

Financial Data Book 2023

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Consolidated Balance Sheet

KISSEI PHARMACEUTICAL CO., LTD. and its subsidiaries
At March 31, 2022 and 2023

Assets	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Current Assets			
Cash and deposits	¥ 30,013	¥ 25,893	\$ 193,897
Notes receivable - trade*1	233	173	1,295
Accounts receivable - trade*1	21,723	21,910	164,071
Contract assets*1	850	696	5,212
Securities	23,139	23,706	177,520
Merchandise and finished goods	10,491	12,679	94,945
Work in process	63	129	966
Raw materials and supplies	8,433	9,990	74,809
Other	4,392	5,461	40,894
Total current assets	99,342	100,641	753,639
Non-Current Assets			
Property, plant and equipment			
Buildings and structures*3	39,132	39,026	292,242
Accumulated depreciation	(30,525)	(30,848)	(231,002)
Buildings and structures, net	8,607	8,177	61,233
Land*3	12,611	13,615	101,954
Construction in progress	—	27	202
Other	16,469	16,116	120,683
Accumulated depreciation	(13,613)	(13,357)	(100,022)
Other, net	2,856	2,758	20,653
Total property, plant and equipment	24,074	24,579	184,057
Intangible Assets			
Software	1,179	1,192	8,926
Other	389	314	2,351
Total intangible assets	1,569	1,507	11,285
Investments and Other Assets			
Investment securities*2	96,631	74,769	559,900
Long-term loans receivable	3	5	37
Long-term prepaid expenses	12,480	15,209	113,891
Retirement benefit asset	2,460	3,089	23,132
Deferred tax assets	524	433	3,242
Other	1,024	983	7,361
Allowance for doubtful accounts	(23)	(18)	(135)
Total investments and other assets	113,101	94,472	707,443
Total non-current assets	138,745	120,558	902,786
Total assets	¥238,087	¥221,200	\$1,656,433

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

Liabilities	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Current Liabilities			
Notes and accounts payable - trade	¥ 4,104	¥ 4,617	\$ 34,574
Short-term borrowings	1,640	1,490	11,158
Income taxes payable	3,497	408	3,055
Provision for bonuses	1,707	1,670	12,506
Provision for bonuses for directors (and other officers)	14	9	67
Provision for sales promotion expenses	137	149	1,116
Contract liabilities	2,696	1,846	13,824
Other	4,946	4,764	35,675
Total current liabilities	18,744	14,957	112,004
Non-Current Liabilities			
Deferred tax liabilities	16,259	10,426	78,074
Provision for retirement benefits for directors (and other officers)	181	192	1,438
Asset retirement obligations	138	139	1,041
Other	583	669	5,010
Total non-current liabilities	17,163	11,428	85,577
Total liabilities	35,907	26,385	197,581
Net Assets			
Shareholders' equity			
Share capital	24,356	24,356	182,387
Capital surplus	24,226	24,226	181,414
Retained earnings	118,183	125,576	940,362
Treasury shares	(12,912)	(12,912)	(96,690)
Total shareholders' equity	153,854	161,246	1,207,473
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	45,095	30,393	227,595
Remeasurements of defined benefit plans	2,435	2,259	16,916
Total accumulated other comprehensive income	47,531	32,653	244,518
Non-controlling interests	794	914	6,844
Total net assets	202,180	194,814	1,458,844
Total liabilities and net assets	¥238,087	¥221,200	\$1,656,433

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, 2022 and 2023

Consolidated Statement of Income

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Net Sales*1	¥65,381	¥67,493	\$505,414
Cost of sales	34,143	35,118	262,977
Gross profit	31,238	32,374	242,429
Selling, General and Administrative Expenses*2, *3	32,640	33,503	250,884
Operating loss	(1,402)	(1,129)	(8,454)
Non-Operating Income			
Interest income	42	23	172
Dividend income	1,544	1,379	10,326
Gain on sale of securities	—	50	374
Gain on valuation of securities	180	65	487
Foreign exchange gains	—	186	1,393
Other	325	131	981
Total non-operating income	2,092	1,837	13,756
Non-Operating Expenses			
Interest expenses	23	20	150
Foreign exchange losses	60	—	—
Provision of allowance for doubtful accounts	—	15	112
Other	44	73	547
Total non-operating expenses	127	109	816
Ordinary Profit	562	598	4,478
Extraordinary Income			
Gain on sale of non-current assets*4	0	67	502
Gain on sale of investment securities	16,601	13,018	97,484
Total extraordinary income	16,601	13,086	97,993
Extraordinary Losses			
Loss on sale of non-current assets*5	0	—	—
Loss on disposal of non-current assets*6	35	4	30
Loss on sale of investment securities	1	0	0
Loss on valuation of investment securities	619	—	—
Total extraordinary losses	656	4	30
Profit before income taxes	16,507	13,680	102,441
Income taxes - current	4,017	2,113	15,823
Income taxes - deferred	(542)	932	6,979
Total income taxes	3,475	3,046	22,810
Profit	13,032	10,634	79,632
Profit Attributable to Non-Controlling Interests	110	105	786
Profit Attributable to Owners of Parent	¥12,921	¥10,528	\$ 78,838

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

Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit	¥ 13,032	¥ 10,634	\$ 79,632
Other Comprehensive Income			
Valuation difference on available-for-sale securities	(29,253)	(14,688)	(109,990)
Remeasurements of defined benefit plans, net of tax	2,456	(174)	(1,303)
Total other comprehensive income*1	(26,796)	(14,863)	(111,300)
Comprehensive Income	¥(13,764)	¥ (4,229)	\$ (31,668)
Comprehensive income attributable to:			
Owners of parent	¥(13,920)	¥ (4,349)	\$ (32,567)
Non-controlling interests	156	120	899

