Consolidated Financial Statements

ONO PHARMACEUTICAL CO., LTD.
and Subsidiaries

Year Ended March 31, 2022

with Independent Auditor's Report

Consolidated Financial Statements

Year Ended March 31, 2022

Contents

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of ONO PHARMACEUTICAL CO., LTD.:

Opinion

We have audited the consolidated financial statements of ONO PHARMACEUTICAL CO., LTD. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2022, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

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

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the provisions of the Code of Professional Ethics in Japan, and we have fulfilled our other ethical responsibilities as auditors. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

<table>
<tr><td colspan="2">Evaluation of the intangible assets related to Patents and licenses</td></tr>
<tr><th>Key Audit Matter Description</th><th>How the Key Audit Matter Was Addressed in the Audit</th></tr>
<tr><td>As described in Note 14 "Intangible Assets" to the consolidated financial statements, the intangible assets recorded in the consolidated statement of financial position (64,734 million yen) included 56,702 million yen of Patents and licenses (in-process research and development costs acquired separately and sales licenses), which accounted for 7.7% of total assets.

As described in Note 3 "Significant Accounting Policies" section (8)③ to the consolidated financial statements, the Group performed impairment tests for in-process research and development costs acquired separately and sales licenses that showed indications of impairment as of the fiscal year ended March 31, 2022. As a result, the Group recorded impairment losses of 3,088 million yen for the in-process research and development costs acquired separately.

The value in use, which was used for the impairment test, was calculated by determining the discounted present value of estimated future cash flows. The estimated future cash flows involve management assumptions, such as forecasted sales quantities and discount rate. These assumptions have a significant effect on the value in use and involve high uncertainties.

Therefore, we identified the evaluation of intangible assets related to Patents and licenses as a key audit matter.</td><td>To address the key audit matter, we performed the following audit procedures, among others:

(1) Evaluation of controls

・ We evaluated the design and operating effectiveness of controls over the process to calculate the value in use of intangible assets.

(2) Substantive procedures to test the value in use of intangible assets

・ We inquired of management about the reasonableness of the projected sales quantities used to estimate future cash flows. We also read the external surveys that management used to determine the rationale of the assumptions used in the estimates.

・ We performed a retrospective comparison between the estimated sales developed in the previous fiscal year and the corresponding actual results to test the sales forecasts used to estimate the future cash flows of the sales licenses, which are included as part of intangible assets related to Patents and licenses.

・ With the assistance of our fair value specialists, we evaluated the reasonableness of the calculation method and the range of the discount rate applied by management.</td></tr>
</table>

<table>
<tr><td colspan="2">Appropriateness of revenue recognition of the royalty and others</td></tr>
<tr><td>Key Audit Matter Description</td><td>How the Key Audit Matter Was Addressed in the Audit</td></tr>
<tr><td>As described in Note 26 "Revenue" to the consolidated financial statements, the Group recorded royalty and others of 115,405 million yen as revenue.

Revenue classified as royalty and others is mainly revenue from the license contract related to rights to develop or sell products (up-front payment, milestone revenue and royalty revenue).

As described in Note 3 "Significant Accounting Policies" section (12) to the consolidated financial statements, when performance obligations are satisfied at a point in time, up-front payments are recognized as revenue when development rights or selling rights, etc. are granted. Furthermore, milestone revenue is recognized as revenue when milestones specified in the contract are achieved. Since the royalty revenue is calculated based on the revenue, etc., of the other parties in the contract, revenue is recognized in accordance with the occurrence of the sales of the other parties in the contract.

Revenue from goods and products within the Group's revenue is recorded mainly through the automated business processes in the sales management system, while royalty and others are calculated and recorded through the unautomated operations and controls. Therefore, we needed to increase our focus on the appropriateness of royalty and others. In addition, royalty and others are important to investors and shareholders in evaluating the Group's performance because of their financial importance.

Therefore, we identified the appropriateness of revenue recognition related to royalty and others as a key audit matter.</td><td>To address the key audit matter, we performed the following audit procedures, among others:

(1) Evaluation of controls
• We evaluated the design and operating effectiveness of controls over the process to accurately record the royalty and others.

(2) Substantive procedure for the royalty and others
• For the major contracts, we developed the auditor's expectation using the customers' publicly announced revenue figures and contractual royalty rates. We then compared the recorded revenue to the auditor's expectation.
• We performed confirmation procedures for the customers of the annual transaction amounts and the accounts receivable balance at year end related to major royalty revenue.</td></tr>
</table>

Other Information

Other information comprises the information included in the Group's disclosure documents accompanying the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We determined that no such information existed and therefore, we did not perform any work thereon.

Responsibilities of Management and Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

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

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

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

August 9, 2022

Consolidated Statement of Financial Position

Year Ended March 31, 2022

	Notes	Millions of Yen March 31, 2021	Millions of Yen March 31, 2022	Thousands of U.S. Dollars (Note 2 (5)) March 31, 2022
Assets				
Current assets:				
Cash and cash equivalents	7, 33	¥ 61,045	¥ 69,112	$ 566,495
Trade and other receivables	8, 33	84,269	99,788	817,937
Marketable securities	9, 33	2,978	60	492
Other financial assets	10, 33	40,952	47,797	391,777
Inventories	12	39,151	41,817	342,760
Other current assets	11, 19	19,246	22,692	186,001
Total current assets		247,642	281,266	2,305,461
Non-current assets:				
Property, plant, and equipment	13, 20	113,866	112,131	919,110
Intangible assets	2, 14	68,285	64,734	530,605
Investment securities	9, 33	146,796	125,046	1,024,967
Investments in associates		112	108	889
Other financial assets	10, 33	131,888	127,302	1,043,463
Deferred tax assets	2, 16	34,242	25,074	205,523
Retirement benefit assets	22	7	377	3,087
Other non-current assets	11	2,590	3,165	25,940
Total non-current assets		497,787	457,937	3,753,583
Total assets		¥ 745,428	¥ 739,203	$ 6,059,044

	Notes	Millions of Yen March 31, 2021	Millions of Yen March 31, 2022	Thousands of U.S. Dollars (Note 2 (5)) March 31, 2022
Liabilities and Equity				
Current liabilities:				
Trade and other payables	17, 33	¥ 39,163	¥ 49,689	$ 407,283
Lease liabilities	20	2,023	2,301	18,863
Other financial liabilities	18, 33	616	716	5,868
Income taxes payable		19,047	1,526	12,511
Provisions	23	20,721	—	—
Other current liabilities	21	12,163	11,694	95,849
Total current liabilities		93,733	65,926	540,374
Non-current liabilities:				
Lease liabilities	20	7,030	6,501	53,289
Other financial liabilities	18, 33	0	0	3
Retirement benefit liabilities	22	3,056	3,322	27,226
Deferred tax liabilities	16	1,052	1,009	8,273
Other non-current liabilities	21	813	771	6,320
Total non-current liabilities		11,952	11,603	95,110
Total liabilities		105,685	77,529	635,484
Equity:				
Share capital	24	17,358	17,358	142,281
Capital reserves	24	17,231	17,241	141,319
Treasury shares	24	(44,705)	(74,683)	(612,154)
Other components of equity	24	62,299	51,236	419,969
Retained earnings	2, 24	581,950	644,754	5,284,868
Equity attributable to owners of the Company		634,133	655,906	5,376,282
Non-controlling interests		5,610	5,768	47,278
Total equity		639,743	661,674	5,423,560
Total liabilities and equity		¥ 745,428	¥ 739,203	$ 6,059,044

Consolidated Statement of Income

Year Ended March 31, 2022

	Notes	*Millions of Yen* For the year ended March 31, 2021	*Millions of Yen* For the year ended March 31, 2022	*Thousands of U.S. Dollars* (Note 2 (5)) For the year ended March 31, 2022
Revenue	6, 26	¥ 309,284	¥ 361,361	$ 2,961,973
Cost of sales		(85,573)	(93,511)	(766,482)
Gross profit		223,711	267,850	2,195,492
Selling, general, and administrative expenses	27	(69,230)	(77,057)	(631,614)
Research and development costs		(62,384)	(75,879)	(621,961)
Other income	29	8,165	980	8,031
Other expenses	29	(1,932)	(12,698)	(104,083)
Operating profit		98,330	103,195	845,865
Finance income	30	2,693	2,710	22,209
Finance costs	30	(137)	(874)	(7,167)
Share of profit (loss) from investments in associates	15	4	(6)	(47)
Profit before tax		100,890	105,025	860,859
Income tax expense	16	(25,392)	(24,340)	(199,511)
Profit for the year		75,497	80,684	661,348
Profit for the year attributable to:				
Owners of the Company		75,425	80,519	659,988
Non-controlling interests		72	166	1,360
Profit for the year		¥ 75,497	¥ 80,684	$ 661,348

Earnings per share:		*Yen*		*U.S. Dollars* (Note 2 (5))
Basic earnings per share	32	¥ 151.11	¥ 162.19	$ 1.33
Diluted earnings per share	32	151.09	162.16	1.33

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2022

	Notes	*Millions of Yen* For the year ended March 31, 2021	*Millions of Yen* For the year ended March 31, 2022	*Thousands of U.S. Dollars* (Note 2 (5)) For the year ended March 31, 2022
Profit for the year		¥ 75,497	¥ 80,684	$ 661,348
Other comprehensive income (loss):				
Items that will not be reclassified to profit or loss:				
Net gain (loss) on financial assets measured at fair value through other comprehensive income	31, 33	17,273	(2,094)	(17,162)
Remeasurement of defined benefit plans	31	2,370	199	1,634
Share of net gain (loss) on financial assets measured at fair value through other comprehensive income of investments in associates	15, 31	3	2	13
Total of items that will not be reclassified to profit or loss		19,646	(1,893)	(15,515)
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	31	424	814	6,672
Total of items that may be reclassified subsequently to profit or loss		424	814	6,672
Total other comprehensive income (loss)		20,070	(1,079)	(8,843)
Total comprehensive income (loss) for the year		95,567	79,606	652,505
Comprehensive income (loss) for the year attributable to:				
Owners of the Company		95,488	79,444	651,182
Non-controlling interests		78	161	1,323
Total comprehensive income (loss) for the year		¥ 95,567	¥ 79,606	$ 652,505

Consolidated Statement of Changes in Equity

Year Ended March 31, 2022

Millions of Yen

	Notes	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
		Equity attributable to owners of the Company							
Balance at April 1, 2020		¥ 17,358	¥ 17,229	¥ (44,737)	¥ 48,030	¥ 524,605	¥ 562,484	¥ 5,538	¥ 568,022
Change in Accounting Policy	2					(1,414)	(1,414)		(1,414)
Restated Balance		17,358	17,229	(44,737)	48,030	523,191	561,071	5,538	566,609
Profit for the year						75,425	75,425	72	75,497
Other comprehensive income (loss)	31				20,064		20,064	6	20,070
Total comprehensive income (loss) for the year		–	–	–	20,064	75,425	95,488	78	95,567
Purchase of treasury shares	24			(5)			(5)		(5)
Disposal of treasury shares	24		(38)	38			0		0
Cash dividends	25					(22,461)	(22,461)	(6)	(22,467)
Share-based payments	34		40				40		40
Transfer from other components of equity to retained earnings	24				(5,795)	5,795	–		–
Total transactions with the owners		–	2	32	(5,795)	(16,666)	(22,426)	(6)	(22,432)
Balance at March 31, 2021		¥ 17,358	¥ 17,231	¥ (44,705)	¥ 62,299	¥ 581,950	¥ 634,133	¥ 5,610	¥ 639,743
Profit for the year						80,519	80,519	166	80,684
Other comprehensive income (loss)	31				(1,074)		(1,074)	(4)	(1,079)
Total comprehensive income (loss) for the year		–	–	–	(1,074)	80,519	79,444	161	79,606
Purchase of treasury shares	24			(30,009)			(30,009)		(30,009)
Disposal of treasury shares	24		(31)	31			0		0
Cash dividends	25					(27,703)	(27,703)	(4)	(27,707)
Share-based payments	34		41				41		41
Transfer from other components of equity to retained earnings	24				(9,988)	9,988	—		—
Total transactions with the owners		–	10	(29,978)	(9,988)	(17,714)	(57,671)	(4)	(57,675)
Balance at March 31, 2022		¥ 17,358	¥ 17,241	¥ (74,683)	¥ 51,236	¥ 644,754	¥ 655,906	¥ 5,768	¥ 661,674

Thousands of U.S. Dollars (Note 2 (5))

	Notes	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
		Equity attributable to owners of the Company							
Balance at March 31, 2021		$ 142,281	$ 141,238	$ (366,434)	$ 510,648	$ 4,770,079	$ 5,197,812	$ 45,987	$5,243,799
Profit for the year						659,988	659,988	1,360	661,348
Other comprehensive income (loss)	31				(8,806)		(8,806)	(37)	(8,843)
Total comprehensive income (loss) for the year		–	–	–	(8,806)	659,988	651,182	1,323	652,505
Purchase of treasury shares	24			(245,972)			(245,957)		(245,957)
Disposal of treasury shares	24		(251)	251			0		0
Cash dividends	25					(227,073)	(227,073)	(32)	(227,105)
Share-based payments	34		332				332		332
Transfer from other components of equity to retained earnings	24				(81,873)	81,873	—		—
Total transactions with the owners		–	81	(245,720)	(81,873)	(145,200)	(472,712)	(32)	(472,744)
Balance at March 31, 2022		$ 142,281	$ 141,319	$ (612,154)	$ 419,969	$ 5,284,868	$ 5,376,282	$ 47,278	$ 5,423,560

Consolidated Statement of Cash Flows

Year Ended March 31, 2022

		Millions of Yen		Thousands of U.S. Dollars (Note 2 (5))
	Notes	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Cash flows from operating activities				
Profit before tax		¥100,890	¥105,025	$860,859
Depreciation and amortization		15,820	17,721	145,257
Impairment losses		2,307	3,404	27,905
Interest and dividend income		(2,462)	(2,349)	(19,252)
Interest expense		73	70	571
(Increase) decrease in inventories		(6,107)	(2,464)	(20,194)
(Increase) decrease in trade and other receivables		(7,179)	(15,283)	(125,271)
Increase (decrease) in trade and other payables		6,361	8,177	67,025
Increase (decrease) in provisions		–	(20,721)	(169,846)
Increase (decrease) in retirement benefit liabilities		410	54	441
(Increase) decrease in retirement benefit assets		–	130	1,066
Other		(4,468)	70	572
Subtotal		105,645	93,835	769,135
Interest received		63	40	328
Dividends received		2,401	2,317	18,993
Interest paid		(73)	(70)	(571)
Income taxes paid		(34,060)	(34,293)	(281,089)
Net cash provided by (used in) operating activities		73,977	61,829	506,796
Cash flows from investing activities				
Purchases of property, plant, and equipment		(7,018)	(5,497)	(45,060)
Proceeds from sales of property, plant, and equipment		2	14	113
Purchases of intangible assets		(13,275)	(6,780)	(55,577)
Purchases of investments		(760)	(1,127)	(9,236)
Proceeds from sales and redemption of investments		14,033	22,782	186,741
Payments into time deposits		(80,939)	(57,486)	(471,195)
Proceeds from withdrawal of time deposits		30,800	55,800	457,377
Other		(429)	(1,667)	(13,667)
Net cash provided by (used in) investing activities		(57,586)	6,038	49,496
Cash flows from financing activities				
Dividends paid		(22,449)	(27,666)	(226,773)
Dividends paid to non-controlling interests		(6)	(4)	(33)
Repayments of lease liabilities		(2,296)	(2,560)	(20,982)
Purchases of treasury shares		(3)	(30,007)	(245,956)
Net cash provided by (used in) financing activities		(24,754)	(60,237)	(493,744)
Net increase (decrease) in cash and cash equivalents		(8,363)	7,631	62,548
Cash and cash equivalents at the beginning of the year		69,005	61,045	500,370
Effects of exchange rate changes on cash and cash equivalents		403	436	3,578
Cash and cash equivalents at the end of the year	7	¥ 61,045	¥ 69,112	$ 566,495

1. Reporting Entity

ONO PHARMACEUTICAL CO., LTD. (the "Company") is a company incorporated in Japan. The addresses of its registered head office and principal business locations are disclosed on the Company's website (URL https://www.ono-pharma.com).

