	1,018,700 shares	4,910,773 shares

- (Notes) 1. The numbers of treasury shares at the beginning and end of the fiscal year respectively include 343,600 shares and 324,900 shares of the Company's shares held by the trust account of the Benefit Trust Scheme.
2. The decrease in the number of treasury shares was the decrease due to the donation of 1,000,000 shares by the allocation to a third party and provision of 18,700 shares under the Benefit Trust Scheme (J-ESOP) for the Tasuku Honjo "Yuh-shi" Fund and Cancer Immunotherapy Research Fund established at Kyoto University.

Notes on Tax Effect Accounting

Breakdown of main reasons for which deferred tax assets and liabilities were generated

Deferred tax assets

	(million yen)
Inventory assets	354
Provision for bonuses	293
R&D expenses	296
Investment securities	17
Shares of subsidiaries and associates	254
Provision for retirement benefits	277
Share-based payment expenses	247
Advances received	85
Other	270
<hr/> Subtotal	<hr/> 2,097
Valuation allowance	(318)
<hr/> Total deferred tax assets	<hr/> 1,778

Deferred tax liabilities

Valuation difference on available-for-sale securities	246
Prepaid pension costs	69
Accrued enterprise tax	104
Other	11
<hr/> Total deferred tax liabilities	<hr/> 431
<hr/> Net deferred tax assets	<hr/> 1,347

Notes on Business with Related Parties

1. Parent company and major corporate shareholders

Attribute	Company name	Percentage of voting rights	Relationship		Business	Amount (million yen)	Balance at end of the fiscal year	
			Interlocking of officers, etc.	Operational relationship			Item	Amount (million yen)
Other affiliated company	MEDIPAL HOLDINGS CORPORATION	– (23.3 %)	Yes	Business alliance for development of pharmaceuticals	Licensing agreement	4,000	Accounts receivable - trade	–
							Other non-current liabilities	82

(Note) The price and other transaction terms are set based on negotiations and depend on transaction terms that are the same as those for arm's length transactions.

2. Fellow subsidiary

Attribute	Company name	Percentage of voting rights	Relationship		Business	Amount (million yen)	Balance at end of the fiscal year	
			Interlocking of officers, etc.	Operational relationship			Item	Amount (million yen)
Subsidiary of other affiliated company	MEDICEO CORPORATION (subsidiary of MEDIPAL HOLDINGS CORPORATION)	– (–)	–	Supply of pharmaceuticals	Finished good sales	11,020	Accounts receivable - trade	5,373
							Accounts payable - other	446
	SPLine Corporation (subsidiary of MEDIPAL HOLDINGS CORPORATION)	– (–)	–	Supply of pharmaceuticals	Finished good sales	4,682	Accounts receivable - trade	1,828
							Accounts payable - other	47

(Note) The price and other transaction terms are set based on negotiations and depend on transaction terms that are the same as those for arm's length transactions.

Notes on Per Share Information

1. Net assets per share 410.86 yen

2. Earnings per share 29.67 yen

(Note) The number of the Company's shares held by the trust in the Benefit Trust Scheme recorded as treasury shares in shareholders' equity are included in the number of treasury shares deducted when calculating average number of shares during the fiscal year used when determining earnings per share. They are also included in the number of treasury shares deducted from the total number of outstanding shares at the end of the fiscal year when calculating net assets per share.

The average number of treasury shares during the fiscal year deducted when calculating earnings per share totals 331,246 shares, and the number of treasury shares at the end of the fiscal year deducted when calculating net assets per share totals 324,900 shares.

Other Notes

(Impact of COVID-19)

As for the impact of COVID-19, it is expected that it will take some time to get the pandemic under control, but the pandemic's impact on the Company's earnings is judged to be minor.