

Consolidated Financial Statements
ONO PHARMACEUTICAL CO., LTD.
and Subsidiaries

Year Ended March 31, 2021

with Independent Auditor's Report

Consolidated Financial Statements

Year Ended March 31, 2021

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INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the consolidated financial statements of ONO PHARMACEUTICAL CO., LTD. and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Convenience Translation

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

Basis for Opinion

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

Key Audit Matters

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

Evaluation of the intangible assets related to Patents and licenses	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 14, "Intangible Assets" section (2) to the consolidated financial statements, the intangible assets recorded in the consolidated statement of financial position (70,322 million yen) included 60,599 million yen of patents and licenses (in-process research and development costs acquired separately and sales licenses), which accounted for 8.1% of total assets.</p> <p>As described in Note 3, "Significant Accounting Policies" section (8)③ to the consolidated financial statements, the Group performed impairment tests for in-process research and development costs acquired separately and sales licenses that show indications of impairment as of the fiscal year ended March 31, 2021.</p> <p>As described in Note 14, "Intangible Assets" section (3) to the consolidated financial statements, the Group used the value in use of each asset as its recoverable amount to perform the impairment test. As a result, the Group recorded impairment losses of 2,305 million yen which included the impairment loss related to the in-process research and development costs caused by the discontinuation of the development.</p> <p>The value in use was calculated by determining the discounted present value of estimated future cash flows. The estimate of future cash flows involves management assumptions such as forecasted sales quantities and discount rate. These assumptions have a significant effect on the value in use and involve high uncertainty.</p> <p>Therefore, we have identified the evaluation of intangible assets related to Patents and Licenses as a key audit matter.</p>	<p>To address the key audit matter, we performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> • We evaluated the design and operating effectiveness of controls over the process to estimate the value in use of the intangible assets; • We inquired management about the reasonableness of the projected sales quantities used to estimate future cash flows. We also read the external surveys that management used to determine the rationale of the assumptions used in the estimates. • We performed a retrospective comparison between the estimated sales developed in the previous fiscal year and the corresponding actual results to test the sales forecasts used to estimate the future cash flows of the sales licenses, which are included as part of intangible assets related to Patents and Licenses. • With the assistance of our fair value specialists, we evaluated the reasonableness of the calculation method and the range of the discount rate applied by management.

Provisions and contingent liabilities related to patents	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As described in Note 23, "Provisions" to the consolidated financial statements, the Group recorded a provision against patent royalties of 20,721 million yen in the consolidated statement of financial position.</p> <p>The contingent liabilities related to patents are also disclosed in Note 38, "Contingent Liabilities" to the consolidated financial statements.</p> <p>As described in Note 3, "Significant Accounting Policies" section (11) to the consolidated financial statements, the Group recognizes a provision for patent royalties when there is a present obligation (legal or constructive) as a result of a past event, when it is probable that the Group will be required to settle the obligation, and when a reliable estimate of the settlement can be made. If there is a reasonable possibility that a loss will occur, or if the loss is expected to exceed the provision for patent royalties, the Group estimates the nature, amount or range of the contingent loss and discloses it as contingent liabilities.</p> <p>Management's judgment is required to determine the possibility of the occurrence of loss and to estimate the amount of the provision for patent royalties and if needed, the amount of the contingent liabilities; however, such judgment involves high uncertainty.</p> <p>Therefore, we identified the provisions for patent royalties and the contingent liabilities related to patents as key audit matters.</p>	<p>To examine the provision for patent royalties recorded and the footnotes on contingent liabilities, we performed the following audit procedures, among others:</p> <ul style="list-style-type: none"> • We inquired management and read the meeting minutes of the Board of Directors, management, and other important parties in order to test the operating effectiveness of internal controls over the accounting estimates made by management and to test the appropriateness of the method used by management to determine the possibility of the occurrence of losses and estimate the amount of the provision for patent royalties and the contingent liabilities for litigations related to the patents. • We read the summary of the litigation cases prepared by the legal department and inquired the person in charge of the legal department about the claims of both, the counterparty and the Group, the status of the trial and whether there were any settlement negotiations. • We inspected the contracts and other supporting documents, performed interviews with external legal specialists used by management and also obtained written letters from them to support the legal department's assessment. • With the assistance of the lawyers we used as the auditors' specialists, we assessed the reasonableness of management's judgment on the results of the litigations.