The consolidated financial statements of the Company comprise the financial statements of the Company and its subsidiaries (collectively, the "Group") and equity interests in associates of the Group. The Group manufactures and sells medical and general pharmaceutical products, etc. The business descriptions and principal activities of the Group are described in "6. Segment Information."

2. Basis of Preparation

(1) Statements of Compliance with International Financial Reporting Standards

Pursuant to the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, the Company qualifies as a "Specified Company of the Designated International Accounting Standards" prescribed in Article 1-2 of the Ordinance, and the consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (IFRSs).

(2) Basis of Measurement

Except for the financial instruments and others described in "3. Significant Accounting Policies," the consolidated financial statements are prepared on a historical cost basis.

(3) Functional Currency and Presentation Currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency. All financial information presented in Japanese yen has been rounded to the nearest million yen, except where otherwise indicated.

(4) Changes in Accounting Policies

The Group had previously recognized intangible assets for configuration or customization costs in cloud computing agreements by applying IAS 38 "Intangible Assets." However, effective from the fiscal year ended March 31, 2022, the Group has changed the method to recognize the costs of configuration or customization services as expenses when they are received, in accordance with the agenda decision published by the IFRS Interpretations Committee in April 2021.

This change in accounting policy has been applied retrospectively, and the consolidated financial statements for the previous fiscal year are presented based on the revised accounting policy. As the cumulative effect was reflected in net assets as of the beginning of the previous fiscal year, deferred tax assets increased by ¥623 million, while retained earnings and intangible assets decreased by ¥1,414 million and ¥2,037 million, respectively, as of the beginning of the previous fiscal year. The effect of this change in the consolidated statement of income for the fiscal years ended March 31, 2021 and 2022 is immaterial.

(5) U.S. Dollar Amounts

The accompanying consolidated financial statements are stated in Japanese yen. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan using the rate of ¥122 to $1, the approximate rate of exchange at March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate. Amounts of less than one thousand U.S. dollars have been rounded to the nearest one thousand U.S. dollars in the presentation of the accompanying consolidated financial statements. As a result, the totals in U.S. dollars do not necessarily agree with the sum of the individual amounts.

3. Significant Accounting Policies

The significant accounting policies have been applied consistently to all periods presented in the consolidated financial statements, unless otherwise stated.

(1) Basis of Consolidation

① Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it has power over the entity, is exposed to, or has rights to variable returns from its involvement with the entity, and has the ability to affect those returns through its power over the entity.

Even if the Group does not have a majority of voting rights, it concludes that it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally.

Consolidation of a subsidiary begins on the date the Group obtains control over the subsidiary and continues through the date the Group loses control of the subsidiary. Changes in ownership interest in a subsidiary without a loss of control are accounted for as equity transactions, and a difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as equity attributable to owners of the Company.

In cases where the accounting policies applied by a subsidiary are different from those applied by the Group, adjustments are made to the subsidiary's financial statements, if necessary.

All intercompany receivables, payables, and transactions of the Group and unrealized profit and loss from intercompany transactions are eliminated in preparing the consolidated financial statements.

② Associates

An associate refers to an entity over which the Group does not have control but has significant influence over the financial and operating policies of the entity. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but does not have control over those policies.

Investments in associates are initially recognized at cost and accounted for by the equity method of accounting in the consolidated statement of financial position from the date when the Group obtains significant influence until the date the Group loses its significant influence. In cases where the accounting policies applied by an associate are different from those applied by the Group, adjustments are made to the associate's financial statements, if necessary.

③ Business Combinations

Business combinations are accounted for using the acquisition method.

The Group measures the consideration for an acquisition as the sum of the consideration transferred in a business combination, the amount of any non-controlling interest and in a business combination achieved in stages, the acquisition-date fair value of the acquirer's previously held equity interest in the acquisition. The consideration transferred is measured at fair value at the acquisition date. The non-controlling interest is measured at fair value or based on the appropriate share of the acquiree's identifiable net assets.

The Group recognizes goodwill as any excess of the consideration for acquisition over the net amount of the identifiable assets acquired and the liabilities assumed at the acquisition date. If the net amount of the identifiable assets and liabilities of the acquiree exceeds the consideration for acquisition, the acquirer recognizes the excess amount as profit or loss on the acquisition date.

Acquisition-related costs are recognized in profit or loss as incurred.

(2) Foreign Currencies

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency. Each entity of the Group applies its own functional currency and measures its transactions using its functional currency.

Foreign currency transactions are translated into the functional currency using spot exchange rates or approximate rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency using spot exchange rates as of the closing date. Exchange differences arising from such translations and settlements are recognized in profit or loss. However, exchange differences arising from financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

Assets and liabilities of foreign operations are translated into the presentation currency using spot exchange rates as of the closing date, while income and expenses are translated into the presentation currency at the average exchange rate for the period. The resulting exchange differences are recognized in other comprehensive income. In cases where foreign operations are disposed of, the cumulative amount of translation differences related to the foreign operations is recognized as profit or loss in the period of disposition.

(3) Financial Instruments

① Financial Assets

(i) Initial Recognition and Measurement

Trade receivables, etc., are initially recognized on the date when they are incurred. All other financial assets are initially recognized on the contract date when the Group becomes a party to the contractual provisions of the financial instruments. Financial assets are classified as either financial assets measured at fair value or financial assets measured at amortized cost.

All regular-way purchases or sales of financial assets are recognized or derecognized on a settlement date basis. Regular-way purchases or sales refer to purchases or sales of financial assets that require delivery of assets within the timeframe generally established by regulation or convention in the marketplace.

At initial recognition, all financial assets, except for those measured at fair value through profit or loss (FVPL), are measured at fair value plus transaction costs that are directly attributable to the financial assets. Transaction costs of financial assets measured through profit or loss are recognized in profit or loss.

(ii) Classification and Subsequent Measurement

(a) Financial Assets Measured at Amortized Cost

Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, the carrying amounts of the financial assets measured at amortized cost are calculated using the effective interest method. Amortization using the effective interest method and gains or losses arising in the case of derecognition are recognized in profit or loss.

(b) Debt instruments measured at fair value through other comprehensive income (FVOCI)

Financial assets are classified as debt instruments measured at FVOCI if both of the following conditions are met:

・ The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.
・ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

(c) Equity instruments measured at FVOCI

After initial recognition, equity instruments designated to be measured at FVOCI are measured at fair value, and any changes in fair value are included in net gain (loss) on financial assets measured at FVOCI in other components of equity.
When such financial assets are derecognized, the accumulated other comprehensive income is immediately transferred to retained earnings. Meanwhile, dividends from such financial assets are recognized as profit when the shareholder's right to receive payment is established.

(d) Financial assets measured at FVPL

Financial assets, except for financial assets measured at amortized cost, debt instruments measured at FVOCI, and equity instruments measured at FVOCI stated above, are classified as financial assets measured at FVPL.
After initial recognition, financial assets measured at FVPL are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Derecognition of Financial Assets

The Group derecognizes a financial asset when the contractual right to receive cash flows from the asset expires or is transferred, or when it transfers substantially all the risks and rewards of ownership of the asset.

(iv) Impairment of Financial Assets

At the end of each fiscal year, the Group evaluates whether the credit risk on financial instruments has increased significantly since initial recognition. With respect to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets. If credit risk on a financial instrument has not increased significantly since initial recognition, the allowance for such financial instrument is measured at an amount equal to the 12-month expected credit losses. If credit risk on a financial instrument has increased significantly since initial recognition, the allowance for such financial instrument is measured at an amount equal to the lifetime expected credit losses. The determination of whether credit risk has significantly increased is based on the changes in default risk. The assessment of whether there is a change in default risk takes into account information that is reasonably available to the Group and supportable as well as past due information. When the credit risk on a financial asset is considered low at the end of the fiscal year, the Group determines that the credit risk on the financial asset has not increased significantly since initial recognition. Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received. However, with regard to trade receivables, etc., the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition. The amount of expected credit losses or reversal is recognized in profit or loss.

② Financial Liabilities

(i) Initial Recognition and Subsequent Measurement

The Group holds financial liabilities that are measured at amortized cost. Financial liabilities measured at amortized cost are initially measured at fair value minus directly attributable transaction costs. After initial recognition, the carrying amounts of financial liabilities measured at amortized cost are calculated using the effective interest method. Gains or losses arising from amortization using the effective interest method and derecognition are recognized as profit or loss in the consolidated statement of income.

(ii) Derecognition of Financial Liabilities

Financial liabilities are derecognized when the Group's contractual obligations are discharged, canceled, or expired.

③ Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amounts are presented in the consolidated statement of financial position when, and only when, the Group currently has a legally enforceable right to offset the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

④ Derivatives

The Group enters into forward foreign exchange contracts as derivatives to address the risk of foreign exchange rate fluctuations. Forward foreign exchange contracts are initially measured at fair value when the contract is entered into and are subsequently remeasured at their fair value. Changes in fair value of foreign exchange contracts are recognized as profit or loss in the consolidated statement of income. However, gains and losses on hedging instruments relating to the effective portion of cash flow hedges are recognized as other comprehensive income in the consolidated statement of comprehensive income.

⑤ Hedge Accounting

The Group designates forward foreign exchange contracts that are derivatives in respect of addressing the risk of foreign exchange rate fluctuation as hedging instruments for cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between hedging instruments and hedged items in accordance with the strategy for undertaking hedge transactions. In addition, at the inception of the hedge and during the life of the hedge, the Group documents whether the hedging instruments are highly effective in offsetting changes in cash flows of the underlying hedged items attributable to the hedged risk.

Cash flow hedge accounting is as follows:
The effective portion of changes in fair value of derivatives that are designated and qualify as cash flow hedges is recognized in other comprehensive income and accumulated in other components of equity. The ineffective portion of gains or losses on the hedging instruments is recognized immediately in profit or loss.

Amounts recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss in the same line as the recognized hedged item. However, in cases where the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.
Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity remains in equity and is reclassified to profit or loss when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

⑥ Fair Value of Financial Instruments

The fair values of financial instruments traded on active financial markets as of each reporting date are based on quoted prices in the markets or dealer prices. The fair values of financial instruments for which no active markets exist are calculated by using appropriate valuation techniques.

(4) Cash and Cash Equivalents

Cash and cash equivalents are composed of cash on hand, bank deposits drawable at any time, and short-term investments with maturities of three months or less from the acquisition date, which are readily convertible to cash and are subject to insignificant risk of changes in value.

(5) The Standard for Measurement and the Value of Inventories

Inventory costs include raw materials, direct labor, and other direct costs, as well as relevant overhead expenses.

Inventories are measured at the lower of cost or net realizable value. Cost is mainly determined using the weighted-average method. Net realizable value is determined based on the estimated selling price in the ordinary course of business, less estimated costs of completion and costs necessary to make the sale.

(6) Property, Plant, and Equipment (Except for Right-of-Use Assets)

The Group applies the cost model for subsequent measurement of property, plant, and equipment and records them at cost less any accumulated depreciation and accumulated impairment losses.

The cost of property, plant, and equipment comprises costs directly attributable to the acquisition of the assets and initial estimations of asset retirement obligations. Depreciation of property, plant, and equipment commences when the assets are available for use.

Property, plant, and equipment are depreciated by the straight-line method over their estimated useful lives. The estimated useful lives of major asset items are as follows:

Buildings and structures:	15－50 years
Machinery and vehicles:	4－15 years
Tools, furniture, and fixtures:	2－20 years

The estimated useful lives and depreciation method, etc., are reviewed at the end of each reporting period, and any changes are treated as changes in accounting estimates and applied prospectively.

(7) Impairment of Property, Plant, and Equipment

For property, plant, and equipment, the Group determines whether there is any indication of impairment on each asset at the end of each reporting period. If any indication of impairment exists, the recoverable amount of an asset or a cash-generating unit to which the asset belongs is estimated.

The recoverable amount is computed at the higher of the fair value less costs to sell or value in use of the asset or cash-generating unit. If the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount and impairment loss is recognized.

The value in use is computed by discounting the estimated future cash flows to their present value using a pretax discount rate that reflects the time value of money and the risks inherent to the asset, etc. For the calculation of an asset's fair value less costs to sell, an appropriate valuation model is used based on available fair value indices.

An impairment loss recognized in prior years is assessed as to whether there is any indication that the impairment loss for an asset or a cash-generating unit may have decreased or may no longer exist. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. In cases where the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, impairment losses are reversed up to the lower of the estimated recoverable amount or the carrying amount, net of accumulated depreciation that would have been determined if no impairment losses had been recognized in prior years.

(8) Intangible Assets

① Intangible Assets Acquired Separately

The Group applies the cost model for the measurement of intangible assets and states them at cost less any accumulated amortization and accumulated impairment losses. However, intangible assets with indefinite useful lives acquired separately are stated at cost less any accumulated impairment losses.

Amortization for intangible assets commences when the related assets are available for use. Except for intangible assets with indefinite useful lives or that are not yet available for use, each intangible asset is amortized by the straight-line method over its estimated useful life. The estimated useful lives of major intangible asset items are as follows:

Sales licenses: 8－17 years
Software: 3－8 years

The estimated useful lives used in calculating the amortization of sales licenses are determined by considering the effective period of the patents and others.

The estimated useful lives and amortization method are reviewed at the end of each reporting period, and any changes are treated as changes in accounting estimates and applied prospectively.

② Internally Generated Intangible Assets (Research and Development Costs Internally Generated)

Costs arising from development (or from the development phase of an internal project) shall be recognized as an asset if, and only if, all of the following have been demonstrated:

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

Due to the risks and uncertainties related to the approval and development activity of pharmaceutical drugs, the Group determines that the recognition criteria for capitalization as intangible assets are considered not to have been met unless it obtains marketing approval from the relevant regulatory authorities.
Internally generated development expenses arising before marketing approval has been obtained are expensed under "Research and development costs" as incurred.

③ Impairment of Intangible Assets

For intangible assets, the Group determines whether there is any indication of impairment on each asset at the end of each reporting period. If any indication of impairment exists, each asset is tested for impairment. In addition, intangible assets with indefinite useful lives or intangible assets not yet available for use are tested for impairment at a certain time each fiscal year, regardless of whether there is any indication of impairment.

Impairment tests are performed by calculating the recoverable amount of each intangible asset and comparing the recoverable amount with its carrying amount. In cases where a recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of an asset or a cash-generating unit is measured at the higher of its fair value less costs to sell or its value in use. The value in use is computed by discounting the estimated future cash flows to the present value. The value in use is calculated by using management assumptions such as forecasted sales quantities and discount rate.

The discount rate used is a pre-tax rate that reflects the time value of money and the risks inherent to the asset using unadjusted estimates of future cash flows.

(9) Right-of-use Assets

For leases as a lessee, the Group measures right-of-use assets at cost and lease liabilities at the present value of the lease payments that are not paid at the commencement date of the lease.

Right-of-use assets are depreciated by using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

Lease payments are allocated to finance costs and repayments of lease liabilities based on the effective interest method. The finance costs are recognized in the consolidated statement of income.

