

Financial Data Book 2022

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Consolidated Balance Sheet

Kissei Pharmaceutical Co., Ltd., and its subsidiaries
At March 31, 2021 and 2022

Assets	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Current Assets			
Cash and deposits	¥ 20,456	¥ 30,013	\$ 245,164
Notes and accounts receivable - trade	23,058	—	—
Notes receivable - trade	—	233 ¹	1,903 ¹
Accounts receivable - trade	—	21,723 ¹	177,446 ¹
Contract assets	—	850 ¹	6,943 ¹
Securities	23,998	23,139	189,013
Merchandise and finished goods	11,066	10,491	85,697
Work in process	462	63	515
Raw materials and supplies	8,590	8,433	68,886
Other	5,332	4,392	35,876
Total current assets	92,965	99,342	811,485
Non-Current Assets			
Property, plant and equipment			
Buildings and structures	38,855 ³	39,132 ³	319,654 ³
Accumulated depreciation	(29,991)	(30,525)	(249,347)
Buildings and structures, net	8,863	8,607	70,307
Land	12,622 ³	12,611 ³	103,014 ³
Construction in progress	98	—	—
Other	16,820	16,469	134,529
Accumulated depreciation	(14,114)	(13,613)	(111,199)
Other, net	2,705	2,856	23,330
Total property, plant and equipment	24,290	24,074	196,651
Intangible Assets			
Software	1,175	1,179	9,631
Other	465	389	3,178
Total intangible assets	1,640	1,569	12,817
Investments and Other Assets			
Investment securities	138,133 ²	96,631 ²	789,340 ²
Long-term loans receivable	14	3	25
Long-term prepaid expenses	10,262	12,480	101,944
Retirement benefit asset	—	2,460	20,095
Deferred tax assets	585	524	4,280
Other	1,002	1,024	8,365
Allowance for doubtful accounts	(34)	(23)	(188)
Total investments and other assets	149,964	113,101	923,877
Total non-current assets	175,895	138,745	1,133,352
Total assets	¥268,861	¥238,087	\$1,944,837

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

Liabilities	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Current Liabilities			
Notes and accounts payable - trade	¥ 7,909	¥ 4,104	\$ 33,524
Short-term borrowings	1,743	1,640	13,397
Income taxes payable	1,487	3,497	28,566
Provision for bonuses	1,816	1,707	13,944
Provision for bonuses for directors (and other officers)	14	14	114
Provision for sales returns	6	—	—
Provision for sales rebates	320	—	—
Provision for sales promotion expenses	149	137	1,119
Contract liabilities	—	2,696	22,023
Other	4,796	4,946	40,402
Total current liabilities	18,245	18,744	153,112
Non-Current Liabilities			
Deferred tax liabilities	28,480	16,259	132,813
Provision for retirement benefits for directors (and other officers)	164	181	1,479
Retirement benefit liability	1,234	—	—
Asset retirement obligations	121	138	1,127
Other	660	583	4,762
Total non-current liabilities	30,662	17,163	140,198
Total liabilities	48,907	35,907	293,310
Net Assets			
Shareholders' equity			
Share capital	24,356	24,356	198,954
Capital surplus	24,226	24,226	197,893
Retained earnings	109,270	118,183	965,390
Treasury shares	(12,911)	(12,912)	(105,473)
Total shareholders' equity	144,941	153,854	1,256,772
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	74,351	45,095	368,363
Remeasurements of defined benefit plans	22	2,435	19,891
Total accumulated other comprehensive income	74,373	47,531	388,262
Non-controlling interests	638	794	6,486
Total net assets	219,953	202,180	1,651,528
Total liabilities and net assets	¥268,861	¥238,087	\$1,944,837

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

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Kissei Pharmaceutical Co., Ltd., and its subsidiaries
For the years ended March 31, 2021 and 2022

Consolidated Statement of Income

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net Sales	¥69,044 ^{*1}	¥65,381 ^{*1}	\$534,071 ^{*1}
Cost of sales	36,322	34,143	278,901
Gross profit	32,722	31,238	255,171
Selling, General and Administrative Expenses	31,217 ^{*2,*3}	32,640 ^{*2,*3}	266,623 ^{*2,*3}
Operating profit and loss	1,505	(1,402)	(11,452)
Non-Operating Income			
Interest income	30	42	343
Dividend income	1,242	1,544	12,612
Gain on sale of securities	0	—	—
Gain on valuation of securities	720	180	1,470
Other	160	325	2,655
Total non-operating income	2,154	2,092	17,089
Non-Operating Expenses			
Interest expenses	23	23	188
Foreign exchange losses	130	60	490
Other	29	44	359
Total non-operating expenses	183	127	1,037
Ordinary Profit	3,476	562	4,591
Extraordinary Income			
Gain on sale of non-current assets	0 ^{*4}	0 ^{*4}	0 ^{*4}
Gain on sale of investment securities	4,084	16,601	135,607
Other	3	—	—
Total extraordinary income	4,087	16,601	135,607
Extraordinary Losses			
Loss on sale of fixed non-current assets	— ^{*5}	0 ^{*5}	0 ^{*5}
Loss on disposal of non-current assets	10 ^{*6}	35 ^{*6}	286 ^{*6}
Loss on sale of investment securities	—	1	8
Loss on valuation of investment securities	77	619	5,056
Total extraordinary losses	87	656	5,359
Profit before income taxes	7,476	16,507	134,839
Income taxes - current	1,510	4,017	32,813
Income taxes - deferred	587	(542)	(4,427)
Total income taxes	2,098	3,475	28,386
Profit	5,378	13,032	106,453
Profit Attributable to Non-Controlling Interests	93	110	899
Profit Attributable to Owners of Parent	¥ 5,285	¥12,921	\$105,546

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

Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Profit	¥ 5,378	¥ 13,032	\$ 106,453
Other Comprehensive Income			
Valuation difference on available-for-sale securities	23,652	(29,253)	(238,956)
Remeasurements of defined benefit plans, net of tax	1,732	2,456	20,062
Total other comprehensive income	25,384 ^{*1}	(26,796) ^{*1}	(218,886) ^{*1}
Comprehensive Income	¥30,762	¥(13,764)	\$(112,433)
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	¥30,629	¥(13,920)	\$(113,707)
Comprehensive income attributable to non-controlling interests	133	156	1,274

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

Consolidated Statement of Changes in Equity

Kissei Pharmaceutical Co., Ltd., and its subsidiaries
For the years ended March 31, 2021 and 2022

	Millions of yen									
	Shareholders' equity					Accumulated other comprehensive income				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of retirement benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2020	¥24,356	¥24,226	¥106,461	¥(11,608)	¥143,435	¥ 50,706	¥(1,676)	¥ 49,029	¥504	¥192,970
Cumulative effects of changes in accounting policies										—
Restated balance	24,356	24,226	106,461	(11,608)	143,435	50,706	(1,676)	49,029	504	192,970
Changes during period										
Dividends of surplus			(2,475)		(2,475)					(2,475)
Profit attributable to owners of parent			5,285		5,285					5,285
Purchase of treasury shares				(1,303)	(1,303)					(1,303)
Disposal of treasury shares		(0)		0	0					0
Net changes in items other than shareholders' equity						23,645	1,699	25,344	133	25,477
Total changes during period	—	(0)	2,809	(1,303)	1,505	23,645	1,699	25,344	133	26,983
Balance at March 31, 2021	24,356	24,226	109,270	(12,911)	144,941	74,351	22	74,373	638	219,953
Cumulative effects of changes in accounting policies			(1,472)		(1,472)					(1,472)
Restated balance	24,356	24,226	107,798	(12,911)	143,469	74,351	22	74,373	638	218,481
Changes during period										
Dividends of surplus			(2,536)		(2,536)					(2,536)
Profit attributable to owners of parent			12,921		12,921					12,921
Purchase of treasury shares				(0)	(0)					(0)
Disposal of treasury shares		0		0	0					0
Net changes in items other than shareholders' equity						(29,255)	2,413	(26,842)	156	(26,686)
Total changes during period	—	0	10,385	(0)	10,385	(29,255)	2,413	(26,842)	156	(16,300)
Balance at March 31, 2022	¥24,356	¥24,226	¥118,183	¥(12,912)	¥153,854	¥ 45,095	¥2,435	¥ 47,531	¥794	¥202,180

