Items Disclosed on the Internet Concerning the Notice of Convocation of the 47th Ordinary General Meeting of Shareholders

Notes to Consolidated Financial Statements

Notes to Non-consolidated Financial Statements

(April 1, 2021 to March 31, 2022)

JCR Pharmaceuticals Co., Ltd.

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

Notes to Consolidated Financial Statements

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

1. Scope of consolidation

(1) Number and names of consolidated subsidiaries

Number of consolidated subsidiaries	6
Names of consolidated subsidiaries	Chromatech Co., Ltd.
	JCR Engineering Co., Ltd.
	JCR INTERNATIONAL SA
	JCR USA, Inc.
	ArmaGen, Inc.
	JCR DO BRASIL FARMACÊUTICOS IMPORTAÇÃO E EXPORTAÇÃO LTDA.

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

2. Application of equity method

Not applicable.

3. Fiscal year, etc., of consolidated subsidiaries

Fiscal year of consolidated subsidiaries

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

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

4. Accounting policies

(1) Valuation criteria and methods for material assets

(i) Valuation criteria and methods for securities

Available-for-sale securities

Ones with market price

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

Ones without market price

Stated at cost using the moving average method

(ii) Valuation criteria and methods for derivatives

Derivatives

Stated at fair value

(iii) Valuation criteria and methods for inventory assets

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

Finished goods and work in process

Gross average method

Raw materials

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

Supplies

Primarily, gross average method

(2) Depreciation method for material depreciable assets

(i) Property, plant and equipment

Property, plant and equipment other than leased assets

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

The main useful lives are as given below.

Buildings and structures	15-38 years
Machinery, equipment and vehicles	4-10 years

Leased assets

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

Straight-line method with the lease period as the useful life and no residual value (if agreement stipulates a guaranteed amount of residual value, that guaranteed amount) is used.

(ii) Intangible assets

Intangible assets other than leased assets

Straight-line method

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

Leased assets

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

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

Patents

Evenly amortized over the remaining patent period.

(iii) Long-term prepaid expenses

Straight-line method

(3) Accounting policy for significant provisions

(i) Allowance for doubtful accounts

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

(ii) Provision for bonuses

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

(iii) Provision for directors' bonuses

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

(iv) Provision for employee shares benefit

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

(4) Criteria for recording material revenue and expenses

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

Step 1: Identify contracts with customers

Step 2: Identify performance obligations in contracts

Step 3: Calculate transaction price

Step 4: Allocate transaction price to performance obligations in contracts

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

(i) Revenue from pharmaceutical sales

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

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

(ii) Revenue from licensing

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

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

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

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

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

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

(i) Hedge accounting

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

(ii) Accounting for retirement benefits

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

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

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

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

Notes on Changes in Accounting Policies

(Application of accounting standard for revenue recognition, etc.)

The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Accounting Standard") and relevant ASBJ regulations from the beginning of the fiscal year under review, and it has recognized revenue at the time when control of promised goods or services is transferred to customers at the amount expected to be received upon exchange of said goods or services.

As a result, a portion of commission fee previously recorded in selling, general and administrative expenses is deducted from net sales. In addition, a portion of sales promotion expenses previously recorded in the net amount is included in net sales and cost of sales.

Regarding the application of Revenue Recognition Accounting Standard and relevant ASBJ regulations, in line with the transitional measures stipulated in the proviso to paragraph 84 of Revenue Recognition Accounting Standard, the cumulative amount in the case of the retroactive application of new accounting policies from before the start of the fiscal year under review is added to or subtracted from the retained earnings at the start of the fiscal year under review, and the new accounting policies have been applied starting from the balance at the beginning of the fiscal year under review.

The resulting effects on the consolidated financial results for the fiscal year under review are as follows: 57 million yen increase in net sales, 280 million yen increase in cost of sales, 223 million yen decrease in selling, general and administrative expenses, and no impact on operating income, ordinary income, or profit before income taxes. In addition, there was no impact on the balance of retained earnings at the beginning of the fiscal year under review.