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with IFRSs, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

June 17, 2021

Consolidated Statement of Financial Position

Year Ended March 31, 2021

		Millions of Yen		Thousands of U.S. Dollars (Note 2 (5))
	Notes	March 31, 2020	March 31, 2021	March 31, 2021
Assets				
Current assets:				
Cash and cash equivalents	7, 33	¥ 69,005	¥ 61,045	\$ 549,956
Trade and other receivables	8, 33	76,834	84,269	759,182
Marketable securities	9, 33	614	2,978	26,830
Other financial assets	10, 33	30,800	40,952	368,939
Inventories	12	32,906	39,151	352,711
Other current assets	11, 19	15,063	19,246	173,391
Total current assets		225,222	247,642	2,231,008
Non-current assets:				
Property, plant, and equipment	13, 20	114,628	113,866	1,025,823
Intangible assets	14	66,436	70,322	633,533
Investment securities	9, 33	137,670	146,796	1,322,483
Investments in associates		108	112	1,011
Other financial assets	10, 33	91,694	131,888	1,188,180
Deferred tax assets	16	34,817	33,619	302,871
Retirement benefit assets	22	-	7	62
Other non-current assets	11	2,871	2,590	23,337
Total non-current assets		448,222	499,200	4,497,300
Total assets		¥673,444	¥746,842	\$ 6,728,308

		Millions of Yen		Thousands of U.S. Dollars (Note 2 (5))
	Notes	March 31, 2020	March 31, 2021	March 31, 2021
Liabilities and Equity				
Current liabilities:				
Trade and other payables	17, 33	¥ 34,439	¥ 39,163	\$ 352,824
Lease liabilities	20	2,188	2,023	18,221
Other financial liabilities	18, 33	450	616	5,551
Income taxes payable		20,346	19,047	171,597
Provisions	23	20,721	20,721	186,678
Other current liabilities	21	13,185	12,163	109,574
Total current liabilities		91,329	93,733	844,444
Non-current liabilities:				
Lease liabilities	20	6,173	7,030	63,332
Other financial liabilities	18, 33	0	0	3
Retirement benefit liabilities	22	6,048	3,056	27,534
Deferred tax liabilities	16	1,059	1,052	9,476
Other non-current liabilities	21	813	813	7,328
Total non-current liabilities		14,093	11,952	107,673
Total liabilities		105,422	105,685	952,117
Equity:				
Share capital	24	17,358	17,358	156,381
Capital reserves	24	17,229	17,231	155,234
Treasury shares	24	(44,737)	(44,705)	(402,748)
Other components of equity	24	48,030	62,299	561,253
Retained earnings	24	524,605	583,363	5,255,526
Equity attributable to owners of the Company		562,484	635,547	5,725,646
Non-controlling interests		5,538	5,610	50,544
Total equity		568,022	641,157	5,776,191
Total liabilities and equity		¥673,444	¥746,842	\$6,728,308

Consolidated Statement of Income

Year Ended March 31, 2021

		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
	Notes	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Revenue	6, 26	¥292,420	¥309,284	\$ 2,786,345
Cost of sales		(79,063)	(85,573)	(770,927)
Gross profit		213,356	223,711	2,015,418
Selling, general, and administrative expenses	27	(67,679)	(69,230)	(623,698)
Research and development costs		(66,497)	(62,384)	(562,020)
Other income	29	822	8,165	73,563
Other expenses	29	(2,512)	(1,932)	(17,404)
Operating profit		77,491	98,330	885,860
Finance income	30	3,053	2,693	24,261
Finance costs	30	(845)	(137)	(1,238)
Share of profit (loss) from investments in associates	15	(4)	4	32
Profit before tax		79,696	100,890	908,914
Income tax expense	16	(19,808)	(25,392)	(228,759)
Profit for the year		59,888	75,497	680,156
Profit for the year attributable to:				
Owners of the Company		59,704	75,425	679,504
Non-controlling interests		184	72	652
Profit for the year		¥ 59,888	¥ 75,497	\$ 680,156
Earnings per share:		<i>Yen</i>		<i>U.S. Dollars (Note 2 (5))</i>
Basic earnings per share	32	¥ 118.47	¥ 151.11	\$ 1.36
Diluted earnings per share	32	118.45	151.09	1.36

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2021

		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
	<u>Notes</u>	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2021</u>	<u>For the year ended March 31, 2021</u>
Profit for the year		¥ 59,888	¥ 75,497	\$ 680,156
Other comprehensive income (loss):				
Items that will not be reclassified to profit or loss:				
Net gain (loss) on financial assets measured at fair value through other comprehensive income	31, 33	(1,909)	17,273	155,616
Remeasurement of defined benefit plans	31	(109)	2,370	21,348
Share of net gain (loss) on financial assets measured at fair value through other comprehensive income of investments in associates	15, 31	(4)	3	25
Total of items that will not be reclassified to profit or loss		(2,022)	19,646	176,990
Items that may be reclassified subsequently to profit or loss:				
Exchange differences on translation of foreign operations	31	(219)	424	3,817
Total of items that may be reclassified subsequently to profit or loss		(219)	424	3,817
Total other comprehensive income (loss)		(2,241)	20,070	180,807
Total comprehensive income (loss) for the year		<u>57,647</u>	<u>95,567</u>	<u>860,962</u>
Comprehensive income (loss) for the year attributable to:				
Owners of the Company		57,492	95,488	860,256
Non-controlling interests		155	78	706
Total comprehensive income (loss) for the year		<u>¥ 57,647</u>	<u>¥ 95,567</u>	<u>\$ 860,962</u>