	Thousands of U.S. dollars									
	Shareholders' equity					Accumulated other comprehensive income				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Remeasurements of retirement benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2021	\$198,954	\$197,893	\$892,583	\$(105,465)	\$1,183,965	\$ 607,344	\$ 180	\$607,523	\$5,212	\$1,796,708
Cumulative effects of changes in accounting policies			(12,024)		(12,024)					(12,024)
Restated balance	198,954	197,893	880,559	(105,465)	1,171,941	607,344	180	607,523	5,212	1,784,684
Changes during period										
Dividends of surplus			(20,716)		(20,716)					(20,716)
Profit attributable to owners of parent			105,546		105,546					105,546
Purchase of treasury shares				(0)	(0)					(0)
Disposal of treasury shares		0		0	0					0
Net changes in items other than shareholders' equity						(238,972)	19,711	(219,262)	1,274	(217,987)
Total changes during period	—	0	84,831	(0)	84,831	(238,972)	19,711	(219,262)	1,274	(133,148)
Balance at March 31, 2022	\$198,954	\$197,893	\$965,390	\$(105,473)	\$1,256,772	\$ 368,363	\$19,891	\$388,262	\$6,486	\$1,651,528

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

Consolidated Statement of Cash Flows

Kissei Pharmaceutical Co., Ltd., and its subsidiaries
For the years ended March 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash flows from operating activities			
Profit before income taxes	¥ 7,476	¥ 16,507	\$ 134,839
Depreciation	3,148	3,730	30,469
Increase (decrease) in provisions	(12)	(431)	(3,521)
Increase (decrease) in retirement benefit liability	155	(161)	(1,315)
Interest and dividend income	(1,273)	(1,586)	(12,955)
Interest expenses	23	23	188
Loss (gain) on sale of securities	(0)	—	—
Loss (gain) on valuation of securities	(720)	(180)	(1,470)
Loss (gain) on sale of non-current assets	(0)	0	0
Loss on disposal of non-current assets	10	35	286
Loss (gain) on sale of investment securities	(4,084)	(16,600)	(135,599)
Loss (gain) on valuation of investment securities	77	619	5,056
Decrease (increase) in trade receivables	(3,595)	—	—
Decrease (increase) in trade receivables and contract assets	—	250	2,042
Decrease (increase) in inventories	(6,679)	1,130	9,231
Decrease (increase) in other current assets	(509)	1,128	9,214
Increase (decrease) in trade payables	2,671	(3,804)	(31,073)
Increase / decrease in contract liabilities	—	1,224	9,998
Increase (decrease) in other current liabilities	279	766	6,339
Increase (decrease) in other non-current liabilities	4	14	114
Other, net	6	(22)	(180)
Subtotal	(3,024)	2,644	21,598
Interest and dividends received	1,157	1,479	12,081
Interest paid	(23)	(23)	(188)
Income taxes paid	(652)	(2,567)	(20,969)
Net cash provided by (used in) operating activities	(2,542)	1,533	12,522
Cash flows from investing activities			
Payments into time deposits	(78)	(75)	(613)
Proceeds from withdrawal of time deposits	78	75	613
Proceeds from withdrawal of investments in specified trusts	98	97	792
Purchase of property, plant and equipment	(931)	(1,489)	(12,163)
Proceeds from sale of property, plant and equipment	3	23	188
Purchase of intangible assets	(554)	(430)	(3,512)
Purchase of investment securities	(3,761)	(5,682)	(46,414)
Proceeds from sale and redemption of investment securities	4,551	22,073	180,306
Loan advances	(5)	(3)	(25)
Proceeds from collection of loans receivable	37	25	204
Purchase of long-term prepaid expenses	(8,822)	(3,802)	(31,057)
Other, net	54	(34)	(278)
Net cash provided by (used in) investing activities	(9,329)	10,776	88,025
Cash flows from financing activities			
Repayments of short-term borrowings	—	(90)	(735)
Repayments of long-term borrowings	(16)	(13)	(106)
Repayments of lease liabilities	(204)	(115)	(939)
Dividends paid	(2,475)	(2,536)	(20,716)
Purchase of treasury shares	(1,303)	(0)	(0)
Proceeds from sale of treasury shares	0	0	0
Net cash provided by (used in) financing activities	(4,000)	(2,756)	(22,513)
Effect of exchange rate change on cash and cash equivalents	0	4	33
Net increase (decrease) in cash and cash equivalents	(15,872)	9,557	78,067
Cash and cash equivalents at beginning of period	59,319	43,447	354,901
Cash and cash equivalents at end of period*	¥ 43,447	¥ 53,004	\$ 432,968

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

Notes to the Consolidated Financial Statements

Kissei Pharmaceutical Co., Ltd., and its subsidiaries
Fiscal year ended March 31, 2022

The accompanying consolidated financial statements of Kissei Pharmaceutical Co., Ltd. ("the Company"), and its subsidiaries (collectively, "the Companies") are an English translation of the original consolidated financial statements prepared in the Japanese language in accordance with the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ministry of Finance Order No. 28 of October 30, 1976) on the basis of accounting principles generally accepted in Japan. The original consolidated financial statements have been

(Significant Matters for the Basis of Preparing the Consolidated Financial Statements)

1. Scope of consolidation

(1) Number of consolidated subsidiaries: 3

Kissei Shoji Co., Ltd.

KISSEI COMTEC CO., LTD.

HASHIBA TECHNOS CO., LTD.

(2) Number of unconsolidated subsidiaries: 2

Kissei America, Inc.

PROS Co., Ltd.

(Reason for excluding from consolidation)

Unconsolidated subsidiaries are excluded from the scope of consolidation because the scale of their operations is small and their total assets, net sales, profit (loss), and retained earnings do not have a material impact on the consolidated financial statements.

2. Application of the equity method

Unconsolidated subsidiaries are excluded from the scope of equity method application because their total amounts of profit (loss) and retained earnings are insignificant and therefore immaterial.

3. Fiscal year-end dates of consolidated subsidiaries

The fiscal year-end dates of consolidated subsidiaries are the same as the settlement date for the consolidated financial statements.

4. Accounting policies

(1) Basis and methods of valuation for major assets

i. Securities

a. Held-to-maturity debt securities

Held-to-maturity debt securities are carried at amortized cost.

b. Available-for-sale securities

Securities other than equity securities without market prices:

Securities other than equity securities without market prices are carried at fair value as of the balance sheet date with changes in valuation difference, net of the applicable income taxes, included directly in net assets. The cost of securities sold is determined by the moving average method.

Equity securities without market prices:

Equity securities without market prices are stated at cost, determined by the moving average method.

ii. Specified trusts

Specified trusts are stated at fair value.

iii. Inventories

Merchandise, finished goods, semi-finished goods, works in progress, raw materials, and supplies:

Inventories are primarily valued at cost using the gross average method (the amount on the balance sheet is reduced to reflect decreased profitability).

disclosed in the Securities Report ("Yukashouken Houkokusho") as required by the Financial Instruments and Exchange Act of Japan.

The accompanying consolidated financial statements are expressed in yen, and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥122.42=U.S.\$1, the approximate rate of exchange prevailing at March 31, 2022.

This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars at such a rate.

(2) Method of depreciation and amortization of significant depreciable assets

i. Property, plant and equipment (excluding leased assets)

The straight-line method is primarily used at the Company, whereas the declining-balance method is primarily used at consolidated subsidiaries. However, depreciation for buildings acquired on or after April 1, 1998, (excluding facilities attached to buildings) and for both facilities attached to buildings and structures acquired on or after April 1, 2016, is computed using the straight-line method.

The useful life of buildings and structures is as follows:

Buildings and structures 3 to 50 years

ii. Intangible assets (excluding leased assets)

Depreciation is computed using the straight-line method. Software costs for internal use are amortized over their expected useful lives (mainly five years) on a straight-line basis.

iii. Leased assets (pertaining to lease transactions not involving the transfer of ownership)

Leased assets are depreciated by the straight-line method with the respective lease period and the residual value being zero.

iv. Long-term prepaid expenses

Long-term prepaid expenses are amortized on the straight-line basis.

(3) Allowances and provisions

i. Allowance for doubtful accounts

The Companies provide an "Allowance for doubtful accounts" based on the percentage of their historical bad debt loss incurred against the balance of total receivables in addition to the amount of uncollectible receivables estimated on an individual basis.

ii. Provision for bonuses

"Provision for bonuses" is provided based on estimated amounts that the Companies should pay to employees for their services rendered.

iii. Provision for bonuses for directors (and other officers)

"Provision for bonuses for directors (and other officers)" is provided based on estimated payments for their performance during the current year.

iv. Provision for sales promotion expenses

"Provision for sales promotion expenses" is provided in an amount equivalent to the expected amount payable by the Companies to dealers in respect of products held by dealers at the balance sheet date based on the actual expense ratio.

v. Provision for retirement benefits for directors (and other officers)

"Provision for retirement benefits for directors (and other officers)" is provided at the expected amount payable at the balance sheet date in accordance with the Companies' internal regulations.

(4) Accounting method for retirement benefits

i. Allocation of expected benefit payments

When calculating the retirement benefit obligation, the benefit formula method is used to allocate expected benefit payments to the period.

ii. Actuarial gains and losses and prior service cost

Prior service cost is amortized through the straight-line method over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).