However, the Group has elected not to recognize right-of-use assets and lease liabilities for leases of intangible assets, leases for which the underlying asset is of low value (“low-value leases”), and short-term leases within 12 months. Lease payments associated with low-value leases and short-term leases are recognized as an expense on either a straight-line basis over the lease term or another systematic basis.

(10) Employee Benefits

The Group participates in both defined benefit and defined contribution plans as employee retirement benefit plans.

① Defined Benefit Plans

For the Group's defined benefit plans, the cost of providing retirement benefits is measured by the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurements comprising actuarial gains and losses, the effect of any changes in the asset ceiling, and the return on plan assets (excluding net interest) are recognized through other comprehensive income in the period in which they are incurred and immediately reflected in the consolidated statement of financial position. Remeasurements recognized in other comprehensive income are immediately reclassified to retained earnings and will not be reclassified to profit or loss. Past service costs are recognized in profit or loss in the period in which revisions to the plans occurred. Net interest is calculated by applying the discount rate at the beginning of the reporting period to the net defined benefit liability or asset and presented as "finance income" or "finance costs." Defined benefit expenses are classified into the following components:

- Service costs (current service costs, past service costs, and others)
- Net interest expense or income
- Remeasurements

The retirement benefit assets or liabilities recognized in the consolidated statement of financial position represent the actual surplus or deficit in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of available future economic benefits in the form of refunds from the plan or reductions in future contributions to the plan.

② Defined Contribution Plans

Contributions paid for defined contribution plans are expensed in the period in which the employees provide the related service.

(11) Provisions

The Group recognizes provisions when it has a present obligation (legal or constructive) as a result of a past event, it is probable that it will be required to settle the obligation, and a reliable estimate can be made.

Where the time value of money is material, a provision is measured at the present value of estimated expenditures required to settle the obligation. The present value is computed using a pretax discount rate that reflects the time value of money and the risks inherent to the liabilities.

(12) Revenue

Revenue, excluding interest and dividend income, etc., is recognized by applying the following five steps:
Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

① Sale of Merchandise

For the sale of merchandise, revenue is recognized at the point when it is delivered since material risks and economic value associated with ownership of the merchandise are transferred to customers at the time of its delivery, and customers acquire control over it, and thereby, the Group's performance obligations are considered to be satisfied.
The revenue arising from sale of merchandise is calculated by deducting the amount of rebates and discounts based on the number and amount of sales from the consideration in the sales contract, and the consideration to be refunded to customers and the amounts to be collected on behalf of third parties are recognized as a refund liability. The most likely amount method based on contractual conditions and past results is used to estimate rebates, etc. Revenue is recognized only to the extent that it is highly probable that there will not be a significant reversal of revenue previously recognized.
Consideration related to sale of merchandise is mainly received within one year from the delivery of merchandise to customers. This does not include significant financing components.

② Royalty Revenue, etc.

Royalty revenue is consideration for license contracts, etc., calculated on the basis of revenue, etc., of the other parties in the contract, and it is recognized as revenue according to the sales of the other parties in the contract.
License revenue is up-front payment and milestone revenue received under license contracts, etc., related to development or rights to develop or sell products, etc., executed between the Group and third parties. For license contracts, etc., performance obligations under the contract are considered to be satisfied at the time of granting development or selling rights, etc., for up-front payment and milestone revenue, and at this point, the up-front payment and milestone revenue are recognized as revenue. When performance obligations are satisfied over a certain period of time, the consideration is recognized as contract liabilities, and up-front payment and milestone revenue are recognized as revenue over a certain period of time, such as the estimated development period according to the method of measuring the degree of progress regarding satisfaction of the performance obligations determined for each individual contract.
Milestone revenue is recognized as revenue, considering the probability that there will be a significant reversal of revenue previously recognized, from the time that milestones specified in the contract are achieved.
Royalty revenue, etc., are mainly received within one year from the vesting under the contract. This does not include significant financing components.

(13) Income Taxes

Income tax expense represents the sum of current tax expense and deferred tax expense.

Current tax expense is measured at the expected amount of a refund or payment of taxes from/to the taxation authorities. The Group's income taxes are calculated using tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. Current tax expense is recognized as an expense, except for the taxes attributable to items recognized directly either in other comprehensive income or equity.

Deferred tax expense is calculated based on temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax basis as of the closing date. Deferred income tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences and the carryforward of unused tax credits and tax losses can be utilized. Deferred tax liabilities are principally recognized for all taxable temporary differences.

Deferred tax assets or deferred tax liabilities are not recognized for the following temporary differences:

- Deductible temporary differences associated with investments in subsidiaries and associates where it is probable that the temporary differences will not reverse in the foreseeable future or it is not probable that taxable profits will be available against which the temporary differences can be used.

- Taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

- There are temporary differences arising from the initial recognition of assets and liabilities which occur through transactions that affect neither accounting profit nor taxable profit for tax purposes, except for business combinations.

Deferred tax assets and deferred tax liabilities are calculated using tax rates that are estimated for the year in which these assets are realized or these liabilities are settled, based on tax rates that have been enacted or substantively enacted by the closing date.

(14) Treasury Shares

Treasury shares are recognized at cost and deducted from equity. Neither gain nor loss is recognized on the purchase, sale, or retirement of the treasury shares. Any difference between the carrying amount and proceeds on sales is treated as capital reserve.

(15) Earnings per Share

Basic earnings per share are calculated by dividing profit and loss for the year attributable to owners of the Company by the weighted-average number of ordinary shares outstanding during the year, adjusted by the number of treasury shares for the period. Diluted earnings per share are calculated by adjusting the effects of all dilutive potential ordinary shares.

(16) Share-based Payments

The Company has a share option plan as an incentive plan for its board of directors (the “Board of Directors”) (excluding outside directors). Share options are recognized as expenses over the vesting period and the corresponding amount is recognized as an increase in equity. In addition, the fair value of share options is calculated using the Black-Scholes model at the grant date.

4. Significant Accounting Estimates and Critical Judgment Involving Estimations

The Group's consolidated financial statements include management estimates and assumptions for measurements of income and expense, and assets and liabilities. These estimates and assumptions are based on management's best judgment along with historical experience and other various factors that are believed to be reasonable under the circumstances as of the closing date. However, there is a possibility that these estimates and assumptions may differ from actual results in the future due to their nature.

The estimates and underlying assumptions are continually reevaluated by management. The effects of revisions to the accounting estimates and assumptions are recognized in the period of the revision and future periods.

The information related to the judgments and estimates made in the process of applying accounting policies and accounting estimates and assumptions that have a significant effect on the amounts recognized in the Group's consolidated financial statements is as follows:

(1) Impairment of intangible assets (patents and licences, etc.)
(Note 3(8)③, Note 14)

① Amounts recorded in the consolidated financial statement for the fiscal year ended March 31, 2022 are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Intangible assets (patents and licences, etc.)	¥ 60,599	¥ 56,702	$ 464,772

② Information on significant accounting estimates for the identified item:
For intangible assets, the Group determines whether there is any indication of impairment on each asset at the end of each reporting period. If any indication of impairment exists, each asset is tested for impairment. In addition, intangible assets with indefinite useful lives or intangible assets not yet available for use are tested for impairment at a certain time each fiscal year, regardless of whether there is any indication of impairment.

Impairment tests are performed by calculating the recoverable amount of each intangible asset and comparing the recoverable amount with its carrying amount. In cases where a recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.

The recoverable amount of an asset or a cash-generating unit is measured at the higher of its fair value less costs to sell or its value in use. The value in use is computed by discounting the estimated future cash flows to the present value. The value in use is calculated by using management assumptions such as forecasted sales quantities and discount rate.

The discount rate used is a pretax rate that reflects the time value of money and the risks inherent to the asset using unadjusted estimates of future cash flows.

There is a possibility that future events could change the assumptions used in the impairment test and therefore affect the Group’s future financial performance.

(2) Recoverability of deferred tax assets (Note 3(13), 16)

① Amounts recorded in the consolidated financial statement for the fiscal year ended March 31, 2022 are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Deferred tax assets	¥ 34,242	¥ 25,074	$ 205,523

② Information on significant accounting estimates for the identified item:

Regarding tax effects of temporary differences between the carrying amounts of assets and liabilities for accounting purposes and their tax basis, the Group recognizes deferred tax assets using the effective statutory tax rate applied to the temporary differences to the extent that the Group expects that taxable profit will be available against which the deferred tax assets can be recovered. The Group determines the possibility of taxable income based on reasonable estimates of the timing and amount of future taxable income that will be generated based on business plans, etc.

(3) Actuarial assumptions of defined benefit obligations (Note 3(10), 22)

① Amounts recorded in the consolidated financial statement for the fiscal year ended March 31, 2022 are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Retirement benefit assets	¥ 7	¥ 377	$ 3,087
Retirement benefit liabilities	3,056	3,322	27,226

② Information on significant accounting estimates for the identified item:

The Group has several retirement benefit plans, including defined benefit plans.

The present value of the defined benefit obligation and related service costs are calculated based on actuarial assumptions. Actuarial assumptions involve estimates and judgments about variables such as discount rates and net interest.

The Group has received advice from external pension actuaries with respect to the appropriateness of the actuarial assumptions including these variables. While actuarial assumptions are based on management's best estimates and judgment, they might be affected by the consequences of future uncertain economic conditions. If they need to be revised, the changes could significantly impact the amounts recognized in the consolidated financial statements.

(4) Potential outflow of future economic benefits of contingent liabilities (Note 38)

Please refer to "Note 38: Contingent Liabilities"

5. Standards and Interpretations Issued but Not Yet Applied

The Group has not elected early application of new or revised standards and interpretations that have been issued before the approval date disclosed in “39. Approval of Consolidated Financial Statements” on March 31, 2022. New or revised standards and interpretations that have been issued before the approval of consolidated financial statements and may affect the Group are as follows：

IFRS		Mandatory application (from the year beginning)	To be applied by the Group	Subject of new standard / amendment
IAS 12	Income Taxes	January 1, 2023	Fiscal year ending March 31, 2024	Amendment of exemption applied to initial recognition for deferred tax related to assets and liabilities

The Group is currently evaluating the potential impact of applying this standard on its consolidated financial statements and thereafter, and the extent of the impact is not yet determined.

6. Segment Information

(1) Reportable Segments

Based on the Group's corporate philosophy, "Dedicated to the Fight against Disease and Pain," in order to fulfill medical needs that have not yet been met, the Group is dedicated to developing innovative new pharmaceutical drugs for patients and focuses its operating resources on a single segment of the pharmaceutical business (research and development, purchasing, manufacturing, and sales). Accordingly, segment information is omitted herein.

(2) Details of Revenue

Details of revenue are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Revenue of goods and products	¥ 214,544	¥ 245,956	$ 2,016,033
Royalty and others	94,740	115,405	945,940
Total	¥ 309,284	¥ 361,361	$ 2,961,973

(3) Revenue by Geographic Area

Details of revenue by geographic area are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Japan	¥ 212,865	¥ 241,971	$ 1,983,367
Americas	85,566	105,890	867,950
Asia	7,446	8,895	72,910
Europe	3,407	4,605	37,746
Total	¥ 309,284	¥ 361,361	$ 2,961,973

Note: Revenue by geographic area is presented on the basis of the place of customers.

(4) Major Customers

Details of revenue from major customers are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Bristol-Myers Squibb Company and the group	¥ 65,470	¥ 79,490	$ 651,561
MEDIPAL HOLDINGS CORPORATION and the group	47,577	57,262	469,359
SUZUKEN CO., LTD. and the group	46,404	49,438	405,229
Alfresa Holdings Corporation and the group	34,422	37,665	308,733
TOHO HOLDINGS CO., LTD. and the group	32,596	36,119	296,059

7. Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
(Cash and cash equivalents)			
Cash and deposits	¥ 61,045	¥ 69,112	$566,495
Cash and cash equivalents in the consolidated statement of financial position	¥ 61,045	¥ 69,112	$566,495
Cash and cash equivalents in the consolidated statement of cash flows	¥ 61,045	¥ 69,112	$566,495

8. Trade and Other Receivables

Details of trade and other receivables are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Notes receivable	¥ 1,917	¥ 928	$ 7,608
Trade accounts receivable	74,090	92,701	759,848
Other accounts receivable	8,267	6,163	50,520
Allowance for doubtful accounts	(4)	(5)	(39)
Total	¥ 84,269	¥ 99,788	$ 817,937

Note: Credit risk management is described in “33. Financial Instruments.”

9. Marketable Securities and Investment Securities

(1) Details

Details of marketable securities and investment securities are as follows:

	Classification		*Millions of Yen* March 31, 2021	*Millions of Yen* March 31, 2022	*Thousands of U.S. Dollars* March 31, 2022
Marketable securities	Financial assets measured at amortized cost	Bonds	¥ 2,978	¥ 60	$ 492
	Total		¥ 2,978	¥ 60	$ 492
Investment securities	Financial assets measured at FVOCI	Stock	¥ 144,855	¥ 123,465	$ 1,012,011
	Financial assets measured at FVPL	Other	1,003	1,561	12,792
	Financial assets measured at amortized cost	Bonds	937	20	164
	Total		¥ 146,796	¥ 125,046	$ 1,024,967

Note: Stocks under the category of equity instruments are designated as financial assets measured at FVOCI because they are held to strengthen business relationships and for the purpose of increasing medium to long-term corporate value.

(2) Major Holdings of Issues and Fair Value

Major holdings of issues and the fair value of the financial assets measured at FVOCI include the following:

For the fiscal year ended March 31, 2021

Description	*Millions of Yen*
DAIKIN INDUSTRIES, LTD.	¥ 27,119
Santen Pharmaceutical Co., Ltd.	13,386
NISSIN FOODS HOLDINGS CO., LTD.	10,098
Nissan Chemical Corporation	10,075
MIURA CO., LTD.	6,259
Astellas Pharma Inc.	5,636
Kurita Water Industries Ltd.	5,161
Nippon Shinyaku Co., Ltd.	5,103
T&D Holdings, Inc.	4,828
Kikkoman Corporation	4,725
Yakult Honsha Co.,Ltd.	4,521
Meiji Holdings Co., Ltd.	4,310
Sumitomo Dainippon Pharma Co., Ltd.	4,139
SHIMADZU CORPORATION	3,681
HISAMITSU PHARMACEUTICAL CO., INC.	3,232
FUJIFILM Holdings Corporation	2,619
Otsuka Holdings Co., Ltd.	2,199
CKD Corporation	2,134
KISSEI PHARMACEUTICAL CO., LTD.	2,073
Alfresa Holdings Corporation	2,023
FUJIMOTO CHEMICALS CO., LTD.	1,952
SUZUKEN CO., LTD.	1,869
KYORIN Holdings, Inc.	1,861
KOKUYO Co.,Ltd.	1,592
MEDIPAL HOLDINGS CORPORATION	1,541
Mitsubishi Logistics Corporation	966
OSAKA SODA CO., LTD.	923
Toppan Inc.	858
TOHO HOLDINGS CO., LTD.	811
NIHON KOHDEN CORPORATION	777

For the fiscal year ended March 31, 2022

Description	*Millions of Yen*	*Thousands of U.S. Dollars*
DAIKIN INDUSTRIES, LTD.	¥ 19,060	$ 156,227
Nissan Chemical Corporation	9,749	79,909
Santen Pharmaceutical Co., Ltd.	9,516	78,000
NISSIN FOODS HOLDINGS CO., LTD.	8,433	69,122
Astellas Pharma Inc.	6,328	51,870
Kikkoman Corporation	5,829	47,780
T&D Holdings, Inc.	5,658	46,377
Yakult Honsha Co.,Ltd.	5,264	43,150
Nippon Shinyaku Co., Ltd.	5,165	42,333
SHIMADZU CORPORATION	3,892	31,901
MEIJI Holdings Co., Ltd.	3,524	28,889
Kurita Water Industries Ltd.	3,296	27,017
MIURA CO., LTD.	3,013	24,695
Sumitomo Dainippon Pharma Co., Ltd. (*)	2,595	21,270
KISSEI PHARMACEUTICAL CO., LTD.	2,162	17,723
FUJIMOTO CHEMICALS CO., LTD.	2,099	17,203
Otsuka Holdings Co., Ltd.	1,985	16,272
CKD Corporation	1,744	14,292
KYORIN Holdings, Inc.	1,715	14,056
HISAMITSU PHARMACEUTICAL CO., INC.	1,641	13,449
Alfresa Holdings Corporation	1,612	13,211
SUZUKEN CO., LTD.	1,568	12,855
FUJIFILM Holdings Corporation	1,551	12,717
KOKUYO Co.,Ltd.	1,418	11,624
MEDIPAL HOLDINGS CORPORATION	1,462	11,980
OSAKA SODA CO., LTD.	1,094	8,965
Toppan Inc.	994	8,147
NIPPON FINE CHEMICAL CO., LTD.	874	7,165
Mitsubishi Logistics Corporation	868	7,114
Mitsubishi UFJ Financial Group, Inc.	853	6,992

(*) The company changed its trade name to “Sumitomo Pharma Co., Ltd.” on April 1, 2022.