Consolidated Statement of Changes in Equity

Year Ended March 31, 2021

Millions of Yen

Equity attributable to owners of the Company								
Notes	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at April 1, 2019	¥ 17,358	¥ 17,202	¥ (38,151)	¥ 61,852	¥ 499,088	¥ 557,350	¥ 5,386	¥ 562,736
Profit for the year					59,704	59,704	184	59,888
Other comprehensive income (loss)	31			(2,212)		(2,212)	(29)	(2,241)
Total comprehensive income (loss) for the year				(2,212)	59,704	57,492	155	57,647
Purchase of treasury shares	24		(29,586)			(29,586)		(29,586)
Retirement of treasury shares	24		22,999		(22,999)			
Cash dividends	25				(22,798)	(22,798)	(3)	(22,801)
Share-based payments	34	27				27		27
Transfer from other components of equity to retained earnings	24			(11,610)	11,610			
Total transactions with the owners								
Balance at March 31, 2020	17,358	17,229	(44,737)	48,030	524,605	562,484	5,538	568,022
Profit for the year					75,425	75,425	72	75,497
Other comprehensive income (loss)	31			20,064		20,064	6	20,070
Total comprehensive income (loss) for the year				20,064	75,425	95,488	78	95,567
Purchase of treasury shares	24		(5)			(5)		(5)
Disposal of treasury shares	24	(38)	38			0		0
Cash dividends	25				(22,461)	(22,461)	(6)	(22,467)
Share-based payments	34	40				40		40
Transfer from other components of equity to retained earnings	24			(5,795)	5,795			
Total transactions with the owners								
Balance at March 31, 2021	¥ 17,358	¥ 17,231	¥ (44,705)	¥ 62,299	¥ 583,363	¥ 635,547	¥ 5,610	¥ 641,157

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

Equity attributable to owners of the Company								
Notes	Share capital	Capital reserves	Treasury shares	Other components of equity	Retained earnings	Equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance at March 31, 2020	\$ 156,381	\$ 155,214	\$(403,040)	\$ 432,703	\$ 4,726,169	\$ 5,067,427	\$ 49,891	\$ 5,117,318
Profit for the year					679,504	679,504	652	680,156
Other comprehensive income (loss)	31			180,753		180,753	54	180,807
Total comprehensive income (loss) for the year				180,753	679,504	860,256	706	860,962
Purchase of treasury shares	24		(46)			(46)		(46)
Disposal of treasury shares	24	(338)	338			0		0
Cash dividends	25				(202,350)	(202,350)	(52)	(202,403)
Share-based payments	34	359				359		359
Transfer from other components of equity to retained earnings	24			(52,203)	52,203			
Total transactions with the owners								
Balance at March 31, 2021	\$ 156,381	\$ 155,234	\$(402,748)	\$ 561,253	\$ 5,255,526	\$ 5,725,646	\$ 50,544	\$ 5,776,191