Net actuarial gains and losses are amortized from the following year through the straight-line method over a term that does not exceed the average remaining service period of employees who are expected to receive benefits under the plans (10 years).

iii. Accounting treatment for unrecognized actuarial gains and losses and unrecognized prior service cost

Unrecognized actuarial gains and losses and unrecognized prior service cost are adjusted for tax effects and then recorded as remeasurements of retirement benefit plans under accumulated other comprehensive income in the net assets portion of the consolidated balance sheet.

(5) Basis for recognition of significant revenue and expenses

For the Companies' revenue from contracts with customers, the details of major performance obligations in their major businesses and a point in time when the performance obligation is satisfied (a point in time when revenue is recognized) are as follows:

i. Sales of merchandise and finished goods

The Companies sell pharmaceuticals and therapeutic and care foods in the pharmaceutical business, sell and lease IT-related equipment in the information services business, and sell noodles in the merchandising business. For the sales of the said merchandise and finished goods, revenue is recognized at the point in time when they are delivered to a customer, since their control is transferred to the customer and the performance obligation is satisfied. Applying the alternative treatment prescribed in paragraph 98 of the Implementation Guidance on Accounting Standard for Revenue Recognition, the Companies recognize revenue upon shipment for domestic sales, when the control of the said merchandise and finished goods is transferred to a customer within a normal period from the shipment.

Revenue from sales of merchandise and finished goods in the pharmaceutical business is calculated at the amount to the extent that it is

highly probable that a significant reversal will not occur, after deducing sales rebates based on the terms and conditions of the sales agreement from the promised consideration in the contract with the customer. The amount of consideration that the Companies expect to repay to the customer is recognized as refund liabilities. The refund liabilities are calculated based on the terms and conditions and past performance.

For sales of merchandise and finished goods in the merchandising business, when it is determined that the Companies act as an agent, the revenue is calculated in the net amount of consideration received from the customer after deducting the amount paid to another party.

ii. Technical fees from out-licensing agreements

The Companies grant licenses regarding intellectual properties through out-licensing agreements in the pharmaceutical business, and recognize upfront payments, milestone payments, and royalties from these agreements as revenue.

Revenue under out-licensing agreements is recognized at a point in time when the performance obligation is satisfied. On the other hand, for revenue relating to the performance obligation that is not satisfied at a point in time, the applicable consideration is recognized as a contract liability and recognized as revenue over a period of time in accordance with the satisfaction of the performance obligation under the relevant out-licensing agreements.

iii. Construction contracts

The Companies conclude system development subcontracting and maintenance contracts in the information services business and construction/civil engineering work contracts in the construction business. For these construction contracts, the Companies recognize revenue over a certain period of time as the performance obligation is satisfied. The cost recovery method is applied to construction contracts for which progress cannot be reasonably estimated. For construction contracts with very short construction periods, the Companies apply an alternative treatment in which revenue is recognized when the performance obligation is fully satisfied.

(6) Cash and cash equivalent for the consolidated statement of cash flows

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments that are readily convertible to cash subject to an insignificant risk of any change in their value and that were purchased with an original maturity of three months or less.

(2) Key assumptions

Key assumptions for estimating taxable income related to the medium-term management plan are the revision rate of National Health Insurance ("NHI") on drug sales, the timing of overseas revenue recognition such as milestone revenue, and gain on sale of investment securities. The revision rate of NHI drug prices is estimated in consideration of past revisions and trends in pharmaceutical administration. The timing of overseas revenue recognition is estimated in consideration of the development progress in the license granted area. Regarding gain on sale of investment securities, the Company makes estimates based on the amount of unrealized gain on investment securities expected to be sold as of the end of the fiscal year ended March 31, 2022. In making accounting

(Changes in Accounting Policies)*Application of Accounting Standard for Revenue Recognition*

Applying the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020, hereinafter the "Accounting Standard for Revenue Recognition"), etc., effective from the beginning of the fiscal year ended March 31, 2022, the Companies recognize revenue at the amount expected to be received in exchange for a promised good or service at the point in time when the control of the said good or service is transferred to a customer. Accordingly, upfront and milestone payments under out-licensing agreements in the pharmaceutical business are recognized as revenue at a point in time when the performance obligation is satisfied. On the other hand, for revenue relating to the performance obligation that is not satisfied at a point in time, the Companies have changed the accounting treatment. For such performance obligation, the applicable consideration is recognized as a contract liability and recognized as revenue over a period of time in accordance with the satisfaction of the performance obligation under the relevant out-licensing agreements. In addition, for construction contracts in the information services and construction businesses, the Companies previously applied the percentage-of-completion method if the outcome of the construction activities can be reliably estimated, otherwise the completed-contract method was applied; however, effective from the beginning of the fiscal year ended March 31, 2022, the Companies have changed the accounting policy to recognize revenue over a certain period of time as the performance obligation is satisfied. The cost recovery method is applied to construction projects for which progress cannot be reasonably estimated. For construction contracts and other transactions with very short construction periods, the Companies apply an alternative treatment in which revenue is recognized when the performance obligation is fully satisfied.

In accordance with the transitional treatment prescribed in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition, the Companies adjusted the beginning balance of retained earnings for the cumulative effect of retroactive application of this new accounting policy prior to the beginning of the fiscal year ended March 31, 2022, and then have applied this new accounting policy from the beginning of the fiscal year ended March 31, 2022. However, in accordance with paragraph 86 of the Accounting Standard for Revenue Recognition, this new accounting policy was not retroactively applied to contracts for which almost all revenue amounts were recognized in accordance with the previous treatment prior to the beginning of the fiscal year ended March 31, 2022. In addition, in accordance with the method prescribed in paragraph 86 (1) of the Accounting Standard for Revenue Recognition, contract modifications made prior to the beginning of the fiscal year ended March 31, 2022, were accounted for based on the contract terms after

estimates, the Company incorporates the expectation that the economic impact of COVID-19 will continue for a certain period during the next fiscal year. However, the Company believes the effect on key assumptions is immaterial.

(3) Impact on consolidated financial statements for the following fiscal year

Expected gain on sale of investment securities under the medium-term management plan has a significant impact on estimations for taxable income; therefore, the inability to sell stock intended for sale may trigger a reversal of deferred tax assets.

reflecting all contract modifications, and the cumulative effect of such modifications was adjusted to the balance of retained earnings at the beginning of the fiscal year ended March 31, 2022.

Furthermore, "Notes and accounts receivable - trade," previously shown under "Current assets" in the consolidated balance sheet, are presented as "Notes receivable - trade," "Accounts receivable - trade," and "Contract assets" as of March 31, 2022. Similarly, "Provision for sales rebates" and part of payables included in "Other," previously shown under "Current liabilities," are recognized as refund liabilities and included in "Other," and advances received previously included in "Other" are presented as "Contract liabilities" as of March 31, 2022. However, in accordance with transitional treatment prescribed in paragraph 89-2 of the Accounting Standard for Revenue Recognition, the reclassifications of previous fiscal year's amounts have not been made to conform to the current fiscal year's presentation. In addition, "Reversal of provision for sales returns" and "Provision for sales returns," previously shown as separate line items, are included in "Net sales" for the fiscal year ended March 31, 2022.

As a result, comparing with the consolidated financial statements prior to the application of the Accounting Standard for Revenue Recognition, total assets decreased by ¥161 million (\$1,315 thousand) and total liabilities increased by ¥248 million (\$2,026 thousand) in the consolidated balance sheet as of March 31, 2022. Similarly, net sales decreased by ¥205 million (\$1,675 thousand), cost of sales increased by ¥204 million (\$1,666 thousand), and operating profit, ordinary profit, and profit before income taxes each decreased by ¥409 million (\$3,341 thousand) in the consolidated statement of income for the fiscal year ended March 31, 2022.

In the consolidated statement of cash flows, "Decrease (increase) in trade receivables," previously shown under "Cash flows from operating activities," is included in "Decrease (increase) in trade receivables and contract assets" for the fiscal year ended March 31, 2022. There is no impact on the consolidated statement of cash flows.

Due to the impact from the cumulative effect of retroactive adjustments at the beginning of the fiscal year ended March 31, 2022, the beginning balance of retained earnings in the consolidated statement of changes in net assets decreased by ¥1,472 million (\$12,024 thousand) for fiscal year ended March 31, 2022.

The impact on per share amounts is stated in Note "(Amounts Per Share)."

Furthermore, in accordance with the transitional treatment prescribed in paragraph 89-3 of the Accounting Standard for Revenue Recognition, the previous fiscal year's disclosure is not stated in Note "(Revenue Recognition)."

(Significant Accounting Estimates)**1. Significant accounting estimates**

Recoverability of deferred tax assets

Amounts recorded in the consolidated financial statements for the fiscal year

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	March 31, 2022	March 31, 2022
Deferred tax assets (net)	—	—	—

(Deferred tax assets before offsetting deferred tax liabilities were ¥4,649 million as of March 31, 2021, and ¥5,199 million (\$42,469 thousand) as of March 31, 2022.)