Because Revenue Recognition Accounting Standard and relevant ASBJ regulations were applied, "notes and accounts receivable - trade," which were given under "current assets" on the consolidated balance sheet for the previous fiscal year, are included in "notes and accounts receivable - trade, and contract assets" starting the fiscal year under review.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard") and relevant ASBJ regulations from the beginning of the fiscal year under review. In accordance with the transitional treatment prescribed in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company has prospectively applied the new accounting policies set forth in the Fair Value Measurement Accounting Standard and relevant ASBJ regulations. This has no impact on the consolidated financial statements.

Notes on Revenue Recognition

1. Information on disaggregation of revenue from contracts with customers

(million yen)

	Amount
Recombinant human growth hormone product GROWJECT®	12,945
Mucopolysaccharidosis Type II treatment IZCARGO®	3,003
Renal anemia treatments	5,875
Epoetin Alfa BS Inj. [JCR]	2,876
Darbepoetin Alfa BS Inj. [JCR]	2,998
Regenerative medical products TEMCELL® HS Inj.	3,497
Fabry disease treatment Agalsidase Beta BS I.V. Infusion [JCR]	711
Medical devices	102
Revenue from licensing	10,571
AZD1222 bulk solution	14,375
Total	51,082

2. Fundamental information for understanding revenue from contracts with customers

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

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

(1) Balance of contract assets and contract liabilities

(million yen)

	Fiscal year under review
Receivables from contract with customers (balance at the beginning of the fiscal year)	8,183
Receivables from contracts with customers (balance at the end of the fiscal year)	11,310
Contract assets (balance at the beginning of the fiscal year)	–
Contract assets (balance at the end of the fiscal year)	4,275
Contract liabilities (balance at the beginning of the fiscal year)	664
Contract liabilities (balance at the end of the fiscal year)	–

(Note) Receivables from contracts with customers and contract assets are included in “notes and accounts receivable - trade, and contract assets” on the consolidated balance sheet.

For contracts for the commissioned production of bulk drugs of pharmaceuticals, contract assets are those related to the Group’s right to unclaimed compensation related to the obligation to supply bulk drugs of pharmaceuticals that has been completed by the end of the fiscal year. Contract assets are reclassified as receivables from contract with customers after the Group’s right to the compensation becomes unconditioned. Compensation for this commissioned production is based on the contract terms, claimed when the shipment of the full amount of the commissioned bulk drugs of pharmaceuticals are completed, and received within two months after the claim has been made.

Contract liabilities are related to advances received for the commissioned production period paid by customers when a commissioned production contract is concluded, to secure the Group’s facilities used to undertake the commissioned production of bulk drugs of pharmaceuticals. Contract liabilities are written down as revenue is recognized.

Of revenue recognized during the fiscal year under review, the amount included in the balance of contract liabilities at the beginning of the fiscal year totals 664 million yen. Contract liabilities fell by 664 million yen because of advances received for the commissioned production period from customers when the commissioned production contract was concluded were written down. In addition, contract assets rose 4,275 million yen on account of an increase in unclaimed compensation related to the obligation to supply bulk drugs of pharmaceuticals.

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

(2) Transaction price allocated to remaining performance obligation

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

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

Notes to Changes in Presentation

"Accounts payable-other," which were included in "other" under "current liabilities" for the previous fiscal year, are presented independently starting the fiscal year under review because the significance of the amount has increased.

Notes to Accounting Estimates

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

These patents are amortized over the remaining patent period, and as of the end of the fiscal year under review, the amount recorded on the consolidated financial statements was 2,711 million yen.

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

Notes to Consolidated Balance Sheet

1. Cumulative depreciation of property, plant and equipment 15,894 million yen

2. Commitment line agreements

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

(million yen)

	Fiscal year under review (As of March 31, 2022)
Total amount of commitment lines	15,500
Balance of borrowings	3,000
Difference	12,500

3. Of notes and accounts receivable - trade, and contract assets, the amounts of contract assets and receivables from contract with customers are given in section 3. (1) of Notes on Revenue Recognition.