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, 2022 and 2023

	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, 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
Cumulative effects of changes in accounting policies					—					—
Restated balance	24,356	24,226	118,183	(12,912)	153,854	45,095	2,435	47,531	794	202,180
Changes during period										
Dividends of surplus			(3,135)		(3,135)					(3,135)
Profit attributable to owners of parent			10,528		10,528					10,528
Purchase of treasury shares				(0)	(0)					(0)
Disposal of treasury shares					—					—
Net changes in items other than shareholders' equity						(14,702)	(176)	(14,878)	120	(14,757)
Total changes during period	—	—	7,392	(0)	7,392	(14,702)	(176)	(14,878)	120	(7,365)
Balance at March 31, 2023	¥24,356	¥24,226	¥125,576	¥(12,912)	¥161,246	¥ 30,393	¥2,259	¥ 32,653	¥914	¥194,814

	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, 2022	\$182,387	\$181,414	\$885,001	\$(96,690)	\$1,152,119	\$ 337,689	\$18,234	\$ 355,931	\$5,946	\$1,514,003
Cumulative effects of changes in accounting policies					—					—
Restated balance	182,387	181,414	885,001	(96,690)	1,152,119	337,689	18,234	355,931	5,946	1,514,003
Changes during period										
Dividends of surplus			(23,476)		(23,476)					(23,476)
Profit attributable to owners of parent			78,838		78,838					78,838
Purchase of treasury shares				(0)	(0)					(0)
Disposal of treasury shares					—					—
Net changes in items other than shareholders' equity						(110,094)	(1,318)	(111,412)	899	(110,506)
Total changes during period	—	—	55,354	(0)	55,354	(110,094)	(1,318)	(111,412)	899	(55,152)
Balance at March 31, 2023	\$182,387	\$181,414	\$940,362	\$(96,690)	\$1,207,473	\$ 227,595	\$16,916	\$ 244,518	\$6,844	\$1,458,844

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, 2022 and 2023

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Cash flows from operating activities:			
Profit before income taxes	¥ 16,507	¥ 13,680	\$102,441
Depreciation and amortization	3,730	4,109	30,770
Increase (decrease) in provisions	(431)	(18)	(135)
Decrease (increase) in retirement benefit asset	—	(880)	(6,590)
Increase (decrease) in retirement benefit liability	(161)	—	—
Interest and dividend income	(1,586)	(1,402)	(10,499)
Interest expenses	23	20	150
Loss (gain) on sale of securities	—	(50)	(374)
Loss (gain) on valuation of securities	(180)	(65)	(487)
Loss (gain) on sale of non-current assets	0	(67)	(502)
Loss on disposal of non-current assets	35	4	30
Loss (gain) on sale of investment securities	(16,600)	(13,018)	(97,484)
Loss (gain) on valuation of investment securities	619	—	—
Decrease (increase) in trade receivables and contract assets	250	27	202
Decrease (increase) in inventories	1,130	(3,810)	(28,531)
Decrease (increase) in other current assets	1,128	(946)	(7,084)
Increase (decrease) in trade payables	(3,804)	513	3,842
Increase (decrease) in contract liabilities	1,224	(850)	(6,365)
Increase (decrease) in other current liabilities	766	466	3,490
Increase (decrease) in other non-current liabilities	14	(2)	(15)
Other, net	(22)	27	202
Subtotal	2,644	(2,262)	(16,939)
Interest and dividends received	1,479	1,302	9,750
Interest paid	(23)	(20)	(150)
Income taxes paid	(2,567)	(5,699)	(42,676)
Net cash provided by (used in) operating activities	1,533	(6,679)	(50,015)
Cash flows from investing activities:			
Payments into time deposits	(75)	(75)	(562)
Proceeds from withdrawal of time deposits	75	75	562
Payments into investments in specified money trusts	—	(800)	(5,991)
Proceeds from withdrawal of investments in specified money trusts	97	888	6,650
Purchase of property, plant and equipment	(1,489)	(2,103)	(15,748)
Proceeds from sale of property, plant and equipment	23	78	584
Purchase of intangible assets	(430)	(444)	(3,325)
Purchase of investment securities	(5,682)	(991)	(7,421)
Proceeds from sale and redemption of investment securities	22,073	14,022	105,002
Loan advances	(3)	(8)	(60)
Proceeds from collection of loans receivable	25	11	82
Purchase of long-term prepaid expenses	(3,802)	(4,688)	(35,106)
Other, net	(34)	35	262
Net cash provided by (used in) investing activities	10,776	6,001	44,938
Cash flows from financing activities:			
Repayments of short-term borrowings	(90)	(150)	(1,123)
Repayments of long-term borrowings	(13)	—	—
Repayments of lease liabilities	(115)	(133)	(996)
Dividends paid	(2,536)	(3,135)	(23,476)
Purchase of treasury shares	(0)	(0)	(0)
Proceeds from sale of treasury shares	0	—	—
Net cash provided by (used in) financing activities	(2,756)	(3,420)	(25,610)
Effect of exchange rate change on cash and cash equivalents	4	(21)	(157)
Net increase (decrease) in cash and cash equivalents	9,557	(4,120)	(30,852)
Cash and cash equivalents at beginning of period	43,447	53,004	396,915
Cash and cash equivalents at end of period*	¥ 53,004	¥ 48,884	\$366,063

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, 2023

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 money trusts

Specified money trusts are stated at fair value.

iii. Inventories

Merchandise, finished goods, semi-finished goods, work 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 ¥133.54=U.S.\$1, the approximate rate of exchange prevailing at March 31, 2023.