2. Other information that contributes to understanding the financial statements

(1) Calculation method

In accordance with "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance, No. 26, issued March 28, 2016), deductible temporary differences that are judged to be recoverable are recorded as deferred tax assets. Recoverability is determined according to future profitability based on the medium-term management plan approved by the Board of Directors, and the future taxable income based on tax planning.

Application of the Accounting Standard for Fair Value Measurement
Effective from the beginning of the fiscal year ended March 31, 2022, the Companies have applied the "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019, hereinafter, the "Accounting Standard for FVM"), etc. In accordance with the transitional treatments prescribed in paragraph 19 of the Accounting Standard for FVM and paragraph 44-2 of the "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019), the Companies have applied the new accounting policy prospectively. There is no effect on

(Accounting Standards Issued but Not Yet Applied)

"Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021)

(1) Overview

It has established the implementation guidance for fair value measurement and related disclosures of investment trusts and for disclosures of fair value of the investments in partnerships, etc., which are presented in a balance sheet at the net amount equivalent to the holding equity interest.

(Changes in Presentation)

Consolidated Statement of Cash Flows

"Foreign exchange losses (gains)," which was previously shown as a separate line item under "Cash flows from operating activities" has been included in "Other" since the amount became insignificant for the fiscal year ended March 31, 2022. In order to reflect this change in presentation, the consolidated financial statements for the fiscal year ended March 31, 2021, have been reclassified to conform to the current fiscal year's presentation.

the consolidated financial statements for the fiscal year ended March 31, 2022, from this change.

In addition, the fair value hierarchy of financial instruments is disclosed in Note "(Financial Instruments)." In accordance with the transitional treatment prescribed in paragraph 7-4 of the "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No.19, July 4, 2019), relevant information for the previous fiscal year was not stated.

(2) Scheduled date of application

The Companies expect to apply the implementation guidance from the beginning of the fiscal year ending March 31, 2023.

(3) Impact of the application

The Companies are currently evaluating the effect of the application of this implementation guidance on the consolidated financial statements.

As a result, ¥(0) million of "Foreign exchange losses (gains)" and ¥6 million of "Other," which were shown under "Cash flows from operating activities" in the consolidated statement of cash flows for the fiscal year ended March 31, 2021, have been reclassified to ¥6 million (\$49 thousand) of "Other."

(Consolidated Balance Sheet)

*1 Of notes and accounts receivable - trade and contract assets, the amounts of receivables and contract assets arising from contracts with customers are stated in Note "(Revenue Recognition), 3. (1) Outstanding balances of contract assets and contract liabilities."

*2 Investments in unconsolidated subsidiaries are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	March 31, 2022	March 31, 2022
Investment securities (equity securities)	¥889	¥889	\$7,262

*3 Amounts of tax purpose reduction entry from national subsidies etc.

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	March 31, 2022	March 31, 2022
Buildings	¥798	¥798	\$6,519
Land	113	113	923

(Consolidated Statement of Income)

*1 Revenue from contracts with customers

For net sales, revenue from contracts with customers and other revenue are not separately presented. Amounts of revenue from contracts with customers are stated in Note "(Segment Information)."

*2 Major items of selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Provision for sales promotion expenses	¥ 149	¥ 137	\$ 1,119
Salaries, allowances and bonuses	7,410	7,321	59,802
Provision for bonuses	1,078	1,016	8,299
Provision for bonuses for directors (and other officers)	14	14	114
Provision for retirement benefits for directors (and other officers)	13	17	139
Retirement benefit expenses	686	455	3,717
Depreciation and amortization	1,835	2,217	18,110
Research and development expenses	¥9,626	¥10,363	\$84,651

*3 Total research and development expenses included in selling, general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
	¥9,626	¥10,363	\$84,651

*4 Gain on sale of non-current assets consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Property, plant and equipment, etc.	0	0	0
Total	0	0	0

*5 Loss on sale of non-current assets consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Land	—	0	0

*6 Loss on disposal of non-current assets consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Buildings and structures	¥ 2	¥ 1	\$ 8
Property, plant and equipment, etc.	8	34	278
Total	¥10	¥35	\$286

(Consolidated Statement of Comprehensive Income)

*1 Reclassification adjustments and tax effect amount relating to other comprehensive income

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Valuation difference on available-for-sale securities:			
Amount recognized in the year	¥37,688	¥(58,548)	\$(478,255)
Reclassification adjustments	(4,004)	16,600	135,599
Before tax effect adjustment	33,683	(41,948)	(342,656)
Amount of tax effect	(10,031)	12,695	103,700
Valuation difference on available-for-sale securities	23,652	(29,253)	(238,956)
Remeasurements of defined benefit plans, net of tax:			
Amount recognized in the year	2,141	3,439	28,092
Reclassification adjustments	352	94	768
Before tax effect adjustment	2,493	3,534	28,868
Amount of tax effect	(760)	(1,078)	(8,806)
Remeasurements of defined benefit plans, net of tax	1,732	2,456	20,062
Total other comprehensive income	¥25,384	¥(26,796)	\$(218,886)

(Consolidated Statement of Changes in Equity)

Fiscal year ended March 31, 2021

1. Class and number of issued shares and class and number of treasury stock

	Thousands of shares			
	As of April 1, 2020	Increase	Decrease	As of March 31, 2021
Issued shares:				
Common stock	51,811	—	—	51,811
Total	51,811	—	—	51,811
Treasury shares:				
Common stock*	5,095	600	0	5,695
Total	5,095	600	0	5,695

* The increase in treasury stock of 600 thousand shares was due to the acquisition of 600 thousand shares based on the resolution of the Board of Directors and purchase of fractional shares less than one unit of 0 thousand shares. The decrease in treasury stock of 0 thousand shares was due to sale of fractional shares less than one unit of 0 thousand shares.

2. Dividends

(1) Cash dividends paid

Resolution	Class	Total dividend payments (Millions of yen)	Dividends per share (yen)	Record date	Effective date
Annual General Meeting of Shareholders on June 26, 2020	Common stock	¥1,214	¥26	March 31, 2020	June 29, 2020
Meeting of Board of Directors on November 4, 2020	Common stock	1,261	27	September 30, 2020	December 3, 2020

(2) Of the dividends whose record date belongs to the current fiscal year, the dividend whose effective date falls in the next fiscal year.

Resolution	Class	Total dividend payments (Millions of yen)	Source of dividends	Dividends per share (yen)	Record date	Effective date
Annual General Meeting of Shareholders on June 24, 2021	Common stock	¥1,245	Retained earnings	¥27	March 31, 2021	June 25, 2021

Fiscal year ended March 31, 2022

1. Class and number of issued shares and class and number of treasury stock

	Thousands of shares			
	As of April 1, 2021	Increase	Decrease	As of March 31, 2022
Issued shares:				
Common stock	51,811	—	—	51,811
Total	51,811	—	—	51,811
Treasury shares:				
Common stock*	5,695	0	0	5,695
Total	5,695	0	0	5,695

* The increase in treasury stock of 0 thousand shares was due to purchase of fractional shares less than one unit of 0 thousand shares. The decrease in treasury stock of 0 thousand shares was due to sale of fractional shares less than one unit of 0 thousand shares.

2. Dividends

(1) Cash dividends paid

Resolution	Class	Total dividend payments (Millions of yen)	Dividends per share (U.S. dollars)	Record date	Effective date
Annual General Meeting of Shareholders on June 24, 2021	Common stock	¥1,245	¥27	March 31, 2021	June 25, 2021
Meeting of Board of Directors on November 8, 2021	Common stock	1,291	28	September 30, 2021	December 2, 2021

(2) Of the dividends whose record date belongs to the current fiscal year, the dividend whose effective date falls in the next fiscal year.

Resolution	Class	Total dividend payments (Millions of yen)	Source of dividends	Dividends per share (U.S. dollars)	Record date	Effective date
Annual General Meeting of Shareholders on June 23, 2022	Common stock	¥1,291	Retained earnings	¥28	March 31, 2022	June 24, 2022

(Consolidated Statement of Cash Flows)

*1 Reconciliation of cash and cash equivalents in the consolidated statement of cash flows to accounts and amounts in the accompanying consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Cash and deposits	¥20,456	¥30,013	\$245,164
Securities	23,998	23,139	189,013
Time deposits with original maturities of over three months	(48)	(48)	(392)
Debt securities with redemption period exceeding three months, etc.	(959)	(99)	(809)
Cash and cash equivalents	¥43,447	¥53,004	\$432,968

(Lease Transactions)

As a Lessee

Finance leases that do not transfer ownership

1. Details of leased assets

Property, plant and equipment: Primarily IT equipment included in "Other"

Intangible assets: Software included in "Other"

2. Depreciation and amortization of leased assets

Depreciation and amortization of leased assets are stated in Note "(Significant Matters for the Basis of Preparing the Consolidated Financial Statements), 4. Accounting policies, (2) Method of depreciation and amortization of significant depreciable assets."