Notes to Consolidated Statement of Income

Loss on cancellation of contracts

For some products under development at the preclinical stage, mutual agreement was reached with contract counterparties in May 2021 to terminate the contract regarding preferential negotiating rights.

This resulted in a loss on cancellation of contracts.

Notes to Consolidated Statements of Changes in Equity

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

   Common shares 129,686,308 shares

2. Dividends

(1) Dividends paid

Resolution	Type of shares	Total amount of dividends (million yen)	Dividend per share (yen)	Reference date	Effective date
The meeting of Board of Directors on May 13, 2021	Common shares	929	7.50	March 31, 2021	June 24, 2021
The meeting of Board of Directors on October 28, 2021	Common shares	1,241	10.00	September 30, 2021	December 10, 2021
Total		2,170			

(Notes) 1. The total amounts of dividends based on the resolution of the meeting of Board of Directors on May 13, 2021 and the meeting of Board of Directors on October 28, 2021 respectively include 2 million yen and 3 million yen of dividends for the Company's shares held in trust in the Benefit Trust Scheme.

2. The dividend per share based on the resolution of the meeting of Board of Directors on May 13, 2021 includes a commemorative dividend of 0.50 yen.

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

Resolution	Type of shares	Source of dividends	Total amount of dividends (million yen)	Dividend per share (yen)	Reference date	Effective date
The meeting of Board of Directors on May 12, 2022	Common shares	Retained earnings	1,489	12.00	March 31, 2022	June 23, 2022

(Notes) 1. The total amount of dividends includes 4 million yen of dividends for the Company's shares held in trust in the Benefit Trust Scheme.

2. The dividend per share includes a special dividend of 2.00 yen.

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

(Shares)

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

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

Notes on Financial Instruments

1. Status of financial instruments

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

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

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

2. Fair value of financial instruments, etc.

(million yen)

	Consolidated balance sheet carrying amount	Fair value	Difference
Securities and investment securities (*2)			
Available-for-sale securities	2,461	2,461	–
Total assets	2,461	2,461	–
(1) Bonds payable	500	499	(0)
(2) Long-term loans payable (*3)	5,500	5,493	(6)
Total liabilities	6,000	5,992	(7)
Derivatives	(256)	(256)	–

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

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

(million yen)

Category	Fiscal year under review
Unlisted shares	13

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

3. Breakdown of fair value level of financial instruments

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

Level 1 fair value:

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

Level 2 fair value:

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

Level 3 fair value:

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

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

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

(million yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities (*)				
Stocks	989	–	–	989
Japanese government bonds	244	–	–	244
Derivatives				
Currency related	–	(256)	–	(256)
Total assets	1,234	(256)	–	978

* For investment trusts, notes on fair value level are not given based on paragraph 26 of "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, July 4, 2019). The amount of these investment trusts on the consolidated balance sheet is 1,226 million yen.

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

(million yen)

Category	Fair value			
	Level 1	Level 2	Level 3	Total
Bonds payable	–	499	–	499
Long-term loans payable	–	5,493	–	5,493
Total liabilities	–	5,992	–	5,992

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

Securities and investment securities

Listed stocks and Japanese government bonds are valued using the market price. The fair values of listed stocks and Japanese government bonds are categorized as level 1 fair value because these instruments are traded on active markets.

Derivatives

The fair values of forward exchange contracts and currency options are measured using factors such as price given by the contract counterparty financial institution and categorized as level 2 fair value.

Interest rate swaps accounted for using the special treatment are treated in combination with long-term loans payable that are being hedged; therefore, their fair value is included in the fair value of the long-term loans payable

Bonds payable

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

Long-term loans payable

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

Notes on Per Share Information

1. Net assets per share 406.57 yen
2. Earnings per share 117.26 yen

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

The average number of treasury shares during the fiscal year deducted when calculating earnings per share totals 349,666 shares, and the number of these treasury shares at the end of the fiscal year deducted when calculating net assets per share totals 343,600 shares.