(3) Dividends Received

Dividends received from the financial assets measured at FVOCI are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Stock held at year-end	¥ 2,117	¥ 2,113	$ 17,323
Stock disposed during the year	283	202	1,657
Total	¥ 2,400	¥ 2,316	$ 18,980

(4) Financial Assets Measured at FVOCI Disposed During the Year

Fair value at the date of sale of financial assets measured at FVOCI that were disposed during the year and cumulative (pretax) gains or losses are as follows:

	Millions of Yen				*Thousands of U.S. Dollars*	
	For the year ended March 31, 2021		For the year ended March 31, 2022		For the year ended March 31, 2022	
	Fair value at the date of sale	Cumulative gains or losses	Fair value at the date of sale	Cumulative gains or losses	Fair value at the date of sale	Cumulative gains or losses
Stock	¥ 13,406	¥ 4,870	¥ 18,416	¥ 14,100	$ 150,954	$ 115,572

Notes: 1. The Group sold the investments as a result of a reconsideration of its business relationships.

2. Cumulative gains or losses (after tax) that the Group transferred from other components of equity to retained earnings are ¥ 3,425 million and ¥ 9,789 million ($ 80,239 thousand) for the years ended March 31, 2021 and 2022, respectively.

10. Other Financial Assets

Details of other financial assets are as follows:

	Classification	Millions of Yen		Thousands of U.S. Dollars
		March 31, 2021	March 31, 2022	March 31, 2022
(Current assets)				
Time deposits	Financial assets measured at amortized cost	¥ 40,952	¥ 47,797	$ 391,777
	Total	¥ 40,952	¥ 47,797	$ 391,777
(Non-current assets)				
Long-term time deposits	Financial assets measured at amortized cost	¥ 125,000	¥ 120,000	$ 983,607
Insurance reserve fund	Financial assets measured at FVPL	6,888	7,302	59,857
	Total	¥ 131,888	¥ 127,302	$ 1,043,463

11. Other Assets

Details of other current assets and other non-current assets are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2021	March 31, 2022	March 31, 2022
(Other current assets)			
Prepaid expenses	¥ 10,003	¥ 10,952	$ 89,772
Advance payments	2,416	2,500	20,492
Others	6,827	9,240	75,738
Total	¥ 19,246	¥ 22,692	$ 186,001
(Other non-current assets)			
Lease deposits	¥ 873	¥ 831	$ 6,813
Long-term prepaid expenses	655	413	3,388
Others	1,062	1,920	15,740
Total	¥ 2,590	¥ 3,165	$ 25,940

12. Inventories

Details of inventories are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Merchandise and finished goods	¥ 19,628	¥ 20,088	$ 164,659
Work in process	5,548	5,385	44,139
Raw materials and supplies	13,975	16,343	133,961
Total	¥ 39,151	¥ 41,817	$ 342,760

Note: Inventories recognized as an expense for the years ended March 31, 2021 and 2022, amounted to ¥45,314 million and ¥50,762 million ($416,082 thousand), respectively. In addition, the write-downs of inventories recognized as an expense for the years ended March 31, 2021 and 2022, were ¥684 million and ¥430 million ($3,522 thousand), respectively.

13. Property, Plant, and Equipment

(1) Schedule of Movements

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

Cost

	Millions of Yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at April 1, 2020	¥ 31,010	¥ 112,589	¥ 27,845	¥ 28,113	¥ 3,835	¥ 203,393
Acquisition	308	3,456	370	1,748	3,493	9,376
Transfer	–	1,915	693	196	(2,805)	–
Sale or disposal	(207)	(2,648)	(205)	(1,730)	–	(4,791)
Exchange differences on translation of foreign operations	–	168	–	21	31	219
Other	–	–	–	–	(425)	(425)
Balance at March 31, 2021	¥ 31,112	¥ 115,480	¥ 28,703	¥ 28,347	¥ 4,130	¥ 207,772
Acquisition	242	2,977	705	2,162	4,383	10,469
Transfer	–	2,512	1,326	1,012	(4,849)	–
Sale or disposal	(185)	(1,114)	(472)	(2,233)	–	(4,005)
Exchange differences on translation of foreign operations	–	320	–	25	13	358
Other	–	–	–	–	(1,676)	(1,676)
Balance at March 31, 2022	¥ 31,168	¥ 120,175	¥ 30,263	¥ 29,313	¥ 2,001	¥ 212,919

	Thousands of U.S. Dollars					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2021	$ 255,012	$ 946,557	$ 235,272	$ 232,356	$ 33,854	$ 1,703,051
Acquisition	1,984	24,401	5,780	17,719	35,928	85,811
Transfer	–	20,587	10,869	8,292	(39,748)	–
Sale or disposal	(1,520)	(9,133)	(3,867)	(18,306)	–	(32,826)
Exchange differences on translation of foreign operations	–	2,626	–	206	104	2,936
Other	–	–	–	–	(13,738)	(13,738)
Balance at March 31, 2022	$ 255,476	$ 985,038	$ 248,053	$ 240,267	$ 16,400	$ 1,745,234

Accumulated depreciation and accumulated impairment losses

	Millions of Yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at April 1, 2020	¥ (268)	¥ (54,264)	¥ (15,439)	¥ (18,795)	¥ –	¥ (88,766)
Depreciation	(291)	(5,818)	(1,504)	(1,878)	–	(9,491)
Impairment losses	–	–	(2)	–	–	(2)
Sale or disposal	40	2,480	192	1,706	–	4,418
Exchange differences on translation of foreign operations	–	(49)	–	(17)	–	(66)
Balance at March 31, 2021	¥ (519)	¥ (57,651)	¥ (16,752)	¥ (18,983)	¥ –	¥ (93,906)
Depreciation	(285)	(5,877)	(1,555)	(2,188)	–	(9,906)
Impairment losses	(95)	–	(221)	–	–	(316)
Sale or disposal	68	785	440	2,136	–	3,430
Exchange differences on translation of foreign operations	–	(76)	–	(13)	–	(89)
Balance at March 31, 2022	¥ (831)	¥ (62,819)	¥ (18,088)	¥ (19,049)	¥ –	¥ (100,787)

	Thousands of U.S. Dollars					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2021	$ (4,251)	$ (472,553)	$ (137,315)	$ (155,601)	$ –	$ (769,720)
Depreciation	(2,339)	(48,172)	(12,746)	(17,936)	–	(81,193)
Impairment losses	(779)	–	(1,812)	–	–	(2,590)
Sale or disposal	557	6,436	3,609	17,509	–	28,111
Exchange differences on translation of foreign operations	–	(623)	–	(109)	–	(732)
Balance at March 31, 2022	$ (6,811)	$ (514,911)	$ (148,264)	$ (156,138)	$ –	$ (826,125)

Carrying amount

	Millions of Yen					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at April 1, 2020	¥ 30,743	¥ 58,325	¥ 12,406	¥ 9,318	¥ 3,835	¥ 114,628
Balance at March 31, 2021	30,593	57,829	11,951	9,364	4,130	113,866
Balance at March 31, 2022	30,337	57,355	12,174	10,264	2,001	112,131

	Thousands of U.S. Dollars					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2022	$ 248,664	$ 470,127	$ 99,790	$ 84,129	$ 16,400	$ 919,110

Notes: 1. Depreciation of property, plant, and equipment is included in “Cost of sales”, “Selling, general, and administrative expenses”, and “Research and development costs” in the consolidated statement of income.

2. The amounts of right-of-use assets are included in each item of property, plant, and equipment. The carrying amount of each right-of-use asset is described in “20. Leases.”

3. Commitments related to property, plant, and equipment purchases are described in “37. Commitments for Expenditure.”

(2) Impairment Losses

Property, plant, and equipment are grouped into the smallest cash-generating unit(s) generating largely independent cash inflows.

The Group recognized impairment losses for property, plant, and equipment of ¥2 million and ¥316 million ($2,590 thousand) for the years ended March 31, 2021 and 2022, respectively, which are included in “Other expenses” in the consolidated statement of income.

Impairment losses recognized for the years ended March 31, 2021 and 2022, represent reductions in the carrying amounts of assets to be disposed of and idle assets not expected to be used in the future to their recoverable amounts. The recoverable amounts were measured at fair value less costs to sell. The recoverable amounts of assets to be disposed of were considered to be zero.

14. Intangible Assets

(1) Schedule of Movements

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

Cost

	Millions of Yen			
	Patents and licenses	Software	Others	Total
Balance at March 31, 2020	¥ 74,475	¥ 15,037	¥ 1,302	¥ 90,814
Change in accounting policy	–	(2,685)	–	(2,685)
Balance at April 1, 2020	¥ 74,475	¥ 12,352	¥ 1,302	¥ 88,129
Acquisition	10,233	839	1,655	12,727
Transfer	–	1,148	(1,148)	–
Disposal	(2,500)	(528)	(6)	(3,034)
Exchange differences on translation of foreign operations	–	3	–	3
Other	–	–	(136)	(136)
Balance at March 31, 2021	¥ 82,208	¥ 13,814	¥ 1,668	¥ 97,690
Acquisition	5,110	1,044	1,453	7,607
Transfer	–	1,563	(1,563)	–
Disposal	–	(1,319)	(11)	(1,330)
Exchange differences on translation of foreign operations	–	6	–	6
Other	–	–	(178)	(178)
Balance at March 31, 2022	¥ 87,319	¥ 15,107	¥ 1,370	¥ 103,796

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2021	$ 673,838	$ 113,227	$ 13,675	$ 800,741
Acquisition	41,889	8,557	11,906	62,351
Transfer	–	12,808	(12,808)	–
Disposal	–	(10,813)	(88)	(10,900)
Exchange differences on translation of foreign operations	–	47	–	47
Other	–	–	(1,456)	(1,456)
Balance at March 31, 2022	$ 715,727	$ 123,826	$ 11,230	$ 850,783

Accumulated amortization and accumulated impairment losses

	Millions of Yen			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2020	¥ (17,130)	¥ (6,856)	¥ (392)	¥ (24,378)
Change in accounting policy	–	648	–	648
Balance at April 1, 2020	¥ (17,130)	¥ (6,208)	¥ (392)	¥ (23,731)
Amortization	(4,674)	(1,656)	(1)	(6,331)
Disposal	2,500	464	1	2,965
Impairment losses	(2,305)	–	–	(2,305)
Exchange differences on translation of foreign operations	–	(3)	–	(3)
Other	–	–	–	–
Balance at March 31, 2021	¥ (21,609)	¥ (7,403)	¥ (393)	¥ (29,405)
Amortization	(5,919)	(1,896)	(1)	(7,816)
Disposal	–	1,251	–	1,251
Impairment losses	(3,088)	–	–	(3,088)
Exchange differences on translation of foreign operations	–	(3)	–	(3)
Other	–	–	–	–
Balance at March 31, 2022	¥ (30,617)	¥ (8,051)	¥ (394)	¥ (39,062)

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2021	$ (177,126)	$ (60,680)	$ (3,221)	$ (241,027)
Amortization	(48,514)	(15,538)	(12)	(64,064)
Disposal	–	10,256	–	10,256
Impairment losses	(25,315)	–	–	(25,315)
Exchange differences on translation of foreign operations	–	(28)	–	(28)
Other	–	–	–	–
Balance at March 31, 2022	$ (250,955)	$ (65,990)	$ (3,233)	$ (320,178)

Carrying amount

	Millions of Yen			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2020	¥ 57,345	¥ 8,181	¥ 910	¥ 66,436
Change in Accounting Policy	–	(2,037)	–	(2,037)
Balance at April 1, 2020	¥ 57,345	¥ 6,144	¥ 910	¥ 64,399
Balance at March 31, 2021	60,599	6,411	1,275	68,285
Balance at March 31, 2022	¥ 56,702	¥ 7,056	¥ 976	¥ 64,734

	Thousands of U.S. Dollars			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2022	$ 464,772	$ 57,836	$ 7,997	$ 530,605

Notes: 1. Amortization of intangible assets is included in “Cost of sales”, “Selling, general, and administrative expenses”, and “Research and development costs” in the consolidated statement of income.

2. Among the intangible assets above, intangible assets that are still not available for use amounted to ¥20,201 million and ¥10,958 million ($89,819 thousand) as of March 31, 2021 and 2022, respectively. These mainly consist of separately acquired in-process research and development costs recorded in “Patents and licenses,” which are still in research and development phases, and accordingly, they are not in a condition for available for use until the phase where marketing approvals have been obtained from the related authorities and they are finally made into products.

3. Commitments related to intangible asset purchases are described in “37. Commitments for Expenditure.”

4. The Group has changed the accounting policy for configuration or customization costs in cloud computing agreements. This change in accounting policy has been applied retrospectively to related accounts for the previous fiscal year.

(2) Individually Significant Intangible Assets

① Details and Carrying Amounts

Details of significant intangible assets and their carrying amounts are as follows:

		Millions of Yen		*Thousands of U.S. Dollars*
Item	Details	March 31, 2021	March 31, 2022	March 31, 2022
Patents and licenses	In-process research and development costs acquired separately	¥ 19,322	¥ 10,367	$ 84,973
	Sales licenses	41,277	46,335	379,799
	Total	¥ 60,599	¥ 56,702	$464,772

Note: Major items of in-process research and development costs acquired separately and sales licenses consisting of lump-sum payments for introductions and milestone payments to licensors are as follows:

	March 31, 2021	March 31, 2022
In-process research and development costs acquired separately	ONO-7643/Anamorelin	ONO-7912(CPI-613) /Devimistat
	ONO-7701（BMS-986205）/Linrodostat	ONO-7913/Magrolimab
	ONO-5704/SI-613	ONO-2017/Cenobamate
	ONO-7912(CPI-613) /Devimistat	RBN-2397
	ONO-7913/Magrolimab	
	Cenobamate	
	RBN-2397	
Sales licenses	FORXIGA	FORXIGA
	KYPROLIS	KYPROLIS
	PARSABIV	PARSABIV
	BRAFTOVI, MEKTOVI	BRAFTOVI, MEKTOVI
	CORALAN	CORALAN
	ONGENTYS	ONGENTYS
		ADLUMIZ
		JOYCLU

② Remaining Amortization Period

The average remaining amortization periods of significant intangible assets are as follows:

Item	Details	March 31, 2021	March 31, 2022
Patents and licenses	Sales licenses (years)	9.0	8.0

(3) Impairment Losses

For intangible assets, the Group determines whether there is any indication of impairment on each asset at the end of each reporting period. If any indication of impairment exists, each asset is tested for impairment. In addition, intangible assets with indefinite useful lives or intangible assets not yet available for use are tested for impairment at a certain time each fiscal year, regardless of whether there is any indication of impairment.
Impairment tests are performed by calculating the recoverable amount of each intangible asset and comparing the recoverable amount with its carrying amount. In cases where a recoverable amount of an individual asset cannot be estimated, the recoverable amount of the cash-generating unit to which the asset belongs is estimated.
The recoverable amount of an asset or a cash-generating unit is measured at the higher of its fair value less costs to sell or its value in use. The value in use is computed by discounting the estimated future cash flows to the present value. The value in use is calculated by using management assumptions such as forecasted sales quantities and discount rate.
The discount rate used is a pretax rate that reflects the time value of money and the risks inherent to the asset using unadjusted estimates of future cash flows.
The Group's discount rate used in calculating the value in use is calculated based on the weighted-average cost of capital, and the pre-tax discount rate is from 7.2% to 12.0% for the years ended March 31, 2021 and from 7.7% to 10.3% for the years ended March 31, 2022, respectively.