(Financial Instruments)**1. Status of financial instruments**

(1) Policy on financial instruments

The Companies manage temporary cash surpluses through low-risk financial assets. Further, the Companies raise funds through bank borrowings. The Companies use derivatives for the purpose of avoiding the risks stated below and do not engage in transactions for speculative purposes.

(2) Types of financial instruments, related risks, and risk management systems

Notes and accounts receivable - trade are exposed to credit risk in relation to customers. In accordance with the internal policies for managing credit risk of the Companies arising from receivables, each related division monitors the credit worthiness of its main customers periodically, and monitors due dates and outstanding balances by individual customer. Securities and investment securities are exposed to market risk; however, they are managed in accordance with the internal policies and procedures on securities and the general manager of the Corporate Finance & Management Department reports the status of these holdings to the Board of Directors on a regular basis.

(3) Supplementary explanation of the estimated fair value of financial instruments

In estimating the fair value of financial instruments, various assumptions and factors are reflected; therefore, different assumptions and factors could result in a different fair value.

2. Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheet, fair value and the difference are shown in the following tables.

March 31, 2021

	Millions of yen		
	Carrying value	Fair value	Difference
(1) Securities and investment securities:			
Available-for-sale securities ^{(*)2}	¥156,655	¥156,655	¥—
Total	¥156,655	¥156,655	¥—

(*)1 Regarding cash and deposits, notes and accounts receivable - trade, notes and accounts payable - trade, short-term borrowings, and income taxes payable, they are cash in nature and settled in a short period of time. Thus, the disclosure is omitted since their carrying value approximates fair value.

(*)2 Financial instruments for which it is extremely difficult to determine the fair value are as follows:

	Millions of yen
	March 31, 2021
Unlisted equity securities	4,587
Investments in unconsolidated subsidiaries	889

Because no quoted market price is available and it is extremely difficult to determine the fair value, these financial instruments are not included in "Securities and investment securities" in the table above.

March 31, 2022

	Millions of yen		
	Carrying value	Fair value	Difference
(1) Securities and investment securities:			
Available-for-sale securities ^{(*)2}	¥113,941	¥113,941	¥—
Total	¥113,941	¥113,941	¥—

March 31, 2022

	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Securities and investment securities:			
Available-for-sale securities ^{(*)2}	\$930,738	\$930,738	\$—
Total	\$930,738	\$930,738	\$—

(*)1 For cash and deposits, notes and accounts receivable - trade, notes and accounts payable - trade, short-term borrowings, and income taxes payable, the disclosure is omitted, since their carrying value approximates fair value as these items are cash or settled in a short period of time.

(*)2 Equity securities without market prices are not included in "Securities and investment securities" in the above table. The carrying values of these financial instruments are as follows:

	Millions of yen	Thousands of U.S. dollars
	March 31, 2022	March 31, 2022
Unlisted equity securities	¥4,939	\$40,345
Investments in unconsolidated subsidiaries	889	7,262

Note 1: Redemption schedules for receivables and securities with maturities subsequent to the consolidated balance sheet date

March 31, 2021

	Millions of yen			
	Due in one year or less	Due after one year to five years	Due after five year to ten years	Due after ten years
Cash and deposits	¥20,456	¥—	¥—	¥—
Notes and accounts receivable - trade	23,058	—	—	—
Securities and investment securities				
Available-for-sale securities with maturities	23,796	2,171	1,764	1,000
Total	¥67,311	¥2,171	¥1,764	¥1,000

March 31, 2022

	Millions of yen			
	Due in one year or less	Due after one year to five years	Due after five year to ten years	Due after ten years
Cash and deposits	¥30,013	¥—	¥—	¥—
Notes receivable - trade	233	—	—	—
Accounts receivable - trade	21,723	—	—	—
Securities and investment securities				
Available-for-sale securities with maturities	23,140	2,293	1,399	400
Total	¥75,111	¥2,293	¥1,399	¥400

March 31, 2022

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year to five years	Due after five year to ten years	Due after ten years
Cash and deposits	\$245,164	\$—	\$—	\$—
Notes receivable - trade	1,903	—	—	—
Accounts receivable - trade	177,446	—	—	—
Securities and investment securities				
Available-for-sale securities with maturities	189,021	18,731	11,428	3,267
Total	\$613,552	\$18,731	\$11,428	\$3,267

Note 2: Redemption schedules for corporate bonds, long-term borrowings, lease liabilities, and other interest-bearing liabilities
It is disclosed in Note "[Consolidated Supplementary Schedules], Details of borrowings."**3. Matters regarding fair value hierarchy of financial instruments**

The Companies classify the fair value of financial instruments into three categories depending on whether inputs for a fair value measurement are observable or significant.

Level 1 fair value:	Fair value measured by using quoted prices in active markets as observable inputs for assets or liabilities subject to a fair value measurement
Level 2 fair value:	Fair value measured by using observable inputs other than those for Level 1
Level 3 fair value:	Fair value measured by using unobservable inputs

When multiple inputs of different categories are used in measuring fair value, the Companies classify the fair value into a category to which the lowest priority is assigned.

(I) Financial instruments measured at fair value in the consolidated balance sheet

March 31, 2022

	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities:				
Equity securities	¥ 80,419	—	—	¥ 80,419
Corporate bonds	1,750	—	—	1,750
Other	23,039	—	—	23,039
Total	¥105,209	—	—	¥105,209

March 31, 2022

	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities:				
Equity securities	\$656,911	—	—	\$656,911
Corporate bonds	14,295	—	—	14,295
Other	188,196	—	—	188,196
Total	\$859,410	—	—	\$859,410

Notes:

- The fair value of investment trusts is not included in the table above. The carrying value of investment trusts in the consolidated balance sheet is ¥8,732 million (\$71,328 thousand).
- Explanation of valuation techniques and inputs used for fair value measurement

Securities and investment securities

The fair value of listed securities and corporate bonds are measured at quoted market prices. Since they are traded in active markets, the fair value is classified into Level 1.

(Securities)**1. Trading securities**

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	March 31, 2022	March 31, 2022
Valuation difference included in the consolidated statement of income	¥720	¥180	\$1,470

2. Available-for-sale securities

March 31, 2021

	Type	Millions of yen		
		Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	Equity securities	¥121,152	¥15,556	¥105,595
	Bonds			
	Government bonds / municipal bonds, etc.	—	—	—
	Corporate bonds	1,312	1,300	12
	Other bonds	—	—	—
	Other	6,075	4,451	1,623
	Subtotal	128,539	21,308	107,231
Securities whose carrying value does not exceed their acquisition cost	Equity securities	1,380	1,983	(603)
	Bonds			
	Government bonds / municipal bonds, etc.	—	—	—
	Corporate bonds	447	450	(2)
	Other bonds	—	—	—
	Other	26,287	26,394	(107)
	Subtotal	28,115	28,828	(712)
	Total	¥156,655	¥50,136	¥106,519

March 31, 2022

	Type	Millions of yen		
		Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	Equity securities	¥ 79,159	¥14,972	¥64,186
	Bonds			
	Government bonds / municipal bonds, etc.	—	—	—
	Corporate bonds	807	800	7
	Other bonds	—	—	—
	Other	4,861	4,481	380
	Subtotal	84,828	20,253	64,574
Securities whose carrying value does not exceed their acquisition cost	Equity securities	1,260	1,367	(106)
	Bonds			
	Government bonds / municipal bonds, etc.	—	—	—
	Corporate bonds	942	950	(7)
	Other bonds	—	—	—
	Other	26,909	27,151	(241)
	Subtotal	29,112	29,468	(355)
	Total	¥113,941	¥49,722	¥64,218

March 31, 2022

	Type	Thousands of U.S. dollars		
		Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	Equity securities	\$646,618	\$122,300	\$524,310
	Bonds			
	Government bonds / municipal bonds, etc.	—	—	—
	Corporate bonds	6,592	6,535	57
	Other bonds	—	—	—
	Other	39,708	36,603	3,104
	Subtotal	692,926	165,439	527,479
Securities whose carrying value does not exceed their acquisition cost	Equity securities	10,292	11,166	(866)
	Bonds			
	Government bonds / municipal bonds, etc.	—	—	—
	Corporate bonds	7,695	7,760	(57)
	Other bonds	—	—	—
	Other	219,809	221,786	(1,969)
	Subtotal	237,804	240,712	(2,900)
	Total	\$930,738	\$406,159	\$524,571