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 both for 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 5 to 50 years

ii. Intangible assets (excluding leased assets)

Intangible assets are amortized 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 a 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 deducting 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 equivalents 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.

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

Impairment loss on non-current assets in connection with Pharmaceutical segment

Amounts recorded in the consolidated financial statements for the fiscal year

(1) Consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Property, plant and equipment	¥ 24,074	¥24,579	\$184,057
Intangible assets	1,569	1,507	11,285
Investments and other assets	113,101	94,472	707,443

(2) Pharmaceutical segment (KISSEI PHARMACEUTICAL CO., LTD.)

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Property, plant and equipment	¥ 22,955	¥22,278	\$166,826
Intangible assets	1,513	1,472	11,023
Investments and other assets	109,668	90,370	676,726

The Companies define its business segment as an asset group for business assets. For an asset group for which there is an indication of impairment, the Companies determine whether an impairment loss should be recognized by comparing a total amount of undiscounted future cash flows with a carrying value of the asset group. If the total amount of undiscounted cash flows is less than the carrying value, the Companies record an impairment loss by reducing the carrying value to the recoverable amount.

For the fiscal year ended March 31, 2023, the Companies determined there was an indication of impairment since operating loss was continuously reported by the segment. However, in determining whether or not an impairment loss shall be recognized, the Companies estimated the undiscounted future cash flows from the asset group and determined not to recognize an impairment loss since the total amount of undiscounted future cash flows exceeded the carrying value.

2. Other information that contributes to understanding the financial statements

(1) Calculation method

The total amount of undiscounted future cash flows is calculated based on

(Changes in Accounting Policies)*Application of the Implementation Guidance on Accounting Standard for Fair Value Measurement*

Effective from the beginning of the fiscal year ended March 31, 2023, the Companies have applied the "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31, June 17, 2021, hereinafter, the "Implementation Guidance"). In accordance with the transitional treatments prescribed in paragraph 27-2 of the Implementation

an estimate of future cash flows generated from continuous use of the asset group. The estimate of future cash flows generated from continuous use is based on the annual management plan approved by the Board of Directors and forecasts of revision rate of National Health Insurance ("NHI") drug prices, sales volume, and costs for subsequent periods.

(2) Significant assumptions

Significant assumptions for estimating future cash flows are revision rate of NHI drug prices on drug sales and the sales volume of key products. The revision rate of NHI drug prices are estimated in consideration of past revision history and trends in pharmaceutical administration. The sales volume of key products is estimated in consideration of past sales performance, market size, and market share forecasts.

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

If changes of assumptions that the Company use for the estimate of future cash flows for this fiscal year have a significant impact on the estimate due to a change of market environment in the future etc., the Company may record an impairment loss on Non-current assets.

Guidance, the Companies have applied the new accounting policy prospectively. There is no effect on the consolidated financial statements for the fiscal year ended March 31, 2023, from this change.

In addition, as to the fair value hierarchy of financial instruments in Note "(Financial Instruments)," disclosures of investment trusts for the previous fiscal year were not stated in accordance with paragraph 27-3 of the Implementation Guidance.

(Accounting Standards Issued but Not Yet Applied)

- Accounting Standard for Current Income Taxes (ASBJ Statement No. 27, October 28, 2022)

- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25, October 28, 2022)

- Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28, October 28, 2022)

and the treatment of tax effect accounting for sale of subsidiaries' shares when the group taxation regime is applied.

(2) Scheduled date of application

The Companies expect to apply these standards and guidance from the beginning of the fiscal year ending March 31, 2025.

(1) Overview

The standards and guidance prescribe the accounting category of income taxes when other comprehensive income is subject to taxation

(3) Impact of the application

The Companies are currently evaluating the effect of the application of the standards and guidance on the consolidated financial statements.

(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
	2022	2023	2023
Investment securities (equity securities)	¥889	¥889	\$6,657

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Buildings	¥798	¥798	\$5,976
Land	113	113	846

(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
	2022	2023	2023
Provision for sales promotion expenses	¥ 137	¥ 149	\$ 1,116
Salaries, allowances and bonuses	7,321	7,338	54,950
Provision for bonuses	1,016	1,010	7,563
Provision for bonuses for directors (and other officers)	14	9	67
Provision for retirement benefits for directors (and other officers)	17	16	120
Retirement benefit expenses	455	(40)	(300)
Depreciation and amortization	2,217	2,674	20,024
Research and development expenses	¥10,363	¥10,391	\$77,812

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
	¥10,363	¥10,391	\$77,812

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Buildings and structures	¥—	¥21	\$157
Land	—	46	344
Property, plant and equipment, etc.	0	—	—
Total	¥ 0	¥67	\$502

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Land	¥0	¥—	\$—

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Buildings and structures	¥ 1	¥2	\$15
Property, plant and equipment, etc.	34	0	0
Software	—	2	15
Total	¥35	¥4	\$30