As a result of impairment testing, the Group recognized impairment losses of ¥2,305 million for sales licences and in-process research and development costs for the years ended March 31, 2021 and ¥3,088 million ($25,315 thousand) for in-process research and development costs for the years ended March 31, 2022, respectively. Impairment losses on sales licenses present reductions in the carrying amounts to the recoverable amounts due to decreased profitability, and the recoverable amounts are calculated based on value in use of the licenses. Impairment losses on in-process research and development costs are recognized due to the discontinuation of new drug development. Impairment losses on sales licenses are included in "Cost of sales" in the consolidated statement of income and impairment losses on in-process research and development costs are included in "Research and development costs", respectively.

15. Investments in Associates

Aggregate financial information of equity-method investees is summarized as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Profit (loss) from continuing operations attributable to the Group	¥ 4	¥ (6)	$ (47)
Other comprehensive income (loss) attributable to the Group	3	2	13
Total comprehensive income (loss) attributable to the Group	¥ 6	¥ (4)	$ (35)

Note: There are no quoted stock prices available for associates.

16. Income Taxes

(1) Deferred Income Taxes

Amounts of deferred tax assets and deferred tax liabilities at each consolidated fiscal year end are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Deferred tax assets	¥ 34,242	¥ 25,074	$ 205,523
Deferred tax liabilities	1,052	1,009	8,273
Net	¥ 33,190	¥ 24,064	$ 197,250

Details and movements of deferred tax assets and deferred tax liabilities by major sources are as follows:

For the year ended March 31, 2021

	Millions of Yen					
	Balance at March 31, 2020	Changes in Accounting Policies	Restated balance at April 1,2020	Recognized in profit or loss	Recognized in other comprehensive income (loss)	Balance at March 31, 2021
Deferred tax assets						
Accrued bonuses	¥ 1,730	¥ –	¥ 1,730	¥ 37	¥ –	¥ 1,768
Accrued enterprise tax	1,087	–	1,087	250	–	1,337
Expenses for research and development commissions and others	41,107	–	41,107	3,961	–	45,068
Investment securities	33	–	33	(10)	–	23
Property, plant, and equipment	2,306	–	2,306	(80)	–	2,226
Intangible assets	61	438	500	6	–	506
Retirement benefit liabilities	3,806	–	3,806	123	(1,045)	2,884
Other accounts payable	1,817	–	1,817	502	–	2,319
Provision for patent royalties	6,341	–	6,341	–	–	6,341
Others	5,664	–	5,664	859	–	6,523
Total	¥ 63,953	¥ 438	¥ 64,391	¥ 5,650	¥ (1,045)	¥ 68,996
Deferred tax liabilities						
Property, plant, and equipment	¥ (4,138)	¥ –	¥ (4,138)	¥ (234)	¥ –	¥ (4,372)
Intangible assets	(2,755)	185	(2,570)	(10)	–	(2,580)
Investment securities	(23,302)	–	(23,302)	(35)	(5,516)	(28,854)
Others	(0)	–	(0)	0	–	–
Total	¥ (30,195)	¥ 185	¥ (30,010)	¥ (279)	¥ (5,516)	¥ (35,806)
Net	¥ 33,758	¥ 623	¥ 34,381	¥ 5,371	¥ (6,561)	¥ 33,190

For the year ended March 31, 2022

	Millions of Yen			
	Balance at April 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income (loss)	Balance at March 31, 2022
Deferred tax assets				
Accrued bonuses	¥ 1,768	¥ 18	¥ –	¥ 1,785
Accrued enterprise tax	1,337	(1,081)	–	256
Expenses for research and development commissions and others	45,068	(10,348)	–	34,720
Investment securities	23	(23)	–	–
Property, plant, and equipment	2,226	32	–	2,258
Intangible assets	506	(182)	–	324
Retirement benefit liabilities	2,884	75	(88)	2,871
Other accounts payable	2,319	1,152	–	3,471
Provision for patent royalties	6,341	(6,341)	–	–
Others	6,523	1,017	–	7,540
Total	¥ 68,996	¥ (15,682)	¥ (88)	¥ 53,226
Deferred tax liabilities				
Property, plant, and equipment	¥ (4,372)	¥ 124	¥ –	¥ (4,248)
Intangible assets	(2,580)	1,228	–	(1,352)
Investment securities	(28,854)	30	5,262	(23,561)
Others	–	–	–	–
Total	¥ (35,806)	¥ 1,382	¥ 5,262	¥ (29,161)
Net	¥ 33,190	¥ (14,300)	¥ 5,174	¥ 24,064

	Thousands of U.S. Dollars			
	Balance at April 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income (loss)	Balance at March 31, 2022
Deferred tax assets				
Accrued bonuses	$ 14,490	$ 144	$ –	$ 14,634
Accrued enterprise tax	10,962	(8,865)	–	2,098
Expenses for research and development commissions and others	369,409	(84,817)	–	284,592
Investment securities	191	(191)	–	–
Property, plant, and equipment	18,247	259	–	18,507
Intangible assets	4,149	(1,491)	–	2,657
Retirement benefit liabilities	23,640	612	(720)	23,532
Other accounts payable	19,012	9,442	–	28,454
Provision for patent royalties	51,973	(51,973)	–	–
Others	53,467	8,337	–	61,804
Total	$ 565,540	$ (128,542)	$ (720)	$ 436,277
Deferred tax liabilities				
Property, plant, and equipment	$ (35,833)	$ 1,015	$ –	$ (34,818)
Intangible assets	(21,151)	10,066	–	(11,086)
Investment securities	(236,505)	249	43,132	(193,124)
Others	–	–	–	–
Total	$ (293,489)	$ 11,329	$ 43,132	$ (239,028)
Net	$ 272,051	$ (117,213)	$ 42,412	$ 197,250

Notes: 1. The differences between deferred tax expense and the amount recognized in profit or loss are exchange differences on translation of foreign operations and others.

2. The effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities as of March 31, 2021 and 2022 in Japan is 30.6%.

3. Taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities were not recognized, amounted to ¥4,098 million and ¥5,436 million ($44,557 thousand) as of March 31, 2021 and 2022, respectively. This is because the Group is able to control the timing of the reversal of the temporary differences, and it is certain that the temporary differences will not reverse in the foreseeable future.

4. The Group has changed the accounting policy for configuration or customization costs in cloud computing agreements. This change in accounting policy has been applied retrospectively to related accounts for the previous fiscal year.

(2) Income Tax Expense

Details of income tax expense are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Current tax expense	¥ 30,736	¥ 10,018	$ 82,112
Deferred tax expense	(5,344)	14,323	117,400
Total	¥ 25,392	¥ 24,340	$ 199,511

Note: The Group is subject to corporate tax, inhabitant tax, and enterprise tax in Japan, which in the aggregate resulted in an applicable tax rate for current tax expense of 30.6% for the years ended March 31, 2021 and 2022. Overseas subsidiaries use the income tax rates of the countries in which they are located.

(3) Reconciliation of Applicable Tax Rates and Average Actual Tax Rates

Details of the differences between the applicable tax rates and average actual tax rates are as follows:

	For the year ended March 31, 2021	For the year ended March 31, 2022
Applicable tax rates	30.6 %	30.6 %
Permanent non-deductible items	0.2	0.2
Non-taxable dividends	(0.1)	(0.1)
Tax credit for research and development, etc.	(6.2)	(7.7)
Others	0.7	0.2
Average actual tax rates	25.2 %	23.2 %

Note: The applicable tax rates used to reconcile the applicable tax rates and average actual tax rates are the Company's effective statutory tax rates.

17. Trade and Other Payables

Details of trade and other payables are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Notes payable	¥ 390	¥ 436	$ 3,573
Trade accounts payable	7,250	8,555	70,124
Other accounts payable	29,161	37,436	306,852
Refund liabilities	2,362	3,262	26,734
Total	¥ 39,163	¥ 49,689	$ 407,283

18. Other Financial Liabilities

Details of other financial liabilities are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Current liabilities			
Dividends payable	¥ 97	¥ 112	$ 922
Deposits received	331	320	2,623
Other	188	283	2,323
Total	¥ 616	¥ 716	$ 5,868
Non-current liabilities			
Other	¥ 0	¥ 0	$ 3
Total	¥ 0	¥ 0	$ 3

19. Assets Pledged as Collateral

Assets pledged as collateral are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Other current assets	¥ 6,500	¥ 6,500	$ 53,279

Note: These were pledged as collateral for the deferred payment arrangements of customs duties and consumption taxes related to import transactions based on the Customs Act of Japan and the Consumption Tax Act of Japan.

20. Leases

(1) Right-of-use assets

Right-of-use assets are included in "Property, plant, and equipment" in the consolidated statement of financial position.

The main areas of leases that the Group has entered into are for offices, parking lots, and cars. Certain lease contracts include renewal options. The lease contracts do not include purchase options, variable lease payments, or escalation clauses. There are no restrictions, such as additional borrowings and additional lease contracts, in the contracts.

Information on leases that the Group has entered into as a lessee is as follows:

	Millions of Yen				
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at April 1, 2020	¥ 1,804	¥ 5,123	¥ 1,372	¥ 35	¥ 8,334
Acquisition	308	2,639	193	2	3,142
Depreciation	(283)	(1,789)	(451)	(22)	(2,545)
Other	(167)	(8)	(3)	0	(177)
Balance at March 31, 2021	¥ 1,663	¥ 5,965	¥ 1,110	¥ 16	¥ 8,754
Acquisition	242	1,689	515	70	2,517
Depreciation	(277)	(1,785)	(445)	(34)	(2,541)
Other	(117)	(107)	(23)	0	(247)
Balance at March 31, 2022	¥ 1,510	¥ 5,762	¥ 1,158	¥ 52	¥ 8,482

	Thousands of U.S. Dollars				
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at March 31, 2021	$ 13,629	$ 48,890	$ 9,101	$ 131	$ 71,751
Acquisition	1,984	13,848	4,224	575	20,631
Depreciation	(2,270)	(14,629)	(3,650)	(280)	(20,829)
Other	(963)	(878)	(188)	1	(2,027)
Balance at March 31, 2022	$ 12,380	$ 47,230	$ 9,488	$ 428	$ 69,526

(2) Lease liabilities

The maturity analysis of lease liabilities of the Group is described in “33. Financial Instruments (4) Liquidity Risk Management.”

(3) Profit or loss related to right-of-use assets

The amount recognized in profit or loss is as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Depreciation for right-of-use assets	¥ 2,545	¥ 2,541	$ 20,829

Note: The interest expenses on lease liabilities are described in “30. Finance Income and Finance Costs.”

(4) Amount recognized in the consolidated statement of cash flows

The amount recognized in the consolidated statement of cash flows is as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Total cash outflow for leases	¥ 3,646	¥ 4,003	$ 32,814

21. Other Liabilities

Details of other current liabilities and other non-current liabilities are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Other current liabilities			
Accrued consumption taxes	¥ 1,757	¥ 758	$ 6,216
Accrued salary and bonus	5,915	6,131	50,252
Accrued compensated vacation	3,002	3,202	26,247
Accrued expenses	1,476	1,491	12,225
Others	13	111	910
Total	¥ 12,163	¥ 11,694	$ 95,849
Other non-current liabilities			
Compensated long-service benefit obligations	¥ 636	¥ 584	$ 4,783
Others	177	188	1,537
Total	¥ 813	¥ 771	$ 6,320

22. Retirement Benefits

The Group has defined benefit corporate pension plans and lump-sum payment plans for its defined benefit schemes. Effective October 1, 2004, the Company introduced a new defined benefit corporate pension plan combining the defined benefit corporate pension plan (formerly additional pensions under employees' pension fund plan) and a tax-qualified pension plan, and granted employees the option to select a defined contribution plan for certain lump-sum payment plans. In addition, the Company has set up a retirement benefit trust in order to supplement funding deficits in benefit obligations.

Further, three overseas subsidiaries have defined contribution plans, and one overseas subsidiary has a lump-sum payment plan. Two domestic subsidiaries participate in corporate pension fund plans (multiemployer pension plans) in addition to lump-sum payment plans.

The Group calculates the present value of defined benefit obligations and related service costs based on actuarial assumptions. The actuarial assumptions require estimates and judgments on variables, such as discount rates and net interest, etc. With advice obtained from external pension actuaries with respect to the appropriateness of the actuarial assumptions including the variables, the actuarial assumptions are determined based on the best estimates and judgments made by management; however, changes in uncertain future economic conditions may have a material impact on the future performance of the Group.

(1) Defined Benefit Plans

① Defined Benefit Plan Liabilities and Assets

Details of defined benefit plan liabilities and assets in the consolidated statement of financial position are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Funded type			
Defined benefit obligations	¥ 50,309	¥ 50,680	$ 415,409
Fair value of plan assets (including retirement benefit trust)	(48,074)	(49,429)	(405,157)
Effect of asset ceiling	–	924	7,576
Subtotal	2,234	2,175	17,828
Unfunded type			
Defined benefit obligations	815	770	6,311
Subtotal	815	770	6,311
Net defined benefit liabilities (assets)	¥ 3,049	¥ 2,945	$ 24,139
Retirement benefit liabilities stated in the consolidated statement of financial position	¥ 3,056	¥ 3,322	$ 27,226
Retirement benefit assets stated in the consolidated statement of financial position	¥ (7)	¥ (377)	$ (3,087)

② Obligations under Defined Benefit Plans

Movements in the defined benefit obligations are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Opening balance of defined benefit obligations	¥ 51,583	¥ 51,124	$ 419,046
Service cost	2,446	2,416	19,806
Interest expense	322	376	3,080
Remeasurements			
Actuarial losses (gains) due to changes in financial assumptions	(1,031)	(1,314)	(10,768)
Others	(602)	678	5,561
Benefits paid	(1,595)	(1,733)	(14,203)
Others	–	(98)	(801)
Closing balance of defined benefit obligations	¥ 51,124	¥ 51,450	$ 421,720

Notes: 1. The weighted-average payment years for the defined benefit obligations were 16.6 years and 15.8 years as of March 31, 2021 and 2022, respectively.

2. Remeasurements of defined benefit plans are the differences between the actuarial assumptions used for the calculation of “Defined benefit liabilities” and actual amount, and the impact of changes in actuarial assumptions.