Other Notes

(Impact of the COVID-19)

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

Notes to Non-consolidated Financial Statements

Notes to Significant Accounting Policies

1. Valuation criteria and methods for assets

(1) Valuation criteria and methods for securities

Shares of subsidiaries and affiliated companies

Stated at cost using the moving average method

Available-for-sale securities

Ones with market price

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

Ones without market price

Stated at cost based on moving average method

(2) Valuation criteria and methods for derivatives

Derivatives

Stated at fair value

(3) Valuation criteria and methods for inventory assets

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

Finished goods and work in process

Gross average method

Raw materials

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

Supplies

Primarily, gross average method

2. Depreciation method for non-current assets

(1) Property, plant and equipment

Property, plant and equipment other than leased assets

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

The main useful lives are as given below.

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

Leased assets

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

Straight-line method with the lease period as the useful life and no residual value (if agreement stipulates a guaranteed amount of residual value, that guaranteed amount) is used

(2) Intangible assets

Intangible assets other than leased assets

Straight-line method

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

Leased assets

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

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

(3) Long-term prepaid expenses

Straight-line method

3. Accounting policy for provisions

(1) Allowance for doubtful accounts

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

(2) Provision for bonuses

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

(3) Provision for directors' bonuses

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

(4) Provision for retirement benefits

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

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

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

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

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

(5) Provision for employee shares benefit

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

4. Criteria for recording material revenue and expenses

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

Step 1: Identify contracts with customers

Step 2: Identify performance obligations in contracts

Step 3: Calculate transaction price

Step 4: Allocate transaction price to performance obligations in contracts

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

(i) Revenue from pharmaceutical sales

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

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

(ii) Revenue from licensing

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

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

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

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

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

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

Hedge accounting

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

Notes on Changes in Accounting Policies

(Application of accounting standard for revenue recognition, etc.)

The Company has applied "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020; hereinafter "Revenue Recognition Accounting Standard") and relevant ASBJ regulations from the beginning of the fiscal year under review, and it has recognized revenue at the time when control of promised goods or services is transferred to customers at the amount expected to be received upon exchange of said goods or services.

As a result, a portion of commission fee previously recorded in selling, general and administrative expenses is deducted from net sales. In addition, a portion of sales promotion expenses previously recorded in the net amount is included in net sales and cost of sales.

Regarding the application of Revenue Recognition Accounting Standard and relevant ASBJ regulations, in line with the transitional measures stipulated in the proviso to paragraph 84 of Revenue Accounting Recognition Standard, the cumulative amount in the case of the retroactive application of new accounting policies from before the start of the fiscal year under review is added to or subtracted from the retained earnings at the start of the fiscal year under review, and the new accounting policies have been applied starting from the balance at the beginning of the fiscal year under review.

The resulting effects on the financial results for the fiscal year under review are as follows: 57 million yen increase in net sales, 280 million yen increase in cost of sales, 223 million yen decrease in selling, general and administrative expenses, and no impact on operating income, ordinary income, or profit before income taxes. In addition, there was no impact on the balance of retained earnings at the beginning of the fiscal year under review.

Because Revenue Recognition Accounting Standard and relevant ASBJ regulations were applied, "accounts receivable - trade," which were given under "current assets" on the balance sheet for the previous fiscal year, are included in "accounts receivable - trade and contract assets" starting the fiscal year under review.

(Application of accounting standard for fair value measurement, etc.)

The Company has applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019; hereinafter "Fair Value Measurement Accounting Standard") and relevant ASBJ regulations from the beginning of the fiscal year under review. In accordance with the transitional treatment prescribed in paragraph 19 of the Fair Value Measurement Accounting Standard and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Company has prospectively applied the new accounting policies set forth in the Fair Value Measurement Accounting Standard and relevant ASBJ regulations. This has no impact on the non-consolidated financial statements.