(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
	2022	2023	2023
Valuation difference on available-for-sale securities:			
Amount recognized in the year	¥(58,548)	¥ (8,268)	\$ (61,914)
Reclassification adjustments	16,600	(13,018)	(97,484)
Before tax effect adjustment	(41,948)	(21,287)	(159,405)
Amount of tax effect	12,695	6,598	49,408
Valuation difference on available-for-sale securities	(29,253)	(14,688)	(109,990)
Remeasurements of defined benefit plans, net of tax:			
Amount recognized in the year	3,439	204	1,528
Reclassification adjustments	94	(455)	(3,407)
Before tax effect adjustment	3,534	(251)	(1,880)
Amount of tax effect	(1,078)	76	569
Remeasurements of defined benefit plans, net of tax	2,456	(174)	(1,303)
Total other comprehensive income	¥(26,796)	¥(14,863)	\$(111,300)

(Consolidated Statement of Changes in Equity)

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 (Yen)	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 (Yen)	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

Fiscal year ended March 31, 2023

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

	Thousands of shares			As of March 31, 2023
	As of April 1, 2022	Increase	Decrease	
Issued shares:				
Common stock	51,811	—	—	51,811
Total	51,811	—	—	51,811
Treasury shares:				
Common stock*	5,695	0	—	5,695
Total	5,695	0	—	5,695

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

2. Dividends

(1) Cash dividends paid

Resolution	Class	Total dividend payments (Millions of yen)	Dividends per share (yen)	Record date	Effective date
		Total dividend payments (Thousands of U.S. dollars)	Dividends per share (U.S. dollars)		
Annual General Meeting of Shareholders on June 23, 2022		¥1,291	¥28		
	Common stock	\$9,668	\$0.21	March 31, 2022	June 24, 2022
Meeting of Board of Directors on November 7, 2022		¥1,844	¥40	September 30,	December 2,
	Common stock	\$13,809	\$0.30	2022	2022

(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
		Total dividend payments (Thousands of U.S. dollars)	Source of dividends	Dividends per share (U.S. dollars)		
Annual General Meeting of Shareholders on June 22, 2023	Common stock	¥1,844	Retained earnings	¥40	March 31, 2023	June 23, 2023
		\$13,809		\$0.30		

(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
	2022	2023	2023
Cash and deposits	¥30,013	¥25,893	\$193,897
Securities	23,139	23,706	177,520
Time deposits with original maturities of over three months	(48)	(48)	(359)
Debt securities with redemption period exceeding three months, etc.	(99)	(667)	(4,995)
Cash and cash equivalents	¥53,004	¥48,884	\$366,063

(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

The carrying value of financial instruments on the consolidated balance sheet, fair value, and the difference are shown in the following tables. For cash and deposits, notes receivable - trade, 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.

March 31, 2022

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

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

	Millions of yen
Unlisted equity securities	¥4,939
Investments in unconsolidated subsidiaries	889

March 31, 2023

	Millions of yen		
	Carrying value	Fair value	Difference
(1) Securities and investment securities:			
Available-for-sale securities ^{*1, *2}	¥92,313	¥92,313	¥—
Total	¥92,313	¥92,313	¥—

	Thousands of U.S. dollars		
	Carrying value	Fair value	Difference
(1) Securities and investment securities:			
Available-for-sale securities ^{*1, *2}	\$691,276	\$691,276	\$—
Total	\$691,276	\$691,276	\$—

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

	Millions of yen	Thousands of U.S. dollars
Unlisted equity securities	¥5,273	\$39,486
Investments in unconsolidated subsidiaries	889	6,657

*2 In accordance with generally accepted accounting principles, for investment trusts, the net asset value of investment trusts is deemed to be the fair value. Such investment trusts are included in available-for-sale securities.

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

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, 2023

	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	¥25,893	¥ —	¥ —	¥ —
Notes receivable - trade	173	—	—	—
Accounts receivable - trade	21,910	—	—	—
Securities and investment securities				
Available-for-sale securities with maturities	23,719	1,732	1,398	426
Total	¥71,697	¥1,732	¥1,398	¥426

March 31, 2023

	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	\$193,897	\$ —	\$ —	\$ —
Notes receivable - trade	1,295	—	—	—
Accounts receivable - trade	164,071	—	—	—
Securities and investment securities				
Available-for-sale securities with maturities	177,617	12,970	10,469	3,190
Total	\$536,895	\$12,970	\$10,469	\$3,190

Note 2: Redemption schedules for corporate bonds, long-term borrowings, lease liabilities other interest-bearing liabilities are 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.

(1) 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

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.
- 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.

March 31, 2023

	Fair value (Millions of yen)			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities:				
Equity securities	¥58,105	¥—	¥—	¥58,105
Corporate bonds	1,700	—	—	1,700
Other	23,039	—	—	23,039
Total	¥82,846	¥—	¥—	¥82,846

	Fair value (Thousands of U.S. dollars)			
	Level 1	Level 2	Level 3	Total
Securities and investment securities				
Available-for-sale securities:				
Equity securities	\$435,113	\$—	\$—	\$435,113
Corporate bonds	12,730	—	—	12,730
Other	172,525	—	—	172,525
Total	\$620,383	\$—	\$—	\$620,383

Notes:

- In accordance with generally accepted accounting principles, the fair value of investment trusts, which is deemed to be the net asset value, is not included in the table above. The carrying value of investment trusts in the consolidated balance sheet is ¥9,467 million (\$70,893 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
	2022	2023	2023
Valuation difference included in the consolidated statement of income	¥180	¥65	\$487

2. Available-for-sale securities

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, 2023

	Type	Millions of yen		
		Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	Equity securities	¥56,835	¥14,309	¥42,526
	Bonds			
	Government bonds/municipal bonds, etc.	—	—	—
	Corporate bonds	300	300	0
	Other bonds	—	—	—
	Other	4,499	3,973	526
	Subtotal	61,635	18,583	43,052
Securities whose carrying value does not exceed their acquisition cost	Equity securities	1,269	1,368	(98)
	Bonds			
	Government bonds/municipal bonds, etc.	—	—	—
	Corporate bonds	1,400	1,450	(49)
	Other bonds	—	—	—
	Other	28,007	28,313	(306)
	Subtotal	30,677	31,132	(454)
	Total	¥92,313	¥49,715	¥42,598