③ Plan Assets

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

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Opening balance of fair value of plan assets	¥ 45,535	¥ 48,074	$ 394,052
Interest income	289	361	2,962
Remeasurements			
Return on plan assets	1,782	576	4,723
Contributions from employers	1,599	1,619	13,270
Benefits paid	(1,131)	(1,202)	(9,849)
Closing balance of fair value of plan assets	¥ 48,074	¥ 49,429	$ 405,157

Note: The Group expects to make contributions of ¥1,607 million ($13,171 thousand) to the defined benefit corporate pension plans in the year ending to March 31, 2022.

The fair value of plan assets classified by nature of assets and risks is as follows:

	Millions of Yen						Thousands of U.S. Dollars		
	March 31, 2021			March 31, 2022			March 31, 2022		
	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total
Equity instruments									
Domestic equity instruments	¥ 2,873	¥ –	¥ 2,873	¥ 3,038	¥ –	¥ 3,038	$ 24,900	$ –	$ 24,900
Overseas equity instruments	2,580	–	2,580	2,669	–	2,669	21,873	–	21,873
Debt instruments									
Domestic debt instruments	–	2,962	2,962	–	3,225	3,225	–	26,431	26,431
Overseas debt instruments	–	1,929	1,929	–	1,867	1,867	–	15,303	15,303
Life insurance general accounts	–	30,982	30,982	–	31,722	31,722	–	260,014	260,014
Others	–	6,747	6,747	–	6,910	6,910	–	56,635	56,635
Total	¥ 5,454	¥42,621	¥48,074	¥ 5,706	¥43,723	¥49,429	$ 46,773	$ 358,384	$ 405,157

The Group's operating policy for plan assets is as follows:

The Group's basic policy for plan asset management aims to secure necessary long-term returns within a tolerable risk level in order to ensure future payment of pension benefits and lump-sum payments stipulated in the terms of defined benefit corporate pension plans.

A target rate of return is set aiming to exceed the rate of return necessary for maintaining sound operations of the defined benefit corporate pension plans over the future, specifically higher than the expected rate of return for pension financing.

In order to meet this return target, the asset portfolio is verified by both the Company and the investment management institutions to be in conformity with the basic policy. In addition, the composition of the asset portfolio is reviewed as necessary.

The basic policy is subject to change in accordance with changes in the Group's status and systems or operating environment surrounding the Group.

④ Effect of Asset Ceiling

When the defined benefit plan has a surplus, the defined benefit asset is limited to the asset ceiling, which is the present value of future economic benefits available in the form of refunds from the defined benefit plan or reductions in future contributions to the plan.

Movements in the effect of the asset ceiling are as follows.

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Effect at the beginning of the year	¥ —	¥ —	$ —
Remeasurement of defined benefit plan			
Change in effect of asset ceiling	—	924	7,576
Effect at the end of the year	¥ —	¥ 924	$ 7,576

⑤ Profit and Loss on Defined Benefit Plans

Profit and loss on defined benefit plans for each fiscal year recognized in the consolidated statement of income are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Service costs	¥ 2,446	¥ 2,416	$ 19,806
Net interest	33	14	118
Expenses recognized in the consolidated statement of income	¥ 2,479	¥ 2,431	$ 19,924

Note: Among the above expenses, service costs are included in “Cost of sales,” “Selling, general, and administrative expenses,” and “Research and development costs,” and net interest is included in “Finance income” or “Finance costs.”

⑥ Significant Actuarial Assumptions

Significant actuarial assumptions are as follows:

	March 31, 2021	March 31, 2022
Discount rate (%)	0.8	0.9
Expected rate of salary increase (%)	2.8	2.7
Expected average remaining lives of current pensioners at age 60 at fiscal year end (years)	25.5	26.7
Expected average remaining lives, from age 60, of future pensioners at age 40 at fiscal year end (years)	27.0	28.1

⑦ Sensitivity Analysis

The sensitivity analysis represents the effects of changes in significant actuarial assumptions on the present value of the defined benefit obligations. The effects of any changes in assumptions on the defined benefit obligations are as follows:

		Millions of Yen				*Thousands of U.S. Dollars*	
		March 31, 2021		March 31, 2022		March 31, 2022	
	Changes in principal assumptions	Increase	Decrease	Increase	Decrease	Increase	Decrease
Defined benefit obligations							
Discount rate	0.5% increase/decrease	¥(4,018)	¥ 4,385	¥(3,854)	¥ 4,189	$ (31,593)	$34,336
Expected average remaining lives	1 year increase/decrease	1,027	(969)	975	(927)	7,991	(7,595)

Note: The analysis is based on the assumption that other factors remain constant.

(2) Multiemployer Pension Plans

Two domestic consolidated subsidiaries have joined corporate pension fund plans (multiemployer pension plan). This plan is integrated-type defined benefit plan, and therefore, the amount of pension assets corresponding to the contributions made by each company cannot be determined reasonably. Thus, the amount of the contribution is recognized as postemployment expenses in the same manner as defined contribution plans.

(3) Defined Contribution Plans

The Group recognized ¥3,102 million and ¥3,212 million ($26,327 thousand) as expenses for defined contribution plans for the years ended March 31, 2021 and 2022, respectively.

23. Provisions

(1) Details

Provisions stated in current liabilities are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Provision for patent royalties	¥ 20,721	¥ —	$ —

(2) Schedule of Movements

The movements in provisions are as follows:

	Provision for patent royalties	
	Millions of Yen	*Thousands of U.S. Dollars*
Balance at April 1, 2021	¥ 20,721	$ 169,846
Add to provisions	—	—
Use provisons	(20,721)	(169,846)
Balance at March 31, 2022	¥ —	$ —

Note: Provision for patent royalties is recognized and measured based on estimated royalty payment to third parties.
In June 2020, Dr. Tasuku Honjo ("Dr. Honjo") filed a lawsuit claiming dividends related to the third-party litigation of PD-1 patent to the Osaka District Court. However, the litigation was settled on November 12, 2021, following the Court settlement recommendation and the payment was made. The outline of the settlement is as follows.

<Outline of the settlement>

1. The Company will continue to pay a royalty to Dr. Honjo without changing the royalty rate provided in the license agreement.
2. The Company will pay ¥5,000 million ($40,984 thousand) to Dr. Honjo for the following:
   1) Settlement fee for the complete resolution of disputes related to the license agreement

2) Rewards for Dr. Honjo's cooperation to the Company in the third party litigations over the validity or the infringement of the three patents (JP 4409430, JP 5159730 and JP 5885764, "the Patents") and their related patents in Japan and abroad

3) Settlement fee to inventors other than Dr. Honjo of the patents covered by the license agreement including the Patents

3. The Company will donate ¥23,000 million ($188,525 thousand), on its own voluntary will and as having been considered internally, to the “ONO Pharmaceutical and Dr. Honjo Honorary Research Fund”, which will be established at Kyoto University in order to expand the economic foundation for the improvement of future education and research environment and for education and research support projects at Kyoto University, and to show a new form of industry-academia collaboration in Japan.

In association with this, the Company reversed the above-mentioned provision for patent royalties of ¥20,721 million ($169,846 thousand). ¥7,279 million ($59,662 thousand), which is the difference from the provision, is recorded in “Other expenses” in the consolidated statement of income.

24. Share Capital and Other Equity Items

(1) Share Capital and Capital Reserves

Changes in the number of authorized shares and issued shares, share capital, and capital reserves are as follows:

			Millions of Yen	
	Number of authorized shares (Shares)	Number of issued shares (Shares)	Share capital	Capital reserves
Balance at April 1, 2020	1,500,000,000	528,341,400	¥ 17,358	¥ 17,229
Increase (decrease)	–	–	–	2
Balance at March 31, 2021	1,500,000,000	528,341,400	¥ 17,358	¥ 17,231
Increase (decrease)	–	–	–	10
Balance at March 31, 2022	1,500,000,000	528,341,400	¥ 17,358	¥ 17,241

	Thousands of U.S. Dollars	
	Share capital	Capital reserves
Balance at March 31, 2021	$ 142,281	$ 141,238
Increase (decrease)	–	81
Balance at March 31, 2022	$ 142,281	$ 141,319

Note: All shares issued by the Company are fully paid-up ordinary shares with no par value.

(2) Treasury Shares

Changes in the number and amount of treasury shares are as follows:

	Number of shares (Shares)	Amount *(Millions of Yen)*
Balance at April 1, 2020	29,222,272	¥ 44,737
Increase (decrease)	(22,856)	(32)
Balance at March 31, 2021	29,199,416	¥ 44,705
Increase (decrease)	10,897,297	29,978
Balance at March 31, 2022	40,096,713	¥ 74,683

	Amount *(Thousands of U.S. Dollars)*
Balance at March 31, 2021	$ 366,434
Increase (decrease)	245,720
Balance at March 31, 2022	$ 612,154

Notes: 1. Increases and decreases in the number and amount of treasury shares for the year ended March 31, 2021 are due to increases in purchases of fractional unit shares, etc. and a decrease in exercise of share option. Increases and decreases in the number and amount of treasury shares for the year ended March 31, 2022 are due to increases in purchases of treasury shares under Article 156 of the Companies Act, applied by the reading of terms pursuant to the provisions of Paragraph 3, Article 165 of the Companies Act and fractional unit shares, and a decrease in exercise of share option.

2. Treasury shares held by associates as of March 31, 2021 and 2022, are ¥31 million and ¥33 million ($267 thousand), respectively.

(3) Other Components of Equity

Changes in other components of equity are as follows:

	Millions of Yen				
	Exchange differences on translation of foreign operations	Net fair value loss on derivatives under hedge accounting	Net gain (loss) on financial assets measured at FVOCI	Remeasurement of defined benefit plans	Total
Balance at April 1, 2020	¥ 463	¥ –	¥ 47,567	¥ –	¥ 48,030
Increase (decrease)					
Other comprehensive income	424	–	17,270	2,370	20,064
Transfer to retained earnings	–	–	(3,425)	(2,370)	(5,795)
Balance at March 31, 2021	¥ 887	¥ –	¥ 61,412	¥ –	¥ 62,299
Increase (decrease)					
Other comprehensive income	814	–	(2,088)	199	(1,074)
Transfer to retained earnings	–	–	(9,789)	(199)	(9,988)
Balance at March 31, 2022	¥ 1,701	¥ –	¥ 49,535	¥ –	¥ 51,236

	Thousands of U.S. Dollars				
	Exchange differences on translation of foreign operations	Net fair value loss on derivatives under hedge accounting	Net gain (loss) on financial assets measured at FVOCI	Remeasurement of defined benefit plans	Total
Balance at March 31, 2021	$ 7,271	$ –	$ 503,377	$ –	$ 510,648
Increase (decrease)					
Other comprehensive income	6,672	–	(17,112)	1,634	(8,806)
Transfer to retained earnings	–	–	(80,239)	(1,634)	(81,873)
Balance at March 31, 2022	$ 13,943	$ –	$ 406,026	$ –	$ 419,969

Notes: 1. Exchange differences on translation of foreign operations are the differences arising from consolidating the financial statements of overseas subsidiaries, which were prepared in foreign currencies.

2. Net fair value loss on derivatives under hedge accounting is the effective portion of fair value change in derivative transactions, which are designated as cash flow hedges and meet their specific criteria.

3. Changes in fair value of financial assets measured through other comprehensive income are valuation differences in fair value of financial assets measured through other comprehensive income.

4. Remeasurement of defined benefit plans is recognized in "Other comprehensive income" when it is incurred and immediately transferred from "Other components of equity" to "Retained earnings."

25. Dividends

(1) Dividends Paid

Dividends paid are as follows:

For the year ended March 31, 2021

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders’ meeting held on June 18, 2020	Ordinary shares	¥ 11,230	¥ 22.5	March 31, 2020	June 19, 2020
Board of Directors' meeting held on October 29, 2020	Ordinary shares	¥ 11,231	¥ 22.5	September 30, 2020	December 1, 2020

For the year ended March 31, 2022

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General shareholders’ meeting held on June 17, 2021	Ordinary shares	¥ 13,726	¥ 27.5	$ 112,512	$ 0.23	March 31, 2021	June 18, 2021
Board of Directors' meeting held on November 1, 2021	Ordinary shares	¥ 13,977	¥ 28.0	$ 114,562	$ 0.23	September 30, 2021	December 1, 2021

(2) Dividends Whose Effective Date is in the Following Fiscal Year

Dividends whose record date is in the current fiscal year and whose effective date is in the following fiscal year are as follows:

For the year ended March 31, 2021

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders’ meeting held on June 17, 2021	Ordinary Shares	¥ 13,726	¥ 27.5	March 31, 2021	June 18, 2021

For the year ended March 31, 2022

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General shareholders’ meeting held on June 23, 2022	Ordinary shares	¥ 13,671	¥ 28.0	$ 112,056	$ 0.23	March 31, 2022	June 24, 2022

26. Revenue

(1) Disaggregation of revenue

The Group disaggregated revenue by type of goods or services and by geographic area.

① Details of revenue by type of goods or services

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Revenue of goods and products	¥ 214,544	¥ 245,956	$ 2,016,033
Royalty and others			
Opdivo Intravenous Infusion	59,758	69,891	572,875
Keytruda® from Merck & Co., Inc.	24,333	30,830	252,705
Others	10,649	14,684	120,360
Subtotal	94,740	115,405	945,940
Total	¥ 309,284	¥ 361,361	$ 2,961,973

② Details of revenue by geographic area

Details of revenue by geographic area are included in “6. Segment Information (3) Revenue by Geographic Area.”

(2) Contract balances

Receivables and contract liabilities from contracts with customers are as follows:

	Millions of Yen			Thousands of U.S. Dollars
	April 1, 2020	March 31, 2021	March 31, 2022	March 31, 2022
Receivables from contracts with customers				
Trade accounts receivable	¥ 68,962	¥ 74,090	¥ 92,701	$ 759,848
Notes receivable	1,832	1,917	928	7,608
Total	¥ 70,795	¥ 76,007	¥ 93,630	$ 767,456

Notes: 1. There were no material contract liabilities.

2. Revenue recognized relating to performance obligations satisfied in previous periods were ¥85,515 million and ¥105,805 million ($867,254 thousand) for the years ended March 31, 2021 and 2022, respectively, and mainly represents royalty revenue.

(3) Transaction price allocated to the remaining performance obligations

There was no transaction price allocated to the remaining performance obligations.

(4) Assets recognized from the costs to obtain or fulfil a contract with a customer

There were no costs to obtain or fulfil a contract with a customer that should be recognized as assets.

27. Selling, General, and Administrative Expenses

Details of major selling, general, and administrative expenses are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Business planning expenses	¥ 4,151	¥ 4,148	$ 33,998
Sales promotion expenses	6,903	11,496	94,229
Employee benefit expenses	27,226	28,429	233,028
Depreciation and amortization	2,614	2,938	24,083
Business consignment expenses	7,853	9,542	78,216

28. Employee Benefit Expenses

Details of the Group's employee benefit expenses are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Salary and bonus	¥ 35,971	¥ 38,521	$ 315,749
Retirement benefit expenses (defined benefit plans)	2,446	2,416	19,806
Retirement benefit expenses (multiemployer pension plans)	20	20	165
Retirement benefit expenses (defined contribution plans)	3,102	3,212	26,327
Legal welfare expenses	2,149	2,164	17,737
Welfare expenses	1,480	1,479	12,123
Other employee benefit expenses	3,381	4,084	33,477
Total	¥ 48,549	¥ 51,897	$ 425,383

Notes: 1. Employee benefit expenses are included in "Cost of sales", "Selling, general, and administrative expenses," and "Research and development costs" in the consolidated statement of income.

2. The employee benefit expenses above include remuneration of key management personnel. Remuneration of key management personnel is described in "36. Related Parties."