3. Available-for-sale securities sold

Fiscal year ended March 31, 2021

Type	Millions of yen		
	Sales proceeds	Total gain on sale	Total loss on sale
Equity securities	¥4,242	¥4,114	¥—
Bonds			
Government bonds / municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other bonds	—	—	—
Other	241	4	34
Total	¥4,483	¥4,119	¥34

Fiscal year ended March 31, 2022

Type	Millions of yen		
	Sales proceeds	Total gain on sale	Total loss on sale
Equity securities	¥16,051	¥15,465	¥—
Bonds			
Government bonds / municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other bonds	—	—	—
Other	5,772	1,135	1
Total	¥21,823	¥16,601	¥ 1

Fiscal year ended March 31, 2022

Type	Thousands of U.S. dollars		
	Sales proceeds	Total gain on sale	Total loss on sale
Equity securities	\$131,114	\$126,327	\$—
Bonds			
Government bonds / municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other bonds	—	—	—
Other	47,149	9,271	8
Total	\$178,263	\$135,607	\$ 8

(Retirement Benefits)**1. Overview of retirement benefit plans**

The Companies offer cash balance plans to their employees as their defined benefit corporate plans. In certain cases, the Companies pay additional retirement benefits for employees that are not included in the retirement benefit obligations determined actuarially in accordance with the accounting standard for retirement benefits. In addition, a retirement benefit trust has been established as part of the Company's defined benefit corporate pension plans.

2. Defined benefit plans

(1) Reconciliation of retirement benefit obligations at beginning and end of period

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Retirement benefit obligation at beginning of period	¥22,754	¥22,487	\$183,687
Service cost	891	853	6,968
Interest cost	52	74	604
Actuarial gains and losses incurred this period	(405)	(3,235)	(26,425)
Retirement benefits paid	(805)	(873)	(7,131)
Retirement benefit obligation at end of period	¥22,487	¥19,305	\$157,695

(2) Reconciliation of balance of plan assets at beginning and end of period

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Plan assets at beginning of period	¥19,181	¥21,252	\$173,599
Expected return on plan assets	479	531	4,338
Actuarial gains and losses incurred this period	1,735	203	1,658
Employer contribution	661	652	5,326
Retirement benefits paid	(805)	(873)	(7,131)
Plan assets at end of period	¥21,252	¥21,766	\$177,798

(3) Reconciliation of retirement benefit obligation and plan assets with retirement benefit liability and asset reflected on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Retirement benefit obligation for funded plan	¥ 22,487	¥ 19,305	\$ 157,695
Plan assets	(21,252)	(21,766)	(177,798)
Net amount of retirement benefit liability and asset on the consolidated balance sheet	1,234	(2,460)	(20,095)
Retirement benefit asset	—	(2,460)	(20,095)
Retirement benefit liability	1,234	—	—
Net amount of retirement benefit liability and asset on the consolidated balance sheet	¥ 1,234	¥ (2,460)	\$ (20,095)

(4) Breakdown of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Service cost	¥ 891	¥ 853	\$ 6,968
Interest cost	52	74	604
Expected return on plan assets	(479)	(531)	(4,338)
Amortization of actuarial gains and losses	607	350	2,859
Amortization of prior service cost	(255)	(255)	(2,083)
Other	117	108	882
Retirement benefit expense on defined benefit plan	¥ 933	¥ 600	\$ 4,901

(5) Remeasurement of defined benefit plans included in other comprehensive income

The components of remeasurement of defined benefit plans included in other comprehensive income (before tax effect) are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Prior service cost	¥ (255)	¥ (255)	\$ (2,083)
Actuarial gains and losses	2,748	3,789	30,951
Total	¥2,493	¥3,534	\$28,868

(6) Remeasurement of defined benefit plans included in accumulated other comprehensive income

The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	March 31, 2022	March 31, 2022
Unrecognized prior service cost	¥(765)	¥ (510)	\$ (4,166)
Unrecognized actuarial gains and losses	736	(3,052)	(24,931)
Total	¥ (28)	¥(3,562)	\$ (29,097)

(7) Plan assets information

i. The components of plan assets

Ratios of each component of plan assets to amount of total plan assets are as follows:

	March 31, 2021	March 31, 2022
Debt securities	21%	16%
Equity securities	29	38
Cash and deposits	1	8
General accounts	43	33
Other	6	5
Total	100%	100%

Note: Total plan assets include a retirement benefit trust established as part of the Company's defined benefit corporate pension plans. The proportion of plan assets in this trust was 5.7% for the fiscal year ended March 31, 2021, and 4.0% for the fiscal year ended March 31, 2022.

ii. Method to determine long-term expected rate of return on plan assets

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

(8) Actuarial assumptions

Major assumptions used in actuarial calculation (discount rate is presented as a weighted average):

	2021	2022
Discount rate	0.5%	0.6%
Long-term expected rate of return on plan assets	2.5%	2.5%

(Income Taxes)**1. Components of deferred tax assets and liabilities by major causes at March 31, 2021 and 2022, are as follows:**

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	March 31, 2022	March 31, 2022
Deferred tax assets:			
Prepaid research and development expenses	¥ 2,921	¥ 2,517	\$ 20,560
Loss on valuation of securities	463	650	5,310
Retirement benefit liability	766	615	5,024
Inventories	346	626	5,114
Provision for bonuses	554	520	4,248
Contract liabilities	—	406	3,316
Accrued enterprise taxes	137	264	2,157
Provision for retirement benefits for directors (and other officers)	158	163	1,331
Impairment loss	148	148	1,209
Provision for sales rebates	97	—	—
Other	831	919	7,507
Total gross deferred tax assets	6,426	6,834	55,824
Valuation allowance	(1,776)	(1,634)	(13,347)
Total deferred tax assets	4,649	5,199	42,469
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(32,153)	(19,458)	(158,945)
Other	(390)	(1,476)	(12,057)
Total deferred tax liabilities	(32,544)	(20,935)	(171,010)
Deferred tax assets (liabilities), net	¥(27,894)	¥(15,735)	\$(128,533)

Note: The net amounts of deferred tax liabilities in the fiscal years ended March 31, 2021 and 2022, are broken into and included in the following items in the consolidated balance sheet.

	Millions of yen		Thousands of U.S. dollars
	March 31, 2021	March 31, 2022	March 31, 2022
Non-current assets—deferred tax assets	¥ 585	¥ 524	\$ 4,280
Non-current liabilities—deferred tax liabilities	(28,480)	(16,259)	(132,813)

2. Reconciliation between the effective statutory tax rate and the actual tax rate

	2021	2022
Effective statutory tax rate	30.5%	30.5%
Adjustments:		
Entertainment expenses and other non-deductibles	0.2	0.1
Dividend income not taxable	(1.1)	(0.6)
Tax benefits due to research and development expenses	(7.3)	(4.7)
Per capita levy of local inhabitants' taxes	1.1	0.5
Valuation allowance	5.2	(3.3)
Other	(0.5)	(1.5)
Actual effective tax rate	28.1%	21.0%

(Revenue Recognition)**1. Information on disaggregated revenue from contracts with customers**

Information on disaggregated revenue from contracts with customers is stated in Note "(Segment Information)."

2. Information on the basis of understanding revenue from contracts with customers

Information on the basis of understanding revenue from contracts with customers is stated in Note "(Significant Matters for the Basis of Preparing the Consolidated Financial Statements), 4. Accounting policies, (5) Basis for recognition of significant revenue and expenses."

3. Information on the relationship between satisfaction of performance obligations based on contracts with customers and cash flows from the contracts, and information on amounts of revenue expected to be recognized from contracts with customers that exist as of the end of the current fiscal year and their timing of revenue recognition after the end of the current fiscal year

(1) Outstanding balances of contract assets and contract liabilities

	Millions of yen	Thousands of U.S. dollars
	2022	2022
Receivables from contracts with customers at beginning of period	¥23,058	\$188,352
Receivables from contracts with customers at end of period	21,957	179,358
Contract assets at beginning of period	71	580
Contract assets at end of period	850	6,943
Contract liabilities at beginning of period	1,592	13,004
Contract liabilities at end of period	¥ 2,696	\$ 22,023

Contract assets represent the consolidated subsidiaries' right to consideration for construction and other works completed but not billed as of the balance sheet date regarding the construction contracts with customers in the information services business and the construction business. Contract assets are transferred to receivables from contracts with customers when the consolidated subsidiaries' right to consideration becomes unconditional. The consideration for the construction and other works is billed when the works are completed and generally received in one month in accordance with the construction contracts.

Contract liabilities represent advances received from customers based on the terms and conditions of the agreements and contracts, of consideration for upfront and milestone payments under out-licensing agreements in the pharmaceutical business and consideration for the performance obligation in accordance with construction contracts with customers in the information services business and the construction business. Contract liabilities are reversed as revenue is recognized.