Notes to Revenue Recognition

1. Information on disaggregation of revenue from contracts with customers

   This is omitted because consolidated financial statements are created.

2. Fundamental information for understanding revenue from contracts with customers

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

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

   This is omitted because consolidated financial statements are created.

Notes to Changes in Presentation

"Gain on sale of securities," which was given separately under "non-operating income" in the previous fiscal year, is included in "other" under "non-operating income" in the fiscal year under review because the significance of the amount has decreased.

Notes to Accounting Estimates

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

The valuation of these shares is reduced as the patents are amortized over the remaining patent period, and as of the end of the fiscal year under review, the valuation on the non-consolidated financial statements was 2,774 million yen.

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

Notes to Balance Sheet

1. Cumulative depreciation of property, plant and equipment 15,954 million yen
2. Monetary receivables and payables to affiliated companies

   Short-term monetary receivables 22 million yen

   Short-term monetary payables 2,677 million yen
3. Commitment line agreements

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

(million yen)

	Fiscal year under review (As of March 31, 2022)
Total amount of commitment lines	15,500
Balance of borrowings	3,000
Difference	12,500

Notes to Statement of Income

1. Transaction volume with affiliated companies

   Sales transactions

   Selling, general, and administrative expenses 3,314 million yen

   Transaction volume other than sales 2 million yen
2. The loss on valuation of stocks of subsidiaries and affiliates recorded under non-operating expenses is the result of valuation loss for shares of the subsidiary ArmaGen. The loss on these shares will be recognized along with amortization over the remaining period of the patents ArmaGen holds.
3. Loss on cancellation of contracts

   For some products under development at the preclinical stage, mutual agreement was reached with contract counterparties in May 2021 to terminate the contract regarding preferential negotiating rights.

   This resulted in a loss on cancellation of contracts.

Notes to Statements of Changes in Equity

Type and number of treasury shares

Type of shares	Number at beginning of the fiscal year	Increase	Decrease	Number at end of the fiscal year
Common shares	6,071,644 shares	–	142,300 shares	5,929,344 shares

(Notes) 1. The numbers of treasury shares at the beginning and end of the fiscal year respectively include 363,900 shares and 343,600 shares of the Company's shares held by the trust account of the Benefit Trust Scheme.

2. The decline in the number of treasury shares was because stock options for 122,000 shares were exercised and 20,300 shares were provided by the Benefit Trust Scheme (J-ESOP).

Notes on Tax Effect Accounting

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

Deferred tax assets

	(million yen)
Accrued enterprise tax	372
Inventory assets	514
Provision for bonuses	271
R&D expenses	316
Investment securities	28
Shares of subsidiaries and associates	169
Provision for retirement benefits	260
Share-based payment expenses	172
Advances received	11
Amount of sales recognized for tax purposes	632
Other	259
Subtotal	3,008
Valuation allowance	(238)
Total deferred tax assets	2,770

Deferred tax liabilities

Valuation difference on available-for-sale securities	274
Prepaid pension costs	73
Other	3
Total deferred tax liabilities	351
Net deferred tax assets	2,418

Notes on Business with Related Parties

Fellow subsidiary

Attribute	Company name	Percentage of voting rights	Relationship		Business	Amount (million yen)	Balance at end of the fiscal year	
			Interlocking of officers, etc.	Operational relationship			Item	Amount (million yen)
Subsidiary of other affiliated company	MEDICEO CORPORATION (subsidiary of MEDIPAL HOLDINGS CORPORATION)	– (–)	–	Supply of pharmaceuticals	Finished good sales	7,922	Accounts receivable - trade	3,355
							Accounts payable - other	189

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

Notes on Per Share Information

1. Net assets per share 407.02 yen
2. Earnings per share 116.77 yen

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

The average number of treasury shares during the fiscal year deducted when calculating earnings per share totals 349,666 shares, and the number of treasury shares at the end of the fiscal year deducted when calculating net assets per share totals 343,600 shares.

Other Notes

(Impact of COVID-19)

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