March 31, 2023

	Type	Thousands of U.S. dollars		
		Carrying value	Acquisition cost	Difference
Securities whose carrying value exceeds their acquisition cost	Equity securities	\$425,603	\$107,151	\$318,451
	Bonds			
	Government bonds/municipal bonds, etc.	—	—	—
	Corporate bonds	2,247	2,247	0
	Other bonds	—	—	—
	Other	33,690	29,751	3,939
	Subtotal	461,547	139,157	322,390
Securities whose carrying value does not exceed their acquisition cost	Equity securities	9,503	10,244	(734)
	Bonds			
	Government bonds/municipal bonds, etc.	—	—	—
	Corporate bonds	10,484	10,858	(367)
	Other bonds	—	—	—
	Other	209,727	212,019	(2,291)
	Subtotal	229,721	233,129	(3,400)
	Total	\$691,276	\$372,285	\$318,991

3. Available-for-sale securities sold

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, 2023

Type	Millions of yen		
	Sales proceeds	Total gain on sale	Total loss on sale
Equity securities	¥13,661	¥12,996	¥—
Bonds			
Government bonds/municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other bonds	—	—	—
Other	311	21	0
Total	¥13,972	¥13,018	¥ 0

Fiscal year ended March 31, 2023

Type	Thousands of U.S. dollars		
	Sales proceeds	Total gain on sale	Total loss on sale
Equity securities	\$102,299	\$97,319	\$—
Bonds			
Government bonds/municipal bonds, etc.	—	—	—
Corporate bonds	—	—	—
Other bonds	—	—	—
Other	2,329	157	0
Total	\$104,628	\$97,484	\$ 0

(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 Companies' 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
	2022	2023	2023
Retirement benefit obligation at beginning of period	¥22,487	¥19,305	\$144,563
Service cost	853	700	5,242
Interest cost	74	70	524
Actuarial gains and losses incurred this period	(3,235)	(719)	(5,384)
Retirement benefits paid	(873)	(884)	(6,620)
Retirement benefit obligation at end of period	¥19,305	¥18,471	\$138,318

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Plan assets at beginning of period	¥21,252	¥21,766	\$162,992
Expected return on plan assets	531	544	4,074
Actuarial gains and losses incurred this period	203	(515)	(3,857)
Employer contribution	652	650	4,867
Retirement benefits paid	(873)	(884)	(6,620)
Plan assets at end of period	¥21,766	¥21,561	\$161,457

(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
	2022	2023	2023
Retirement benefit obligation for funded plan	¥ 19,305	¥ 18,471	\$ 138,318
Plan assets	(21,766)	(21,561)	(161,457)
Net amount of retirement benefit liability and asset on the consolidated balance sheet	(2,460)	(3,089)	(23,132)
Retirement benefit asset	(2,460)	(3,089)	(23,132)
Net amount of retirement benefit liability and asset on the consolidated balance sheet	¥ (2,460)	¥ (3,089)	\$ (23,132)

(4) Breakdown of retirement benefit expense

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Service cost	¥ 853	¥ 700	\$ 5,242
Interest cost	74	70	524
Expected return on plan assets	(531)	(544)	(4,074)
Amortization of actuarial gains and losses	350	(200)	(1,498)
Amortization of prior service cost	(255)	(255)	(1,910)
Other	108	70	524
Retirement benefit expense on defined benefit plan	¥ 600	¥ (158)	\$ (1,183)

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

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

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Prior service cost	¥ (255)	¥ (255)	\$ (1,910)
Actuarial gains and losses	3,789	3	22
Total	¥ 3,534	¥ (251)	\$ (1,880)

(6) Remeasurements 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
	2022	2023	2023
Unrecognized prior service cost	¥ (510)	¥ (255)	\$ (1,910)
Unrecognized actuarial gains and losses	(3,052)	(3,055)	(22,877)
Total	¥ (3,562)	¥ (3,311)	\$ (24,794)

(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:

	2022	2023
	Debt securities	16%
Equity securities	38	36
Cash and deposits	8	4
General accounts	33	34
Other	5	3
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 4.0% for the fiscal year ended March 31, 2022, and 2.2% for the fiscal year ended March 31, 2023.

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):

	2022	2023
Discount rate	0.6%	0.9%
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, 2022 and 2023, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Deferred tax assets:			
Prepaid research and development expenses	¥ 2,517	¥ 2,100	\$ 15,726
Inventories	626	824	6,170
Loss on valuation of securities	650	650	4,867
Provision for bonuses	520	509	3,812
Contract liabilities	406	177	1,325
Provision for retirement benefits for directors (and other officers)	163	165	1,236
Impairment loss	148	147	1,101
Accrued enterprise taxes	264	99	741
Other	919	830	6,215
Total gross deferred tax assets	6,218	5,505	41,224
Valuation allowance	(1,634)	(1,474)	(11,038)
Total deferred tax assets	4,583	4,030	30,178
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(19,458)	(12,860)	(96,301)
Other	(860)	(1,163)	(8,709)
Total deferred tax liabilities	(20,319)	(14,023)	(105,010)
Deferred tax assets (liabilities), net	¥ (15,735)	¥ (9,993)	\$ (74,832)

Note: The net amounts of deferred tax liabilities in the fiscal years ended March 31, 2022 and 2023, are broken into and included in the following items in the consolidated balance sheet.