29. Other Income and Other Expenses

Details of other income and other expenses are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Other income			
Gain on sale of non-current assets	¥ 99	¥ 4	$ 35
Insurance proceeds	238	250	2,047
Gain on legal settlement	1,193	–	–
Gain on upfront payment	6,459	–	–
Subsidy income	–	288	2,358
Others	177	438	3,591
Total	¥ 8,165	¥ 980	$ 8,031
Other expenses			
Impairment losses	¥ 2	¥ 316	$ 2,590
Loss on disposal of non-current assets	106	68	561
Donations	1,380	913	7,484
Litigation costs, etc.	384	7,527	61,694
Loss on upfront payment	–	3,687	30,222
Others	60	187	1,531
Total	¥ 1,932	¥ 12,698	$ 104,083

Notes: 1. "Gain on upfront payment" in other income for the year ended March 31, 2021 is due to the upfront payment received under the license agreement with Roche in November 2020 for the patent relating to the anti-PD-L1 antibody.

2. The Company recorded a ¥7,279 million ($59,662 thousand) in litigation costs, etc. for the year ended March 31, 2022 because there was a difference between the total of ¥5,000 million ($40,984 thousand) associated with settlement of litigation on patents relating to the PD-1 antibody and a donation of ¥23,000 million ($188,525 thousand) (total ¥28,000 million ($229,508 thousand)) paid to Kyoto University, and the provision for patent royalties ¥20,721 million ($169,846 thousand). The outline of the settlement are included in "23. Provisions".

3. The Company recorded expenses associated with the collaboration agreement relating to Opdivo with Bristol-Myers-Squibb Company in the loss on upfront payment for the year ended March 31, 2022.

30. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
(Finance income)			
Interest income			
Financial assets measured at amortized cost	¥ 62	¥ 33	$ 272
Dividend income			
Financial assets measured at FVOCI	2,400	2,316	18,980
Gains on marketable securities			
Financial assets measured at FVPL	145	245	2,010
Exchange gains	4	–	–
Others	82	116	948
Total	¥ 2,693	¥ 2,710	$ 22,209
(Finance costs)			
Interest expenses			
Financial liabilities measured at amortized cost	¥ 3	¥ 1	$ 5
Lease liabilities	69	69	566
Losses on marketable securities			
Financial assets measured at FVPL	23	361	2,963
Net interest on employee benefits	33	14	118
Exchange losses	–	425	3,484
Others	8	4	32
Total	¥ 137	¥ 874	$ 7,167

31. Other Comprehensive Income

Amounts incurred for the current year, reclassification adjustments to profit or loss, and tax effects (including non-controlling interests) for each item of "Other comprehensive income" are as follows:

For the year ended March 31, 2021

	Millions of Yen				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net gain (loss) on financial assets measured at FVOCI	¥ 24,892	¥ –	¥ 24,892	¥ (7,618)	¥ 17,273
Remeasurement of defined benefit plans	3,415	–	3,415	(1,045)	2,370
Share of net gain (loss) on financial assets measured at FVOCI of associates	4	–	4	(1)	3
Total	28,310	–	28,310	(8,664)	19,646
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	424	–	424	–	424
Net fair value gain (loss) on cash flow hedges	(167)	167	–	–	–
Total	257	167	424	–	424
Total other comprehensive income (loss)	¥ 28,567	¥ 167	¥ 28,734	¥ (8,664)	¥ 20,070

For the year ended March 31, 2022

	Millions of Yen				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net gain (loss) on financial assets measured at FVOCI	¥ (3,017)	¥ –	¥ (3,017)	¥ 924	¥ (2,094)
Remeasurement of defined benefit plans	287	–	287	(88)	199
Share of net gain (loss) on financial assets measured at FVOCI of associates	2	–	2	(1)	2
Total	(2,728)	–	(2,728)	835	(1,893)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	814	–	814	–	814
Net fair value gain (loss) on cash flow hedges	(509)	509	–	–	–
Total	305	509	814	–	814
Total other comprehensive income (loss)	¥ (2,423)	¥ 509	¥ (1,914)	¥ 835	¥ (1,079)

	Thousands of U.S. Dollars				
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net gain (loss) on financial assets measured at FVOCI	$ (24,732)	$ –	$ (24,732)	$ 7,571	$ (17,162)
Remeasurement of defined benefit plans	2,354	–	2,354	(720)	1,634
Share of net gain (loss) on financial assets measured at FVOCI of associates	18	–	18	(6)	13
Total	(22,360)	–	(22,360)	6,845	(15,515)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	6,672	–	6,672	–	6,672
Net fair value gain (loss) on cash flow hedges	(4,176)	4,176	–	–	–
Total	2,496	4,176	6,672	–	6,672
Total other comprehensive income (loss)	$ (19,863)	$ 4,176	$ (15,688)	$ 6,845	$ (8,843)

32. Earnings per Share

(1) Basic Earnings per Share

① Basic earnings per share are as follows:

	Yen		*U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Basic earnings per share	¥ 151.11	¥ 162.19	$1.33

② Basis of Calculation of Basic Earnings per Share

The basis of calculating of basic earnings per share is as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Profit for the year attributable to owners of the Company	¥ 75,425	¥ 80,519	$ 659,988
Weighted-average number of ordinary shares outstanding (thousands of shares)	499,137	496,459	

(2) Diluted Earnings per Share

① Diluted earnings per share are as follows:

	Yen		*U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Diluted earnings per share	¥ 151.09	¥ 162.16	$ 1.33

② Basis of Calculation of Diluted Earnings per Share

The basis of calculating diluted earnings per share is as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Profit for the year attributable to owners of the Company	¥75,425	¥ 80,519	$ 659,988
Weighted-average number of ordinary shares outstanding (thousands of shares)	499,137	496,459	
Increased number of ordinary shares under to share option (thousands of shares)	66	67	
Weighted-average number of diluted ordinary shares outstanding (thousands of shares)	499,203	496,527	

33. Financial Instruments

(1) Equity Management

The Group manages its equity in view of maintaining the confidence of investors, creditors, and the market, securing a firm capital base for continued future growth, and implementing strategic investments necessary to maximize corporate value while distributing consistent dividend payments.

The Group's capital management focuses on net debt where cash and cash equivalents are deducted from interest-bearing debt and equity (attributable to owners of the Company and non-controlling interests). The Group considers methods of capital distribution to shareholders based on an evaluation of the medium-term strategic plan, including business performance, future research and development of new medicines, partnerships with bio-ventures, and the introduction of pipelines to complement research and development risk. This evaluation will exert influence on decision-making regarding the level of dividend payments and the Group's market purchase of treasury shares.

(2) Financial Risk Management

The Group is constantly exposed in its operating activities to various financial risks, including credit, liquidity, market, and others (e.g., foreign exchange and price fluctuation). In order to avoid or mitigate these risks, the Group manages risks according to certain basic policies. The Group policy is not to enter into derivative or equity transactions for speculative purposes, but to operate funds primarily through debt instruments such as safe government bonds, etc., while also partially employing financial assets with guaranteed liquidity to meet short-term capital requirements. For derivative transactions, the Group enters into foreign exchange contracts to mitigate the foreign exchange risk associated with settling payments in foreign currencies. Such transactions are controlled by the Accounting Department of the Company.

(3) Credit Risk Management

Credit risks are risks that result in financial losses incurred by the Group when a customer goes into default for contractual obligations. When full or partial collection of trade receivables, etc., is considered impossible, or extremely difficult, it is deemed to be in default.

The Group’s trade receivables are exposed to the credit risk of its customers. In addition, like other pharmaceutical companies, the Group is exposed to concentrated credit risk from a small number of wholesale companies through which it sells its products. In cases where any of these wholesale companies face financial difficulties, there is a possibility that this may have a severe and disadvantageous influence on the Group’s financial performance.

The Group’s revenue mainly consists of royalty revenue and sales of products through a small number of wholesalers, and the total revenue from the top five group companies (including the Company and the group company) accounts for about 72% of “Revenue” in the consolidated statement of income. Trade receivables from the top five group companies as of March 31, 2021 and 2022 were ¥59,689 million and ¥72,726 million ($596,115 thousand), respectively.

In order to mitigate monetary damage caused by the default of such counterparties, the Group, in principle, determines credit limits and trade terms and conditions based on the credit management policy. In addition, in order to minimize the amount of uncollectable receivables, the Group manages due dates and balances by transaction, and executes continuous credit evaluation by receiving credit updates for its main counterparties from third party rating agencies. With regard to trade receivables, etc., that do not contain significant financing components, the allowance is always measured at an amount equal to the lifetime expected credit losses, regardless of whether or not there has been a significant increase in credit risk since initial recognition, and the Group has never recorded a significant bad debt loss on its trade receivables in the past.

The Group is also exposed to issuer credit risk for bonds held to make use of surplus funds and shares held for political purposes. In addition, the Group is exposed to credit risk of the financial institutions that are the counterparties in derivative transactions used to mitigate the foreign exchange risk associated with settling payments in foreign currencies. As the Group operates funds primarily through secure debt instruments and executes transactions with highly rated financial institutions in order to prevent the emergence of credit risk in advance, credit risk is low.

The carrying amounts of financial assets after impairment presented in the consolidated statement of financial position represent the Group's maximum exposure to financial asset credit risk.

At the end of each fiscal year, the Group evaluates whether the credit risk on financial instruments has increased significantly since the initial recognition, and with respect to impairment of financial assets measured at amortized cost, the Group recognizes an allowance for expected credit losses on such financial assets.

The movements in allowance for doubtful accounts are as follows:

	Millions of Yen	*Millions of Yen*	*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Balance at the beginning of the year	¥ 5	¥ 4	$ 35
Increase	—	1	4
Decrease (utilization)	—	—	—
Decrease (other)	(1)	—	—
Balance at the end of the year	¥ 4	¥ 5	$ 39

(4) Liquidity Risk Management

The Group is exposed to the liquidity risk of not being able to fulfill its payment obligations at present or in the future due to an inability to source sufficient cash.

The Group, in particular the Accounting Department, maintains appropriate reserves and manages liquidity risk through monitoring of the Group's cash flow forecasts and results. As the Group has sufficient cash and cash equivalents and other highly liquid assets and secures stable cash inflows from operating activities, this risk is low.

Financial liabilities by maturity are as follows:

March 31, 2021

	Millions of Yen			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	¥ 39,163	¥ 39,163	¥ 39,163	¥ –
Lease liabilities	9,052	9,397	2,093	7,304
Other financial liabilities	616	616	616	0

March 31, 2022

	Millions of Yen			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	¥ 49,689	¥ 49,689	¥ 49,689	¥ –
Lease liabilities	8,802	9,103	2,375	6,728
Other financial liabilities	716	716	716	0

	Thousands of U.S. Dollars			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	$ 407,283	$ 407,283	$ 407,283	$ –
Lease liabilities	72,151	74,612	19,469	55,144
Other financial liabilities	5,870	5,870	5,868	3

(5) Market Risk Management

① Foreign Exchange Risk

1) Foreign Exchange Risk Management

The Group engages in business activities internationally and receives royalties or makes payment of expense in foreign currencies. Therefore, the Group is exposed to risks such as decrease in revenue, increase in cost price and development cost, and foreign exchange losses through fluctuations in foreign exchange rates. This risk primarily arises from currencies such as the U.S. dollar, Euro, and British pound. In order to mitigate this risk, the Group enters into hedging instruments for a fixed portion of foreign currency-denominated transactions through forward foreign exchange contracts in accordance with the market risk management policy.

These forward foreign exchange contracts are maturities of one year or less.

2) Details of Forward Foreign Exchange Contracts by Currency

Details of forward foreign exchange contracts by currency are as follows:

	March 31, 2021		March 31, 2022		March 31, 2022
	Contractual amount (Millions of U.S. Dollars)	Fair value (Millions of Yen)	Contractual amount (Millions of U.S. Dollars)	Fair value (Millions of Yen)	Fair value (Thousands of U.S. Dollars)
(Sell)					
U.S. Dollar	$ 37	¥ (188)	$ 44	¥ (283)	$ (2,323)
- Cash flow hedge included in the above	37	(188)	44	(283)	(2,323)

3) Foreign Exchange Sensitivity Analysis

At the end of each fiscal year, the amount of impact on equity and profit or loss in the case of the yen depreciating by 10% against the U.S. dollar, Euro, and British pound is as follows:

	Millions of Yen				*Thousands of U.S. Dollars*	
	March 31, 2021		March 31, 2022		March 31, 2022	
	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)
U.S. Dollar	¥ 424	¥ 130	¥ 607	¥(260)	$ 4,978	$(2,127)
Euro	–	(25)	–	(30)	–	(245)
British pound	143	(12)	163	(26)	1,335	(212)

Note: The analysis is based on the assumption that other variable factors remain constant.

② Price Fluctuation Risk

The Group is exposed to the risk of share price fluctuations that arise from equity instruments.

These equity instruments are basically held for the purpose of business strategy and not for short-term trading purposes. In addition, the Group periodically reviews the fair value of the instruments and the financial condition of issuers and the like, and takes into account the relationship with that company and reconsiders the composition of holdings in the Company as necessary.

In case when the share price of equity instruments held by the Group increases or decreases by 10% at year-end, accumulated other comprehensive income (net-of-tax) would increase or decrease by ¥10,053 million and ¥8,568 million ($70,234 thousand) as of March 31, 2021 and 2022, respectively, as a result of changes in fair value of the equity instruments designated as financial assets measured at FVOCI.

(6) Hedge Accounting

① Hedging instruments

The periods over which the Group hedges cash flow fluctuations by foreign exchange contract are within one year or less.
The carrying amounts (i.e. fair value) of the assets of hedging instruments are included in "Other financial assets," and the carrying amounts (i.e. fair value) of the liabilities of hedging instrument are included in "Other financial liabilities."

March 31, 2021

Type of hedge	Risk classification	Hedging instrument	Notional amount (Millions of U.S. Dollars)	Carrying amount (Fair value) Assets (Millions of Yen)	Carrying amount (Fair value) Liabilities (Millions of Yen)	Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness Millions of Yen
Cash flow hedge	Foreign currency risk	Forward exchange contract	$ 37	¥ –	¥ 188	¥ (179)

Note: The average foreign exchange rate in foreign exchange contracts is ¥105.66 per U.S. dollar.

March 31, 2022

Type of hedge	Risk classification	Hedging instrument	Notional amount (Millions of U.S. Dollars)	Carrying amount (Fair value)				Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness	
				Assets (Millions of Yen)	Liabilities (Millions of Yen)	Assets (Thousands of U.S. Dollars)	Liabilities (Thousands of U.S. Dollars)	Millions of Yen	Thousands of U.S. Dollars
Cash flow hedge	Foreign currency risk	Forward exchange contract	$ 44	¥ –	¥283	$ –	$2,323	¥ (523)	$ (4,288)

Note: The average foreign exchange rate in foreign exchange contracts is ¥115.97 per U.S. dollar.

② Hedged items

March 31, 2021

Type of hedge	Change in value of the hedged item used as the basis for recognizing hedge ineffectiveness	Balance in cash flow hedge reserve for continuing hedges
	Millions of Yen	Millions of Yen
Cash flow hedge	¥ 167	¥ –

March 31, 2022

Type of hedge	Change in value of the hedged item used as the basis for recognizing hedge ineffectiveness		Balance in cash flow hedge reserve for continuing hedges	
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Cash flow hedge	¥ 509	$ 4,176	¥ –	$ –

③ Amounts that affected the consolidated statement of comprehensive income in association with cash flow hedges

For the year ended March 31, 2021

Type of hedge	Risk classification	Hedging instrument	Gains or losses on hedges recognized in other comprehensive income	Amount transferred from cash flow hedge reserve to profit or loss	Line item in profit or loss affected by the transfer
			Millions of Yen	Millions of Yen	
Cash flow hedge	Foreign currency risk	Forward exchange contract	¥ (167)	¥ (167)	Revenue, etc.