Consolidated Statement of Cash Flows

Year Ended March 31, 2021

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars (Note 2 (5))</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Cash flows from operating activities			
Profit before tax	¥ 79,696	¥ 100,890	\$ 908,914
Depreciation and amortization	14,214	15,820	142,524
Impairment losses	2,816	2,307	20,784
Interest and dividend income	(2,968)	(2,462)	(22,179)
Interest expense	76	73	655
(Increase) decrease in inventories	(173)	(6,107)	(55,017)
(Increase) decrease in trade and other receivables	(793)	(7,179)	(64,678)
Increase (decrease) in trade and other payables	1,992	6,361	57,306
Increase (decrease) in provisions	3,515	—	—
Increase (decrease) in retirement benefit liabilities	381	410	3,691
Other	865	(4,468)	(40,248)
Subtotal	99,621	105,645	951,754
Interest received	92	63	571
Dividends received	2,878	2,401	21,634
Interest paid	(76)	(73)	(655)
Income taxes paid	(28,357)	(34,060)	(306,848)
Net cash provided by (used in) operating activities	74,157	73,977	666,455
Cash flows from investing activities			
Purchases of property, plant, and equipment	(7,475)	(7,018)	(63,221)
Proceeds from sales of property, plant, and equipment	424	2	16
Purchases of intangible assets	(14,970)	(13,275)	(119,596)
Purchases of investments	—	(760)	(6,847)
Proceeds from sales and redemption of investments	31,439	14,033	126,425
Payments into time deposits	(45,800)	(80,939)	(729,178)
Proceeds from withdrawal of time deposits	25,800	30,800	277,477
Other	348	(429)	(3,864)
Net cash provided by (used in) investing activities	(10,234)	(57,586)	(518,788)
Cash flows from financing activities			
Dividends paid	(22,775)	(22,449)	(202,243)
Dividends paid to non-controlling interests	(3)	(6)	(52)
Repayments of lease liabilities	(2,358)	(2,296)	(20,682)
Purchases of treasury shares	(29,584)	(3)	(29)
Net cash provided by (used in) financing activities	(54,721)	(24,754)	(223,005)
Net increase (decrease) in cash and cash equivalents	9,202	(8,363)	(75,338)
Cash and cash equivalents at the beginning of the year	59,981	69,005	621,664
Effects of exchange rate changes on cash and cash equivalents	(179)	403	3,630
Cash and cash equivalents at the end of the year	7 ¥ 69,005	¥ 61,045	\$ 549,956

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

1. Reporting Entity

ONO PHARMACEUTICAL CO., LTD. (the “Company”) is a company incorporated in Japan. The addresses of its registered head office and principal business locations are disclosed on the Company’s website

(URL <https://www.ono-pharma.com>).

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

2. Basis of Preparation

(1) Statements of Compliance with International Financial Reporting Standards

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(4) Changes in Accounting Policies

The significant accounting policies of the Group that are applied for the current consolidated fiscal year are the same as the ones for the previous consolidated fiscal year. There were some minor revisions of IFRSs but these did not have a significant impact on the Group's consolidated financial position and results.

(5) U.S. Dollar Amounts

The accompanying consolidated financial statements are stated in Japanese yen. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside of Japan using the rate of ¥111 to \$1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate. Amounts of less than one thousand U.S. dollars have been rounded to the nearest one thousand U.S. dollars in the presentation of the accompanying consolidated financial statements. As a result, the totals in U.S. dollars do not necessarily agree with the sum of the individual amounts.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

3. Significant Accounting Policies

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

(1) Basis of Consolidation

① Subsidiaries

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

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

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

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

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

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

The consolidated financial statements contain the financial statements of the subsidiaries with different reporting dates from the Company due to the impracticability of aligning with the reporting date of the Company. The difference of the reporting dates between the Company and the subsidiaries is no more than three months.

When the financial statements of the subsidiaries with different reporting dates from the Company are prepared for the consolidated financial statements purposes, significant transactions or events that occur between the dates of those reporting dates are adjusted.

② Associates

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

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

The closing date of all associates is the same as that of the Company.

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

③ Business Combinations

Business combinations are accounted for using the acquisition method.

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

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

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

(2) Foreign Currencies

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

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

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

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

(3) Financial Instruments

① Financial Assets

(i) Initial Recognition and Measurement

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(ii) Classification and Subsequent Measurement

(a) Financial Assets Measured at Amortized Cost

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

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

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

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(c) Equity instruments measured at FVOCI

After initial recognition, equity instruments designated to be measured at FVOCI are measured at fair value, and any changes in fair value are included in net gain (loss) on financial assets measured at FVOCI in other components of equity.

When such financial assets are derecognized, the accumulated other comprehensive income is immediately transferred to retained earnings. Meanwhile, dividends from such financial assets are recognized as profit when the shareholder's right to receive payment is established.

(d) Financial assets measured at FVPL

Financial assets, except for financial assets measured at amortized cost, debt instruments measured at FVOCI, and equity instruments measured at FVOCI stated above, are classified as financial assets measured at FVPL.

After initial recognition, financial assets measured at FVPL are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Derecognition of Financial Assets

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(iv) Impairment of Financial Assets

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

② Financial Liabilities

(i) Initial Recognition and Subsequent Measurement

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

(ii) Derecognition of Financial Liabilities

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

③ Offsetting of Financial Instruments

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

④ Derivatives

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

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

⑤ Hedge Accounting

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

Cash flow hedge accounting is as follows:

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

Amounts recognized in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss in the same line as the recognized hedged item. However, in cases where the hedged forecast transaction results in the recognition of a non-financial asset or liability, the gains and losses previously recognized in other comprehensive income and accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or liability.