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Non-current assets—deferred tax assets	¥ 524	¥ 433	\$ 3,242
Non-current liabilities—deferred tax liabilities	(16,259)	(10,426)	(78,074)

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

	2022	2023
Effective statutory tax rate	30.5%	30.5%
Adjustments:		
Entertainment expenses and other non-deductibles	0.1	0.4
Dividend income not taxable	(0.6)	(0.8)
Tax benefits due to research and development expenses	(4.7)	(6.6)
Per capita levy of local inhabitants' taxes	0.5	0.6
Valuation allowance	(3.3)	(1.2)
Other	(1.5)	(0.6)
Actual effective tax rate	21.0%	22.3%

(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	2023	2023
Receivables from contracts with customers at beginning of period	¥23,058	¥21,957	\$164,423
Receivables from contracts with customers at end of period	21,957	22,084	165,374
Contract assets at beginning of period	71	850	6,365
Contract assets at end of period	850	696	5,212
Contract liabilities at beginning of period	1,592	2,696	20,189
Contract liabilities at end of period	¥ 2,696	¥ 1,846	\$ 13,824

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. The increase in contract

assets of ¥779 million 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 ¥1,104 million 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.

Of revenue recognized in the fiscal year ended March 31, 2023, the amount included in contract liabilities as of the beginning of the fiscal year ended March 31, 2023, was ¥1,215 million (\$9,098 thousand). The decrease in contract assets of ¥154 million (\$1,153 thousand) was primarily attributable to the year-on-year decrease in construction in progress in the construction business as of March 31, 2023. The decrease in contract liabilities of ¥850 million (\$6,365 thousand) was primarily attributable to the recognition of revenue due to the fulfillment of performance obligations under out-licensing agreements in the pharmaceutical business and the extinguishment of performance obligations as a result of the termination of some agreements.

(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:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Within one year	¥1,043	¥ 683	\$ 5,115
More than one year but less than five years	1,067	969	7,256
More than five years but less than ten years	585	193	1,445
Total	¥2,696	¥1,846	\$13,824

(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, 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, 2023

	Millions of yen				
	Reportable segment				Total
	Pharmaceutical	Information Services	Construction	Merchandising	
Net sales:					
Pharmaceutical					
Pharmaceuticals	¥ 47,077	¥ —	¥ —	¥ —	¥ 47,077
Therapeutic and care foods	3,461	—	—	—	3,461
Technical fees	1,053	—	—	—	1,053
Other	4,650	—	—	—	4,650
Information Services	—	10,342	—	—	10,342
Construction	—	—	3,275	—	3,275
Merchandising	—	—	—	824	824
Revenue from contracts with customers	56,243	10,342	3,275	824	70,686
Sales to third parties	56,243	8,285	2,343	621	67,493
Intersegment sales and transfers	—	2,057	932	202	3,192
Total	¥ 56,243	¥10,342	¥3,275	¥ 824	¥ 70,686
Segment profit (loss)	¥ (2,207)	¥ 881	¥ 78	¥ 21	¥ (1,225)
Segment assets	¥209,115	¥ 9,105	¥2,901	¥1,895	¥223,017
Other items:					
Depreciation and amortization*	¥ 3,745	¥ 468	¥ 23	¥ 22	¥ 4,259
Increase in property, plant and equipment and intangible assets*	5,828	1,617	18	3	7,467

* 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, 2023

	Thousands of U.S. dollars				
	Reportable segment				Total
	Pharmaceutical	Information Services	Construction	Merchandising	
Net sales:					
Pharmaceutical					
Pharmaceuticals	\$ 352,531	\$ —	\$ —	\$ —	\$ 352,531
Therapeutic and care foods	25,917	—	—	—	25,917
Technical fees	7,885	—	—	—	7,885
Other	34,821	—	—	—	34,821
Information Services	—	77,445	—	—	77,445
Construction	—	—	24,524	—	24,524
Merchandising	—	—	—	6,170	6,170
Revenue from contracts with customers	421,170	77,445	24,524	6,170	529,325
Sales to third parties	421,170	62,041	17,545	4,650	505,414
Intersegment sales and transfers	—	15,404	6,979	1,513	23,903
Total	\$ 421,170	\$ 77,445	\$ 24,524	\$ 6,170	\$ 529,325
Segment profit (loss)	\$ (16,527)	\$ 6,597	\$ 584	\$ 157	\$ (9,173)
Segment assets	\$ 1,565,935	\$ 68,182	\$ 21,724	\$ 14,191	\$ 1,670,039
Other items:					
Depreciation and amortization*	\$ 28,044	\$ 3,505	\$ 172	\$ 165	\$ 31,893
Increase in property, plant and equipment and intangible assets*	43,642	12,109	135	22	55,916

* 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
	2022	2023	2023
Net sales			
Total for reportable segments	¥68,805	¥70,686	\$529,325
Elimination of intersegment transactions	(3,424)	(3,192)	(23,903)
Net sales in the consolidated financial statements	¥65,381	¥67,493	\$505,414

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit			
Total for reportable segments	¥(1,470)	¥(1,225)	\$(9,173)
Elimination of intersegment transactions	69	86	644
Adjustments to non-current assets	4	20	150
Other adjustments	(5)	(10)	(75)
Operating loss in the consolidated financial statements	¥(1,402)	¥(1,129)	\$(8,454)