Of revenue recognized in the fiscal year ended March 31, 2022, the amount included in contract liabilities as of the beginning of the fiscal year ended March 31, 2022, was ¥257 million (\$2,099 thousand). The increase in contract assets of ¥779 million (\$6,363 thousand) was primarily

attributable to the year-on-year increase in construction in progress in the information services business and the construction business as of March 31, 2022. The increase in contract liabilities of ¥1,044 million (\$9,018 thousand) was primarily attributable to upfront payments under new out-licensing agreements in the pharmaceutical business and advances received based on construction contracts in the information services business and the construction business.

(2) Transaction prices allocated to remaining performance obligations
The total transaction prices allocated to remaining performance obligations and the period for which revenue is expected to be recognized are as follows:

The total transaction prices allocated to remaining performance obligations as of March 31, 2022, was ¥2,696 million (\$22,023 thousand). For these performance obligations, the Companies expect to recognize revenue as the performance obligations are satisfied: ¥1,043 million (\$8,520 thousand) within one year, ¥1,067 million (\$8,716 thousand) in more than one year but less than five years, and ¥585 million (\$4,779 thousand) in more than five years but less than 10 years.

(Segment Information)*Segment Information***1. Overview of reportable segments**

The reportable segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess their performance.

2. Method of calculating net sales, profit (loss), identifiable assets / liabilities, and other items by reportable segment

The accounting treatment procedure for reportable segments is the same as that described in Note "(Significant Matters for the Basis of Preparing the Consolidated Financial Statements)."

Segment profit is calculated based on operating profit.

Intersegment sales are recognized based on the price in an arm's-length transaction.

3. Information on net sales and profit (loss), identifiable assets / liabilities, and other items by reportable segment and disaggregation of revenue

Fiscal year ended March 31, 2021

	Millions of yen				
	Reportable segment				Total
	Pharmaceutical	Information services	Construction	Merchandising	
Net sales:					
Sales to third parties	¥ 56,407	¥ 8,489	¥3,538	¥ 609	¥ 69,044
Intersegment sales and transfers	—	1,947	1,101	1,345	4,395
Total	¥ 56,407	¥10,437	¥4,639	¥1,955	¥ 73,439
Segment profit (loss)	¥ 355	¥ 837	¥ 309	¥ (10)	¥ 1,492
Segment assets	¥257,087	¥ 8,604	¥3,241	¥1,953	¥270,887
Other items:					
Depreciation and amortization*	¥ 2,866	¥ 357	¥ 26	¥ 24	¥ 3,274
Increase in property, plant and equipment and intangible assets*	11,010	341	21	12	11,385

* Depreciation and amortization include the amortization of long-term prepaid expenses. Increase in property, plant and equipment and intangible assets includes the increase in long-term prepaid expenses.

Fiscal year ended March 31, 2022

	Millions of yen				
	Reportable segment				Total
	Pharmaceutical	Information services	Construction	Merchandising	
Net sales:					
Pharmaceutical					
Pharmaceuticals	¥ 45,792	¥ —	¥ —	¥ —	¥ 45,792
Therapeutic and care foods	3,568	—	—	—	3,568
Technical fees	518	—	—	—	518
Other	4,268	—	—	—	4,268
Information services	—	9,562	—	—	9,562
Construction	—	—	4,331	—	4,331
Merchandising	—	—	—	763	763
Revenue from contracts with customers	54,147	9,562	4,331	763	68,805
Sales to third parties	54,147	7,742	2,948	543	65,381
Intersegment sales and transfers	—	1,820	1,383	220	3,424
Total	¥ 54,147	¥9,562	¥4,331	¥ 763	¥ 68,805
Segment profit (loss)	¥ (2,608)	¥ 914	¥ 192	¥ 30	¥ (1,470)
Segment assets	¥226,428	¥8,549	¥3,058	¥2,127	¥240,164
Other items:					
Depreciation and amortization*	¥ 3,399	¥ 430	¥ 26	¥ 23	¥ 3,879
Increase in property, plant and equipment and intangible assets*	5,343	487	15	1	5,847

* Depreciation and amortization include the amortization of long-term prepaid expenses. Increase in property, plant and equipment and intangible assets includes the increase in long-term prepaid expenses.

Fiscal year ended March 31, 2022

	Thousands of U.S. dollars				
	Reportable segment				Total
	Pharmaceutical	Information services	Construction	Merchandising	
Net sales:					
Pharmaceutical					
Pharmaceuticals	\$ 374,057	\$ —	\$ —	\$ —	\$ 374,057
Therapeutic and care foods	29,146	—	—	—	29,146
Technical fees	4,231	—	—	—	4,231
Other	34,864	—	—	—	34,864
Information services	—	78,108	—	—	78,108
Construction	—	—	35,378	—	35,378
Merchandising	—	—	—	6,233	6,233
Revenue from contracts with customers	442,305	78,108	35,378	6,233	562,041
Sales to third parties	442,305	63,241	24,081	4,436	534,071
Intersegment sales and transfers	—	14,867	11,297	1,797	27,969
Total	\$ 442,305	\$78,108	\$35,378	\$ 6,233	\$ 562,041
Segment profit (loss)	\$ (21,304)	\$ 7,466	\$ 1,568	\$ 245	\$ (12,008)
Segment assets	\$1,849,600	\$69,833	\$24,980	\$17,375	\$1,961,804
Other items:					
Depreciation and amortization*	\$ 27,765	\$ 3,512	\$ 212	\$ 188	\$ 31,686
Increase in property, plant and equipment and intangible assets*	43,645	3,978	123	8	47,762

* Depreciation and amortization include the amortization of long-term prepaid expenses. Increase in property, plant and equipment and intangible assets includes the increase in long-term prepaid expenses.

4. Reconciliation items between segment information and the consolidated financial statements

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Net sales			
Total for reportable segments	¥73,439	¥68,805	\$562,041
Elimination of intersegment transactions	(4,395)	(3,424)	(27,969)
Net sales in the consolidated financial statements	¥69,044	¥65,381	\$534,071

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Profit			
Total for reportable segments	¥1,492	¥(1,470)	\$(12,008)
Elimination of intersegment transactions	65	69	564
Adjustments to non-current assets	(62)	4	33
Other adjustments	9	(5)	(41)
Operating profit (loss) in the consolidated financial statements	¥1,505	¥(1,402)	\$(11,452)

	Millions of yen		Thousands of U.S. dollars
	2021	2022	2022
Assets			
Total for reportable segments	¥270,887	¥240,164	\$1,961,804
Elimination of intersegment transactions	(2,026)	(2,076)	(16,958)
Total assets in the consolidated financial statements	¥268,861	¥238,087	\$1,944,837

	Total for reportable segments			Adjustments			Amount in the consolidated financial statements		
	2021 (Millions of yen)	2022 (Millions of yen)	2022 (Thousands of U.S. dollars)	2021 (Millions of yen)	2022 (Millions of yen)	2022 (Thousands of U.S. dollars)	2021 (Millions of yen)	2022 (Millions of yen)	2022 (Thousands of U.S. dollars)
Other items									
Depreciation and amortization	¥ 3,274	¥3,879	\$31,686	¥(126)	¥(148)	\$(1,209)	¥ 3,148	¥3,730	\$30,469
Increase in property, plant and equipment and intangible assets	11,385	5,847	47,762	(245)	(126)	(1,029)	11,139	5,721	46,733

Related Information

Fiscal year ended March 31, 2021

1. Products and services information

The disclosure is omitted since the same information is stated in "(Segment Information)."

2. Geographical information

(1) Net sales

The disclosure is omitted since sales to external customers in Japan exceeded 90% of net sales shown on the consolidated statement of income.

(2) Property, plant and equipment

There are no corresponding items as the Companies do not possess any property, plant or equipment outside of Japan.

3. Major customer information

	Net sales (Millions of yen)	Relevant segment
Alfresa Corporation	¥12,265	Pharmaceutical
SUZUKEN CO., LTD.	9,066	Pharmaceutical
MEDICEO CORPORATION	8,511	Pharmaceutical

Fiscal year ended March 31, 2022

1. Products and services information

The disclosure is omitted since the same information is stated in Note "(Segment Information)."

2. Geographical information

(1) Net sales

The disclosure is omitted since sales to external customers in Japan exceeded 90% of net sales shown on the consolidated statement of income.

(2) Property, plant and equipment

There are no corresponding items as the Companies do not possess any property, plant or equipment outside of Japan.