Hedge accounting is discontinued when a hedging instrument expires, is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss recognized in other comprehensive income and accumulated in equity remains in equity and is reclassified to profit or loss when the forecast transaction is ultimately recognized in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognized immediately in profit or loss.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

⑥ Fair Value of Financial Instruments

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

(4) Cash and Cash Equivalents

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

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

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

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

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

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

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

(7) Impairment of Property, Plant, and Equipment

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

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

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

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

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

(8) Intangible Assets

① Intangible Assets Acquired Separately

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

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

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

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

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

Due to the risks and uncertainties related to the approval and development activity of pharmaceutical drugs, the Group determines that the recognition criteria for capitalization as intangible assets are considered not to have been met unless it obtains marketing approval from the relevant regulatory authorities.

Internally generated development expenses arising before marketing approval has been obtained are expensed under “Research and development costs” as incurred.

③ Impairment of Intangible Assets

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

The recoverable amount of an asset or a cash-generating unit is measured at the higher of its fair value less costs to sell or its value in use. The value in use is computed by discounting the estimated future cash flows to the present value.

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

(9) Leases

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

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(10) Employee Benefits

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

① Defined Benefit Plans

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

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

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

② Defined Contribution Plans

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(11) Provisions

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

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

(12) Revenue

Revenue, excluding interest and dividend income, etc., is recognized by applying the following five steps:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

① Sale of Merchandise

For the sale of merchandise, revenue is recognized at the point when it is delivered, since material risks and economic value associated with ownership of the merchandise are transferred to customers at the time of its delivery, and customers acquire control over it, and thereby the Group's performance obligations are considered to be satisfied.

The revenue arising from sale of merchandise is calculated by deducting the amount of rebates and discounts based on the number and amount of sales from the consideration in the sales contract, and the consideration to be refunded to customers and the amounts to be collected on behalf of third parties are recognized as a refund liability. The most likely amount method based on contractual conditions and past results is used to estimate rebates, etc. Revenue is recognized only to the extent that it is highly probable that there will not be a significant reversal of revenue previously recognized.

Consideration related to sale of merchandise is mainly received within one year from the delivery of merchandise to customers. This does not include significant financing components.

② Royalty Revenue, etc.

Royalty revenue is consideration for license contracts, etc., calculated on the basis of revenue, etc., of the other party in the contract, and it is recognized as revenue taking the time of occurrence into consideration.

License revenue is up-front payment and milestone revenue received under license contracts, etc., related to development or rights to develop or sell products, etc., executed between the Group and third parties. For license contracts, etc., when performance obligations are satisfied at a specific point in time, performance obligations under the contract are considered to be satisfied at the time of granting development or selling rights, etc., for up-front payment and milestone revenue, and at this point, the up-front payment and milestone revenue are recognized as revenue. When performance obligations are satisfied over a certain period of time, the consideration is recognized as contract liabilities, and up-front payment and milestone revenue are recognized as revenue over a certain period of time, such as the estimated development period according to the method of measuring the degree of progress regarding satisfaction of the performance obligations determined for each individual contract.

Milestone revenue is recognized as revenue, considering the probability that there will be a significant reversal of revenue previously recognized, from the time that milestones specified in the contract are achieved.

Royalty revenue, etc., are mainly received within one year from the vesting under the contract. This does not include significant financing components.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(13) Income Taxes

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

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

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

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

- Deductible temporary differences associated with investments in subsidiaries and associates where it is probable that the temporary differences will not reverse in the foreseeable future or it is not probable that taxable profits will be available against which the temporary differences can be used.
- Taxable temporary differences associated with investments in subsidiaries and associates where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- There are temporary differences arising from the initial recognition of assets and liabilities which occur through transactions that affect neither accounting profit nor taxable profit for tax purposes, except for business combinations.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

(14) Treasury Shares

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

(15) Earnings per Share

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

(16) Share-based Payments

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

4. Significant Accounting Estimates and Critical Judgment Involving Estimations

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

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

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

- Impairment of intangible assets (Note 3(8), 14)
- Recoverability of deferred tax assets (Note 3(13), 16)
- Measurement of defined benefit obligations (Note 3(10), 22)
- Provision for patent royalties (Note 3(11), 23)
- Potential outflow of future economic benefits of contingent liabilities (Note 38)

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

5. Standards and Interpretations Issued but Not Yet Applied

The Group has not elected early application of new or revised standards and interpretations that have been issued before the approval date disclosed in “39. Approval of Financial Statements” on March 31, 2021. New or revised standards and interpretations that have been issued before the approval of consolidated financial statements and may affect the Group are as follows :

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

6. Segment Information

(1) Reportable Segments

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

(2) Details of Revenue

Details of revenue are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Revenue of goods and products	¥ 205,614	¥ 214,544	\$ 1,932,832
Royalty and others	86,805	94,740	853,513
Total	¥ 292,420	¥ 309,284	\$ 2,786,345