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Assets			
Total for reportable segments	¥240,164	¥223,017	\$1,670,039
Elimination of intersegment transactions	(2,076)	(1,817)	(13,606)
Total assets in the consolidated financial statements	¥238,087	¥221,200	\$1,656,433

	Total for reportable segments			Adjustments		Amount in the consolidated financial statements			
	Millions of yen		Thousands of U.S. dollars	Millions of yen		Thousands of U.S. dollars		Thousands of U.S. dollars	
	2022	2023	2023	2022	2023	2023	2022	2023	
Other items									
Depreciation and amortization	¥3,879	¥4,259	\$31,893	¥(148)	¥(150)	\$(1,123)	¥3,730	¥4,109	\$30,770
Increase in property, plant and equipment and intangible assets	5,847	7,467	55,916	(126)	(146)	(1,093)	5,721	7,321	54,823

Related Information

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)	Relevant segment
Alfresa Corporation	¥11,022	Pharmaceutical
MEDICEO CORPORATION	8,883	Pharmaceutical
SUZUKEN CO., LTD.	8,403	Pharmaceutical

Fiscal year ended March 31, 2023

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	¥11,183	\$83,743	Pharmaceutical
SUZUKEN CO., LTD.	8,496	63,621	Pharmaceutical
MEDICEO CORPORATION	8,471	63,434	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, 2022 and 2023, and for the fiscal years then ended are as follows:

	Yen		U.S. dollars
	2022	2023	2023
Net assets per share	¥4,366.96	¥4,204.64	\$31.49
Profit per share	280.20	228.31	1.71

Notes:

1. Diluted profit per share is not presented because there is no dilutive potential of shares of common stock.

2. The basis for calculating profit per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2022	2023	2023
Profit attributable to owners of parent	¥12,921	¥10,528	\$78,838
Amount not attributable to common stock shareholders	—	—	—
Profit attributable to common stock owners of parent	¥12,921	¥10,528	\$78,838
	Thousands of shares		
	2022	2023	
Weighted average number of shares	46,115	46,115	

(Significant Subsequent Events)

(Execution of Significant Contract)

The Company has entered into contract with Theramex HQ UK Limited (U.K., hereinafter "Theramex") to grant Theramex the exclusive development and marketing rights for Linzagolix (generic name), a drug originally discovered by the Company for the treatment of uterine fibroids and endometriosis, excluding North America and parts of Asia including Japan. The outline is as follows:

(1) Name of the counterparty of the contract

Theramex HQ UK Limited (U.K.)

(2) Date of the contract

April 26, 2023

(3) Details of the contract

To grant Theramex the exclusive development and marketing rights for Linzagolix (generic name), excluding North America and parts of Asia including Japan

(4) Significant effects on the Company's operations

Linzagolix was approved for marketing in Europe in June 2022 for the indication of uterine fibroids, and Theramex has been preparing to bring the drug to the European market during the fiscal year ending March 31, 2024. The Company receives upfront payments and sales milestone payments from Theramex, while supplying the drug substance.

(Acquisition and Cancellation of Treasury Shares)

At the Board of Directors' meeting held on May 8, 2023, the Company resolved to acquire its own shares pursuant to the provisions of Article 156 of the Companies Act (the "Act") as applied by replacing the terms pursuant to the provisions of paragraph 3, Article 165 of the Act, and to cancel the treasury shares pursuant to the provisions of Article 178 of the Act.

(1) Reason for the acquisition and cancellation of treasury shares

To execute a flexible capital policy in response to changes in the business environment, while improving capital efficiency and enhancing shareholder returns.

(2) Details of the acquisition

- | | |
|---|--|
| i. Class of shares to acquire | Common stock of the Company |
| ii. Total number of shares to acquire | 2,000,000 shares (maximum) |
| (Percentage for total number of shares issued and outstanding, excluding treasury shares: 4.34%) | |
| iii. Total amount of the acquisition | ¥6,000 million (\$44,930 thousand) (maximum) |
| iv. Acquisition period | From May 10, 2023, to March 29, 2024 |
| v. Acquisition method | Market purchase on the Tokyo Stock Exchange |
| a. Market purchase through the Tokyo Stock Exchange Trading NeTwork (ToSTNeT-3) | |
| b. Market purchase based on the discretionary transaction contract with respect to acquisition of treasury shares | |

(3) Details of the cancellation

- | | |
|---|-----------------------------|
| i. Class of shares to cancel | Common stock of the Company |
| ii. Total number of shares to cancel | 2,500,000 shares |
| (Percentage for total number of shares issued and before cancellation: 4.83%) | |
| iii. Total number of shares issued and outstanding after cancellation | 49,311,185 shares |
| iv. Planned date of cancellation | June 12, 2023 |

(Reference)

Holding status of treasury shares as of March 31, 2023

- | | |
|--|-------------------|
| - Total number of shares issued and outstanding, excluding treasury shares | 46,155,567 shares |
| - Number of treasury shares | 5,695,618 shares |

(Consolidated Supplementary Schedules)*Details of corporate bonds*

No corresponding items

Details of borrowings

	Balance at beginning of period		Balance at end of period		Average interest rate	
	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	(%)	Repayment period
Short-term borrowings	¥1,640	\$12,281	¥1,490	\$11,158	0.96	—
Current portion of long-term borrowings	—	—	—	—	—	—
Current portion of lease liabilities	116	869	145	1,086	—	—
Long-term borrowings	—	—	—	—	—	—
Lease liabilities	227	1,700	317	2,374	—	April 2024 – September 2028
Other interest-bearing liabilities	—	—	—	—	—	—
Total	¥1,984	\$14,857	¥1,953	\$14,625	—	—