3. Major customer information

	Net sales (Millions of yen)	Net sales (Thousands of U.S. dollars)	Relevant segment
Alfresa Corporation	¥11,022	\$90,034	Pharmaceutical
SUZUKEN CO., LTD.	8,883	72,562	Pharmaceutical
MEDICEO CORPORATION	8,403	68,641	Pharmaceutical

Information on impairment loss of property, plant and equipment by reportable segment

No corresponding items

Information on amortization of goodwill and unamortized balance by reportable segment

No corresponding items

Information on gain on bargain purchase by reportable segment

No corresponding items

Information on related party transactions

No corresponding items

(Amounts per Share)

Amounts per share as of March 31, 2021 and 2022, and for the fiscal years then ended are as follows:

	Yen		U.S. dollars
	2021	2022	2022
Net assets per share	¥4,755.74	¥4,366.96	\$35.67
Profit per share	113.25	280.20	2.29

Notes:

- Diluted profit per share is not presented because there is no dilutive potential of shares of common stock.
- The basis for calculating profit per share is as follows:

	2021	2022	2022
Profit attributable to owners of parent	¥5,285 (Millions of yen)	¥12,921 (Millions of yen)	\$105,546 (Thousands of U.S. dollars)
Amount not attributable to common stock shareholders	— (Millions of yen)	— (Millions of yen)	— (Thousands of U.S. dollars)
Profit attributable to common stock owners of parent	¥5,285 (Millions of yen)	¥12,921 (Millions of yen)	\$105,546 (Thousands of U.S. dollars)
Weighted average number of shares (Thousands of shares)	46,666	46,115	46,115

3. As stated in Note "(Changes in Accounting Policies)," the Companies have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020). In accordance with the transitional treatment prescribed in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition, net assets per share and profit per share decreased ¥40.81 (\$0.33) and ¥8.89 (\$0.07), respectively, for the fiscal year ended March 31, 2022.

(Significant Subsequent Events)**Termination of a significant contract**

In connection with the commencement of corporate restructuring proceedings by ObsEva SA ("ObsEva," Switzerland) on July 27, 2022, the Company will terminate the license agreement with ObsEva for linzagolix (generic name), a drug for the treatment of uterine fibroids and endometriosis, originally discovered by the Company, in accordance with the terms of the said license agreement. The details are as follows:

(1) Name of the company with which the contract is terminated

ObsEva SA (Switzerland)

(2) Timing of termination

To be determined upon negotiation between the parties.

(3) Details of the agreement

Exclusive development and commercialization rights worldwide, except certain Asian countries including Japan, to linzagolix.

(4) The significant impact of the termination of the contract on business activities, etc.

ObsEva has obtained marketing authorization from the European Commission for linzagolix in June 2022. The Company will obtain necessary interests for marketing in Europe including ObsEva's sublicense agreement with Theramex (United Kingdom), to commercialize linzagolix in all countries except for North America and Asia. The Company will take the lead in the commercialization of linzagolix in Europe going forward. While certain impact is expected on revenue such as net sales and expenses such as research and development expenses, the Company is currently examining the amount of the impact.

[Consolidated Supplementary Schedules]

Details of corporate bonds

No corresponding items

Details of borrowings

	Balance at beginning of period (Millions of yen)	Balance at beginning of period (Thousands of U.S. dollars)	Balance at end of period (Millions of yen)	Balance at end of period (Thousands of U.S. dollars)	Average interest rate (%)	Repayment period
Short-term borrowings	¥1,730	\$14,132	¥1,640	\$13,397	1.05	—
Current portion of long-term borrowings	13	106	—	—	—	—
Current portion of lease liabilities	131	1,070	116	948	—	—
Long-term borrowings	—	—	—	—	—	—
Lease liabilities	—	—	—	—	—	April 2023– February 2027
Other interest-bearing liabilities	304	2,483	227	1,854	—	—
Total	¥2,180	\$17,808	¥1,984	\$16,207	—	—

Notes:

- Average interest rate represents the weighted-average interest rate applied to the balance at the end of the fiscal year.
- Average interest rate for lease liabilities is not stated because lease liabilities recognized in the consolidated balance sheet are the total amounts before deductions of interest equivalents included in lease payments
- Repayment schedule for lease liabilities due within five years subsequent to the consolidated balance sheet date is as follows:

		Due after one year to two years	Due after two years to three years	Due after three years to four years	Due after four years to five years
Lease liabilities	(Millions of yen)	¥81	¥72	¥51	¥22
	(Thousands of U.S. dollars)	\$662	\$588	\$417	\$180

[Asset Retirement Obligations]

As the amounts of asset retirement obligations were not more than 1% of the combined total of liabilities and net assets at the beginning and end of the fiscal year ended March 31, 2022, the supplemental schedule of asset retirement obligations is omitted in accordance with paragraph 92-2 of the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements.

[Quarterly Performance in the Fiscal Year Ended March 31, 2022]

		Three months ended June 30, 2021	Six months ended September 30, 2021	Nine months ended December 31, 2021	Fiscal year ended March 31, 2022
Net sales	(Millions of yen)	¥16,635	¥32,388	¥50,085	¥65,381
	(Thousands of U.S. dollars)	\$135,885	\$264,565	\$409,124	\$534,071
Profit before income taxes	(Millions of yen)	4,273	7,273	8,713	16,507
	(Thousands of U.S. dollars)	34,904	59,410	71,173	134,839
Profit attributable to owners of parent	(Millions of yen)	3,644	5,666	6,819	12,921
	(Thousands of U.S. dollars)	29,766	46,283	55,702	105,546
Profit per share	(Yen)	¥79.02	¥122.87	¥147.87	¥280.20
	(U.S. dollars)	\$0.65	\$1.00	\$1.21	\$2.29
		First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share	(Yen)	¥79.02	¥43.85	¥25.00	¥132.33
	(U.S. dollars)	\$0.65	\$0.36	\$0.20	\$1.08

Independent Auditor's Report



Independent Auditor's Report

The Board of Directors
Kissei Pharmaceutical Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Kissei Pharmaceutical Co., Ltd. (the Company) and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2022, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in 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 ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.



Recoverability of deferred tax assets	
Description of Key Audit Matter	Auditor's Response
<p>"As described in (Income taxes) to the consolidated financial statements, the Company recorded deferred tax assets of ¥5,199 million as of March 31, 2022.</p> <p>The amount attributable to KISSEI PHARMACEUTICAL CO., LTD. of ¥4,638 million, or 89.2% of the total amount of deferred tax assets, is of particular significance.</p> <p>The Company determines the recoverability of deferred tax assets for future deductible temporary differences by estimating taxable income based on projected future profitability.</p> <p>The estimate of taxable income based on its projected future profitability is calculated based on the future business plan and the key assumptions include the future revision rate of National Health Insurance ("NHI") drug prices, the timing of overseas revenue recognition such as milestone revenue, and the gain on sales of investment securities.</p> <p>The Company discloses the key assumptions as well as the impact of COVID-19 in (Significant accounting estimate) .</p> <p>Given that the key assumptions applied in the future business plan involve uncertainties and require management judgement in assessing the recoverability of the deferred tax assets, we determined it to be a key audit matter."</p>	<p>"The audit procedures we performed to recoverability of deferred tax assets included the following, among others.</p> <ul style="list-style-type: none"> • We obtained an understanding, evaluated the assess design, and tested the operating effectiveness of the controls over tax effect accounting process. • We examined the underlying future business plan to evaluate the estimates of future taxable income in evaluating the business plan we examined its consistency with the most recent budget approved by the Board of Directors. • We compared the business plans in previous fiscal years with actual results to evaluate the effectiveness of management's estimation process. • We discussed with the management that the key assumptions including the future revision rate of NHI drug prices and the timing of recognition from milestone revenue, which serve as the basis of the business plan. We also discussed the impact of COVID-19 on key assumptions with the management. • We analyzed a trend of previous NHI drug price revisions and read meeting minutes about NHI drug price revisions of the Central Social Insurance Medical Council, advisory body of Minister of Health, Labor and Welfare, to evaluate the future revision rate of NHI drug price estimated by the management. • We read contracts and compared development schedule on out-licensee with the timing of milestone events to evaluate milestone revenue estimated by the management. We also discussed the timing of milestone events with the management.

Ernst & Young ShinNihon LLC



	<ul style="list-style-type: none"> • We read minutes of the meetings of the Board of Directors about the policy for sales of investment securities and planned sales of securities to evaluate the probability of future recognition of gains on sales of investment securities. We also compared the amount of gains on sales of investment securities detailed in the business plan with the amount of unrealized gains on shares to be sold. • We performed a sensitivity analysis on the revision rate of NHI drug price to evaluate the management's assessment of uncertainties for estimation in the future business plan.
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Other Information

the Annual Report

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, 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 and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing 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. 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, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

Ernst & Young ShinNihon LLC



- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not 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 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 in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors 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 the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Corporate Auditor and the Board of Corporate Auditors, 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.



Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2022 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in the top of Notes to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Matsumoto, Japan

September 26, 2022

Yoshihiro Sugimoto
Designated Engagement Partner
Certified Public Accountant

Tetsuya Tomita
Designated Engagement Partner
Certified Public Accountant

 **KISSEI PHARMACEUTICAL CO., LTD.**

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