(3) Revenue by Geographic Area

Details of revenue by geographic area are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Japan	¥ 202,866	¥ 212,865	\$ 1,917,707
Americas	81,545	85,566	770,864
Asia	7,481	7,446	67,084
Europe	528	3,407	30,691
Total	¥ 292,420	¥ 309,284	\$ 2,786,345

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(4) Major Customers

Details of revenue from major customers are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Bristol-Myers Squibb Company and the group	¥ 66,826	¥ 65,470	\$ 589,819
MEDIPAL HOLDINGS CORPORATION and the group	46,295	47,577	428,625
SUZUKEN CO., LTD. and the group	45,828	46,404	418,058
Alfresa Holdings Corporation and the group	31,894	34,422	310,108
TOHO HOLDINGS CO., LTD. and the group	30,637	32,596	293,661

7. Cash and Cash Equivalents

Details of cash and cash equivalents are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
(Cash and cash equivalents)			
Cash and deposits	¥ 69,005	¥ 61,045	\$ 549,956
Cash and cash equivalents in the consolidated statement of financial position	¥ 69,005	¥ 61,045	\$ 549,956
Cash and cash equivalents in the consolidated statement of cash flows	¥ 69,005	¥ 61,045	\$ 549,956

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

8. Trade and Other Receivables

Details of trade and other receivables are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
Notes receivable	¥ 1,832	¥ 1,917	\$ 17,272
Trade accounts receivable	68,962	74,090	667,475
Other accounts receivable	6,045	8,267	74,473
Allowance for doubtful accounts	(5)	(4)	(38)
Total	¥ 76,834	¥ 84,269	\$ 759,182

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

9. Marketable Securities and Investment Securities

(1) Details

Details of marketable securities and investment securities are as follows:

		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
		March 31, 2020	March 31, 2021	March 31, 2021
Marketable securities	Classification			
	Financial assets measured at amortized cost	Bonds	¥ 614	¥ 2,978
	Total	¥ 614	¥ 2,978	\$ 26,830
	Financial assets measured at FVOCI	Stock	¥ 133,322	¥ 144,855
Investment securities	Financial assets measured at FVPL	Other	454	1,003
	Financial assets measured at amortized cost	Bonds	3,893	937
	Total	¥ 137,670	¥ 146,796	\$ 1,322,483

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(2) Major Holdings of Issues and Fair Value

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

For the fiscal year ended March 31, 2020

Description	<i>Millions of Yen</i>
SANTEN PHARMACEUTICAL CO., LTD.	¥ 17,292
DAIKIN INDUSTRIES, LTD.	16,002
NISSIN FOODS HOLDINGS CO., LTD.	11,070
Nissan Chemical Corporation	7,813
Astellas Pharma Inc.	5,533
Nippon Shinyaku Co., Ltd.	5,258
YAKULT HONSHA CO., LTD.	5,159
MEIJI Holdings Co., Ltd.	4,649
MIURA CO., LTD.	4,035
KIKKOMAN CORPORATION	3,302
Sumitomo Dainippon Pharma Co., Ltd.	3,014
T&D Holdings, Inc.	2,993
Kurita Water Industries Ltd.	2,717
SHIMADZU CORPORATION	2,615
KISSEI PHARMACEUTICAL CO., LTD.	2,354
HISAMITSU PHARMACEUTICAL CO., INC.	2,259
KOKUYO CO., LTD.	2,247
FUJIFILM Holdings Corporation	2,168
KYORIN Holdings, Inc.	2,121
Otsuka Holdings Co., Ltd.	1,985
Alfresa Holdings Corporation	1,911
SUZUKEN CO., LTD.	1,700
FUJIMOTO CHEMICALS CO., LTD.	1,636
MEDIPAL HOLDINGS CORPORATION	1,464
CKD Corporation	1,369
MAEDA CORPORATION	1,265
Osaka Gas Co., Ltd.	1,176
OKAMURA CORPORATION	1,104
Toppan Printing CO., LTD.	1,086
NIPPON DENSETSU KOGYO CO., LTD.	1,054