Notes:

- An average interest rate represents the weighted-average interest rate applied to the balance at the end of the fiscal year.
- An 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
- A repayment schedule for lease liabilities due within five years subsequent to the consolidated balance sheet date is as follows:

	(Millions of yen)	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
		¥136	¥114	¥53	¥11
Lease liabilities	(Thousands of U.S. dollars)	\$1,018	\$854	\$397	\$82

(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, 2023, 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, 2023)

		Three months ended June 30, 2022	Six months ended September 30, 2022	Nine months ended December 31, 2022	Fiscal year ended March 31, 2023
Net sales	(Millions of yen)	¥16,285	¥32,864	¥51,635	¥67,493
	(Thousands of U.S. dollars)	\$121,948	\$246,099	\$386,663	\$505,414
Profit before income taxes	(Millions of yen)	2,141	4,418	8,990	13,680
	(Thousands of U.S. dollars)	16,033	33,084	67,321	102,441
Profit attributable to owners of parent	(Millions of yen)	1,635	3,326	6,667	10,528
	(Thousands of U.S. dollars)	12,244	24,906	49,925	78,838
Profit per share	(Yen)	¥35.47	¥72.13	¥144.58	¥228.31
	(U.S. dollars)	\$0.27	\$0.54	\$1.08	\$1.71
		First quarter	Second quarter	Third quarter	Fourth quarter
Profit per share	(Yen)	¥35.47	¥36.67	¥72.44	¥83.73
	(U.S. dollars)	\$0.27	\$0.27	\$0.54	\$0.63

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. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2023, 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, 2023, 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.



Impairment on Non-current assets in connection with Pharmaceutical segment	
Description of Key Audit Matter	Auditor's Response
<p>The companies recorded Property, plant and equipment of ¥24,579 million, Intangible assets of ¥1,507 million, Investments and Other Assets of ¥94,472 million in Consolidated Balance Sheet as of March 31, 2023. The Pharmaceutical segment comprised of whole KISSEI PHARMACEUTICAL CO., LTD. as an asset group and Property, plant and equipment of ¥22,278 million, Intangible assets of ¥1,472 million, Investments and Other Assets of ¥90,370 million were recorded. The amount of the asset group of Pharmaceutical segment attributable to 94.7% of the total amount of Property, plant and equipment, Intangible assets, Investments and Other Assets in Consolidated Balance Sheet.</p> <p>As described in Note "Significant Accounting Estimates" to the consolidated financial statements, the company assessed that there was an indication of impairment on the asset group in connection with Pharmaceutical segment, but did not recognize an impairment loss since the total amount of undiscounted future cash flows from the asset group exceeded the carrying value.</p> <p>An estimate of future cash flows generated from continuous use of the asset group is calculated based on the annual management plan approved by the Board of Directors and assumptions on revision rates of National Health Insurance ("NHI") drug prices, sales volume and costs for subsequent periods. As described in Note "Significant Accounting Estimates", the significant assumptions for estimating future cash flow are the future revision rates of NHI drug prices and future sales volume of key products. The future revision rates of NHI drug prices are estimated based on past revision history and trends in Pharmaceutical administration. The future sales volume of key products is</p>	<p>Audit procedures we mainly performed to the estimate of undiscounted future cash flows in a recoverability test for impairment on non-current assets in connection with Pharmaceutical segment included following, among others.</p> <ul style="list-style-type: none"> • We obtained an understanding, evaluated the design effectiveness, and tested the operating effectiveness of internal controls over accounting process for non-current asset impairment. • We examined the underlying future business plan to evaluate the estimate of future cash flows. In evaluating the business plan, we examined its consistency with the most recent annual management plan 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 compared the economical useful years remained of key assets with a term of estimation for future cash flows. • We discussed with management and director of marketing about the impact of the future revision rates of NHI drug prices and the sales volume of key products which are included in the future business plan on the significant assumptions. • We analyzed the trend of previous NHI drug price revisions and read meeting minutes about the revision of NHI drug price of the Central Social Insurance Medical Council, advisory body of Minister of Health, Labor and Welfare, to evaluate the future revision rates of NHI drug price estimated by management. • We compared the sales plan in previous fiscal years with actual results to evaluate

Ernst & Young ShinNihon LLC



<p>estimated based on past sales performance, market size and market share forecasts.</p> <p>Given that the significant assumptions applied in the estimate of future cash flows involve uncertainties and require management judgement, we determined it to be a key audit matter.</p>	<p>the estimated future sales volume of key products. We examined consistency with external data regarding the estimation of market size and market share of key products. We also examined the duration of exclusive sales by reading a patent expiry date on Japan Platform for Patent Information or reexamination term on examination result report in connection with approval applications.</p> <ul style="list-style-type: none"> • We performed a sensitivity analysis of management's evaluation regarding uncertainty of the estimation for the future business plan.
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Other Information

The other information comprises the information included in the Annual Report that contains audited consolidated financial statements but does not include the consolidated financial statements and our auditor's report thereon. Management is responsible for preparation and disclosure of the other information. The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

Ernst & Young ShinNihon LLC



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.
- 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, 2023 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 Notes to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Matsumoto, Japan

September 28, 2023

Yoshihiro Sugimoto
Designated Engagement Partner
Certified Public Accountant

Tetsuya Tomita
Designated Engagement Partner
Certified Public Accountant

 **KISSEI PHARMACEUTICAL CO., LTD.**

19-48, Yoshino, Matsumoto, Nagano 399-8710, Japan