For the year ended March 31, 2022

Type of hedge	Risk classification	Hedging instrument	Gains or losses on hedges recognized in other comprehensive income		Amount transferred from cash flow hedge reserve to profit or loss		Line item in profit or loss affected by the transfer
			Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars	
Cash flow hedge	Foreign currency risk	Forward exchange contract	¥ (509)	$ (4,176)	¥ (509)	$ (4,176)	Revenue, etc.

Note: The figures represent amounts before tax effect adjustments.

The hedge ineffectiveness is immaterial. Also, there is no cash flow hedge reserve arising from hedging relationships for which hedge accounting is no longer applied.

(7) Fair Value of Financial Instruments

① Fair Value Measurements

The methods and assumptions used in measuring the fair values of financial assets and financial liabilities are as follows:

Cash and cash equivalents, trade and other receivables, and trade and other payables

Since these items are settled in a short period of time, the carrying amounts of these items approximate their fair values.

Marketable securities and investment securities

The fair values of marketable securities and investment securities are measured using quoted market prices. The fair values of unlisted shares are measured through rational methods, such as the adjusted net assets method and others.

Other financial assets and other financial liabilities

・Insurance reserve fund

The fair value of the insurance reserve fund is measured based on the surrender value because there are no significant contractual restrictions associated with a refund.

・Forward foreign exchange contracts

The fair values of forward foreign exchange contracts are measured based on quoted market prices for forward foreign exchange contracts under the same terms and conditions as of the closing date.

・Time deposits

The fair values of time deposits are based on discounted future cash flows using an interest rate assumed to be applied if similar contracts were to be newly carried out.

・Others

Since other items are settled in a short period of time, the carrying amounts of these items approximate their fair values.

② Fair Value and Carrying Amount

The carrying amounts and fair values of financial assets and liabilities held by the Group by account are as follows. The following table does not include financial assets and liabilities whose carrying amounts and fair values are equivalent.

	Millions of Yen				*Thousands of U.S. Dollars*	
	March 31, 2021		March 31, 2022		March 31, 2022	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
(Financial assets)						
Financial assets measured at amortized cost						
- Marketable securities and investment securities	¥ 3,915	¥ 3,968	¥ 80	¥ 80	$ 656	$ 655
- Other financial assets	165,952	165,952	167,797	167,797	1,375,383	1,375,383

③ Fair Value Hierarchy

IFRS 13 *Fair Value Measurement* requires an entity to categorise the fair value of financial instruments into Level 1 through Level 3 of the fair value hierarchy based on the observability of the inputs used in the fair value measurements of financial instruments.

The fair value hierarchy is as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.
Level 2: Inputs are inputs other than quoted market prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly.
Level 3: Inputs are unobservable inputs for assets or liabilities.

1) Financial Assets and Financial Liabilities Measured at Fair Value

The fair values of financial assets and financial liabilities measured at fair value in the consolidated statement of financial position, grouped by fair value hierarchy are as follows:

	Millions of Yen			
	March 31, 2021			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	¥ 453	¥ –	¥ 550	¥ 1,003
- Other financial assets	–	–	6,888	6,888
Financial assets measured at FVOCI				
- Investment securities	141,988	–	2,867	144,855
Total	¥ 142,441	¥ –	¥10,306	¥ 152,747
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	¥ –	¥ 188	¥ –	¥ 188
Total	¥ –	¥ 188	¥ –	¥ 188

	Millions of Yen			
	March 31, 2022			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	¥ –	¥ –	¥ 1,561	¥ 1,561
- Other financial assets	–	–	7,302	7,302
Financial assets measured at FVOCI				
- Investment securities	120,288	–	3,178	123,465
Total	¥ 120,288	¥ –	¥ 12,041	¥ 132,328
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	¥ –	¥ 283	¥ –	¥ 283
Total	¥ –	¥ 283	¥ –	¥ 283

	Thousands of U.S. Dollars			
	March 31, 2022			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	$ –	$ –	$ 12,792	$ 12,792
- Other financial assets	–	–	59,857	59,857
Financial assets measured at FVOCI				
- Investment securities	985,964	–	26,047	1,012,011
Total	$ 985,964	$ –	$ 98,696	$ 1,084,660
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	$ –	$ 2,323	$ –	$ 2,323
Total	$ –	$ 2,323	$ –	$ 2,323

Note: For the years ended March 31, 2021 and 2022, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

2) Financial Assets and Financial Liabilities Measured at Amortized Cost

The fair values of financial assets and financial liabilities measured at amortized cost in the consolidated statement of financial position, grouped by fair value hierarchy are as follows:

	Millions of Yen			
	March 31, 2021			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	¥ –	¥ 3,968	¥ –	¥ 3,968
- Other financial assets	–	165,952	–	165,952
Total	¥ –	¥169,921	¥ –	¥ 169,921

	Millions of Yen			
	March 31, 2022			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	¥ –	¥ 80	¥ –	¥ 80
- Other financial assets	–	167,797	–	167,797
Total	¥ –	¥ 167,877	¥ –	¥ 167,877

	Thousands of U.S. Dollars			
	March 31, 2022			
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	$ –	$ 655	$ –	$ 655
- Other financial assets	–	1,375,383	–	1,375,383
Total	$ –	$1,376,038	$ –	$1,376,038

Note: For the years ended March 31, 2021 and 2022, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

3) Reconciliation of Financial Instruments Measured Using Level 3 Inputs on a Recurring Basis

Movements of the financial assets measured using Level 3 inputs on a recurring basis from the beginning of the year to the end of the year are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Balance at the beginning of the year	¥ 9,310	¥ 10,306	$ 84,474
Total gains or losses	405	306	2,506
Profit or loss	57	21	172
Other comprehensive income	348	285	2,334
Purchase	1,066	1,786	14,642
Sale	–	(18)	(148)
Settlement	(475)	(339)	(2,778)
Balance at the end of the year	¥ 10,306	¥ 12,041	$ 98,696

Notes: 1. Profit or loss included in total gains or losses is related to financial assets measured at FVPL. These gains and losses are included in "Finance income" and "Finance costs," respectively.

2. Other comprehensive income included in total gains or losses is related to financial assets measured at FVOCI. These gains and losses are included in "Net gain (loss) on financial assets measured at FVOCI."

3. There are no applicable financial liabilities measured using Level 3 on a recurring basis.

34. Share-based Payments

The Company has a share option plan which reflects the Board of Directors' goal of long-term improvement of corporate value to share the consciousness of the profit of the Company with shareholders.

(1) Contractual conditions of share options

	Eligible persons	Number of share options granted (Shares)	Grant date	Exercise period	Settlement method	Vesting conditions
2015 issued	The Company's directors (excluding outside directors)	2,900	July 13, 2015	From July 14, 2015 through July 13, 2055	Settled in equity	None
2016 issued	The Company's directors (excluding outside directors)	13,000	July 14, 2016	From July 15, 2016 through July 14, 2056	Settled in equity	None
2017 issued	The Company's directors (excluding outside directors)	14,500	July 14, 2017	From July 15, 2017 through July 14, 2057	Settled in equity	None
2018 issued	The Company's directors (excluding outside directors)	14,500	July 9, 2018	From July 10, 2018 through July 9, 2058	Settled in equity	None
2019 issued	The Company's directors (excluding outside directors)	20,000	July 5, 2019	From July 6, 2019 through July 5, 2059	Settled in equity	None
2020 issued	The Company's directors (excluding outside directors)	19,500	July 3, 2020	From July 4, 2020 through July 3, 2060	Settled in equity	None
2021 issued	The Company's directors (excluding outside directors)	23,500	July 2, 2021	From July 3, 2021 through July 2, 2061	Settled in equity	None

Notes: 1. Holders of subscription rights to shares can exercise their share subscription rights only from the day following the date of resignation from their position as director of the Company.

2. Although the Company conducted a stock split of common stocks at a ratio of 1:5 with an effective date of April 1, 2016, the effect of this stock split is not reflected in the above table for 2015 issued.

(2) Movement of the number of share options and their weighted-average exercise price

	For the year ended March 31, 2021		For the year ended March 31, 2022		For the year ended March 31, 2022
	Number of share options (Shares)	Weighted-average exercise price (Yen)	Number of share options (Shares)	Weighted-average exercise price (Yen)	Weighted- average exercise price (Dollar)
Outstanding of unexercised options at the beginning of the year	76,500	1	71,500	1	0.01
Granted	19,500	1	23,500	1	0.01
Exercised	24,500	1	20,000	1	0.01
Forfeited	–	–	–	–	–
Outstanding of unexercised options at the end of the year	71,500	1	75,000	1	0.01
Options exercisable, at the end of the year	–	–	–	–	–

Notes: 1. The exercise price of unexercised share options was ¥1 ($0.01) and the weighted-average remaining life was 37.2 for the year ended March 31, 2021. The exercise price of unexercised share options was ¥1 ($0.01) and the weighted-average remaining life was 37.3 for the year ended March 31, 2022.

2. The weighted-average share prices at the date of exercise in the fiscal year ended March 2021 and March 2022 were ¥3,130 and ¥2,430 ($20), respectively.

(3) Fair value and fair value measurement method of share options

① Measurement method
Black-Scholes model

② Primary base assumptions and measurement method

	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Fair value	¥ 2,264	¥ 1,674	$ 13.72
Share price at the grant date	¥ 3,044	¥ 2,499	$ 20.48
Exercise price	¥ 1	¥ 1	$ 0.01
Expected volatility	30.538%	29.982%	
Option life	20 years	20 years	
Expected dividend yield	¥ 45	¥ 50	$ 0.41
Risk-free interest rate	0.427%	0.433%	

Note: The expected volatility is estimated based on share prices for the past 20 years.

(4) Expenses related to share-based payments

Expenses related to share-based payments are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Share-based payments	¥ 40	¥ 41	$ 332

35. Non-cash Transactions

Non-cash transactions (investments and financial transactions that do not involve the use of cash and cash equivalents) are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Additions to right-of-use assets	¥ 3,142	¥ 2,517	$ 20,631

36. Related Parties

(1) Subsidiaries and Associates

Details of the Group's subsidiaries and affiliates are as follows:

(Consolidated subsidiaries)

Name	Primary business	Location	Proportion of voting rights held by the Group March 31, 2021 (%)	Proportion of voting rights held by the Group March 31, 2022 (%)
ONO PHARMA USA, INC. (Note 2)	Pharmaceutical business	Massachusetts, the United States of America	100.0	100.0
ONO PHARMA UK Ltd.	Pharmaceutical business	London, United Kingdom	100.0	100.0
ONO PHARMA KOREA CO., LTD.	Pharmaceutical business	Seoul, Korea	100.0	100.0
ONO PHARMA TAIWAN CO., LTD.	Pharmaceutical business	Taipei, Taiwan	100.0	100.0
TOYO Pharmaceutical Co., Ltd. (Note 3)	Pharmaceutical business	Chuo-ku, Osaka City	45.5	45.5
BEE BRAND MEDICO DENTAL.CO.,LTD.	Pharmaceutical business	Higashiyodogawa-ku, Osaka City	80.0 (40.0)	80.0 (40.0)
Ono Venture Investment, Inc.	Pharmaceutical business	California, the United States of America	100.0	100.0
Ono Venture Investment Fund I, L.P.	Pharmaceutical business	California, the United States of America	100.0 (1.0)	100.0(1.0)
ONO HEALTHCARE PHARMACEUTICAL CO., LTD.	Pharmaceutical business	Chuo-ku, Osaka City	100.0	100.0
Ono Digital health Investment, GK.	Pharmaceutical business	Chuo-ku, Tokyo	–	100.0

Other 1

(Associates accounted for using equity method)

Name	Primary business	Location	Proportion of voting rights held by the Group March 31, 2021 (%)	Proportion of voting rights held by the Group March 31, 2022 (%)
NAMICOS CORPORATION	Pharmaceutical business	Chuo-ku, Osaka City	18.8	18.8

Notes: 1. A name in the segment information is written in the primary business column.

2. ONO PHARMA USA, INC. is applicable to a specified subsidiary.

3. The Company holds 50% or less of equity in TOYO Pharmaceutical Co., Ltd., but treats it as a subsidiary because the Company substantially controls it.

4. The percentage of voting rights in parentheses represents the percentage held indirectly, which is inclusive of the proportion of voting rights held.

5. All of the subsidiaries and associates do not file securities registration statements or annual securities reports.

6. Each related party's revenue, excluding internal revenue in the Group, is less than 10% of the consolidated revenue.

(2) Transactions with Related Parties

There were no significant transactions and balances of receivables and payables between the Group and its related parties.

(3) Remuneration of Key Management Personnel

The remuneration of the Group's key management personnel is as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	For the year ended March 31, 2021	For the year ended March 31, 2022	For the year ended March 31, 2022
Base remuneration	¥ 260	¥ 258	$ 2,111
Bonuses	84	130	1,066
Share options	40	41	332
Total	¥ 384	¥ 428	$ 3,509

Note: Remuneration of key management personnel comprises the remuneration for internal directors and external directors.

37. Commitments for Expenditure

Payment commitments after the end of each fiscal year are as follows:

	Millions of Yen		*Thousands of U.S. Dollars*
	March 31, 2021	March 31, 2022	March 31, 2022
Property, plant, and equipment	¥ 2,636	¥ 129	$ 1,055
Intangible assets	–	–	–
Total	¥ 2,636	¥ 129	$ 1,055

The Group has milestone payments relating to the success of development projects and achievement of specific sales targets. Milestone payments that the Group may potentially pay within three years are ¥14,661 million and ¥11,964 million ($98,067 thousand) as of March 31, 2021 and 2022, respectively.

These milestone payment amounts are undiscounted and include all such potential payments assuming all projects currently in development are successful and specific sales targets are achievable.

38. Contingent Liabilities

In September 2015, Dana-Farber Cancer Institute in the United States of America filed a suit in the U.S. District Court for Massachusetts against the Company, Bristol-Myers Squibb Company, and Professor Tasuku Honjo for addition of inventors for patent applications on anti-PD-1 antibodies and anti-PD-L1 antibodies that the Company owned. In May 2019, in the first instance, the Court ruled that Clive Wood, PhD and Dana-Farber Cancer Institute scientist, Gordon Freeman, PhD are coinventors on the patents. In the second instance, the ruling was issued in support of the first instance in July 2020. The petition to the US supreme Court was denied in May 2021 and the judgement was finalized.

In June 2019, Dana-Farber Cancer Institute, that received the rights and interests relating to the invention from Gordon Freeman, PhD, filed a suit in the U.S. District Court for Massachusetts for the right to receive a part of license revenue that the Company and Bristol-Myers Squibb Company received by a settlement or a license agreement as a result of suits for infringement of patents that the Company and Bristol-Myers Squibb Company, as owners of the patent monopoly, filed against their competitors.

The Group is not able to estimate the impact on its consolidated financial statements at this time.

39. Approval of Consolidated Financial Statements

The consolidated financial statements for the year ended March 31, 2022, were approved by Gyo Sagara, President, Representative Director, and Chief Executive Officer, on August 9, 2022.

40. Significant Subsequent Events

On April 28, 2022, based on a resolution passed by the Board of Directors on April 6, 2022, the Company retired treasury shares pursuant to the provisions of Article 178 of the Companies Act.

(1) Class of shares retired	Common shares
(2) Number of shares retired	10,916,200 shares
(3) Date of retirement	April 28, 2022