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

For the fiscal year ended March 31, 2021

Description	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
DAIKIN INDUSTRIES, LTD.	¥ 27,119	\$ 244,314
SANTEN PHARMACEUTICAL CO., LTD.	13,386	120,599
NISSIN FOODS HOLDINGS CO., LTD.	10,098	90,976
Nissan Chemical Corporation	10,075	90,769
MIURA CO., LTD.	6,259	56,390
Astellas Pharma Inc.	5,636	50,775
Kurita Water Industries Ltd.	5,161	46,497
Nippon Shinyaku Co., Ltd.	5,103	45,969
T&D Holdings, Inc.	4,828	43,500
KIKKOMAN CORPORATION	4,725	42,568
YAKULT HONSHA CO., LTD.	4,521	40,734
MEIJI Holdings Co., Ltd.	4,310	38,833
Sumitomo Dainippon Pharma Co., Ltd.	4,139	37,292
SHIMADZU CORPORATION	3,681	33,159
HISAMITSU PHARMACEUTICAL CO., INC.	3,232	29,119
FUJIFILM Holdings Corporation	2,619	23,596
Otsuka Holdings Co., Ltd.	2,199	19,808
CKD Corporation	2,134	19,225
KISSEI PHARMACEUTICAL CO., LTD.	2,073	18,679
Alfresa Holdings Corporation	2,023	18,229
FUJIMOTO CHEMICALS CO., LTD.	1,952	17,582
SUZUKEN CO., LTD.	1,869	16,835
KYORIN Holdings, Inc.	1,861	16,761
KOKUYO CO., LTD.	1,592	14,344
MEDIPAL HOLDINGS CORPORATION	1,541	13,880
Mitsubishi Logistics Corporation	966	8,706
OSAKA SODA CO., LTD.	923	8,315
Toppan Printing CO., LTD.	858	7,731
TOHO HOLDINGS CO., LTD.	811	7,303
NIHON KOHDEN CORPORATION	777	7,001

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(3) Dividends Received

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Stock held at year-end	¥ 2,382	¥ 2,117	\$ 19,071
Stock disposed during the year	494	283	2,548
Total	¥ 2,876	¥ 2,400	\$ 21,619

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

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

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	For the year ended March 31, 2020		For the year ended March 31, 2021		For the year ended March 31, 2021	
	Fair value at the date of sale	Cumulative gains or losses	Fair value at the date of sale	Cumulative gains or losses	Fair value at the date of sale	Cumulative gains or losses
Stock	¥30,741	¥16,871	¥13,406	¥4,870	\$120,771	\$43,871

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

2. The Group transferred cumulative gains or losses (net of tax) from other components of equity to retained earnings of ¥11,719 million and 3,425 million (\$30,855 thousand) for the years ended March 31, 2020 and 2021, respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

10. Other Financial Assets

Details of other financial assets are as follows:

Classification		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
		March 31, 2020	March 31, 2021	March 31, 2021
(Current assets)				
Time deposits	Financial assets measured at amortized cost	¥ 30,800	¥ 40,952	\$ 368,939
	Total	¥ 30,800	¥ 40,952	\$ 368,939
(Non-current assets)				
Long-term time deposits	Financial assets measured at amortized cost	¥ 85,000	¥ 125,000	\$ 1,126,126
Insurance reserve fund	Financial assets measured at FVPL	6,694	6,888	62,054
	Total	¥ 91,694	¥ 131,888	\$ 1,188,180

11. Other Assets

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

		<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
		March 31, 2020	March 31, 2021	March 31, 2021
(Other current assets)				
Prepaid expenses		¥ 8,094	¥ 10,003	\$ 90,119
Advance payments		2,735	2,416	21,770
Other		4,234	6,827	61,502
	Total	¥ 15,063	¥ 19,246	\$ 173,391
(Other non-current assets)				
Lease deposits		¥ 844	¥ 873	\$ 7,864
Long-term prepaid expenses		563	655	5,905
Other		1,465	1,062	9,568
	Total	¥ 2,871	¥ 2,590	\$ 23,337

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

12. Inventories

Details of inventories are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
Merchandise and finished goods	¥ 17,248	¥ 19,628	\$ 176,829
Work in process	4,536	5,548	49,984
Raw materials and supplies	11,122	13,975	125,898
Total	¥ 32,906	¥ 39,151	\$ 352,711

Note: Inventories recognized as an expense for the years ended March 31, 2020 and 2021, amounted to ¥44,721 million and ¥45,314 million (\$408,234 thousand), respectively. In addition, the write-downs of inventories recognized as an expense for the years ended March 31, 2020 and 2021, were ¥681 million and ¥684 million (\$6,158 thousand), respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

13. Property, Plant, and Equipment

(1) Schedule of Movements

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

Cost

	<i>Millions of Yen</i>					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2019	¥ 28,987	¥ 106,908	¥ 23,572	¥ 28,249	¥ 6,101	¥ 193,818
Changes in accounting policies	1,869	4,376	-	-	-	6,245
Balance at April 1, 2019	¥ 30,856	¥ 111,284	¥ 23,572	¥ 28,249	¥ 6,101	¥ 200,063
Acquisition	754	1,766	1,191	1,370	4,738	9,819
Transfer	-	1,433	4,499	621	(6,554)	-
Sale or disposal	(599)	(1,841)	(1,418)	(2,114)	(1)	(5,973)
Exchange differences on translation of foreign operations	-	(53)	-	(12)	(0)	(66)
Other	-	-	-	-	(450)	(450)
Balance at March 31, 2020	¥ 31,010	¥ 112,589	¥ 27,845	¥ 28,113	¥ 3,835	¥ 203,393
Acquisition	308	3,456	370	1,748	3,493	9,376
Transfer	-	1,915	693	196	(2,805)	-
Sale or disposal	(207)	(2,648)	(205)	(1,730)	-	(4,791)
Exchange differences on translation of foreign operations	-	168	-	21	31	219
Other	-	-	-	-	(425)	(425)
Balance at March 31, 2021	¥ 31,112	¥ 115,480	¥ 28,703	¥ 28,347	¥ 4,130	¥ 207,772

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

<i>Thousands of U.S. Dollars</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at						
March 31, 2020	\$ 279,373	\$ 1,014,317	\$ 250,855	\$ 253,273	\$ 34,554	\$1,832,372
Acquisition	2,779	31,131	3,337	15,747	31,470	84,465
Transfer	–	17,256	6,246	1,765	(25,267)	–
Sale or disposal	(1,868)	(23,858)	(1,850)	(15,589)	–	(43,165)
Exchange differences on translation of foreign operations	–	1,513	–	186	276	1,974
Other	–	–	–	–	(3,824)	(3,824)
Balance at						
March 31, 2021	<u>\$ 280,284</u>	<u>\$ 1,040,360</u>	<u>\$ 258,587</u>	<u>\$ 255,382</u>	<u>\$ 37,209</u>	<u>\$ 1,871,822</u>

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

Accumulated depreciation and accumulated impairment losses

<i>Millions of Yen</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at						
April 1, 2019	¥ (9)	¥ (50,361)	¥ (15,693)	¥ (18,885)	¥ –	¥ (84,948)
Depreciation	(279)	(5,477)	(1,142)	(2,021)	–	(8,920)
Impairment losses	–	(4)	(4)	–	(1)	(9)
Sale or disposal	20	1,567	1,401	2,101	1	5,089
Exchange differences on translation of foreign operations	–	12	–	11	–	22
Balance at						
March 31, 2020	¥ (268)	¥ (54,264)	¥ (15,439)	¥ (18,795)	¥ –	¥ (88,766)
Depreciation	(291)	(5,818)	(1,504)	(1,878)	–	(9,491)
Impairment losses	–	–	(2)	–	–	(2)
Sale or disposal	40	2,480	192	1,706	–	4,418
Exchange differences on translation of foreign operations	–	(49)	–	(17)	–	(66)
Balance at						
March 31, 2021	¥ (519)	¥ (57,651)	¥ (16,752)	¥ (18,983)	¥ –	¥ (93,906)

<i>Thousands of U.S. Dollars</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at						
March 31, 2020	\$ (2,412)	\$ (488,866)	\$ (139,088)	\$ (169,323)	\$ –	\$ (799,689)
Depreciation	(2,624)	(52,417)	(13,547)	(16,917)	–	(85,505)
Impairment losses	–	–	(16)	–	–	(16)
Sale or disposal	363	22,343	1,728	15,370	–	39,804
Exchange differences on translation of foreign operations	–	(442)	–	(151)	–	(593)
Balance at						
March 31, 2021	\$ (4,673)	\$ (519,382)	\$ (150,923)	\$ (171,021)	\$ –	\$ (845,999)

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

Carrying amount

<i>Millions of Yen</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at April 1, 2019	¥ 28,978	¥ 56,548	¥ 7,879	¥ 9,364	¥ 6,101	¥ 108,870
Balance at March 31, 2020	30,743	58,325	12,406	9,318	3,835	114,628
Balance at March 31, 2021	30,593	57,829	11,951	9,364	4,130	113,866

<i>Thousands of U.S. Dollars</i>						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Construction in progress	Total
Balance at March 31, 2021	\$ 275,611	\$ 520,978	\$ 107,664	\$ 84,361	\$ 37,209	\$ 1,025,823

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(2) Impairment Losses

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

The Group recognized impairment losses for property, plant, and equipment of ¥9 million and ¥2 million (\$16 thousand) for the years ended March 31, 2020 and 2021, respectively, which are included in “Other expenses” in the consolidated statement of income.

Impairment losses recognized for the years ended March 31, 2020 and 2021, represent reductions in the carrying amounts of assets to be disposed of and idle assets not expected to be used in the future to their recoverable amounts. The recoverable amounts were measured at fair value less costs to sell. The recoverable amounts of assets to be disposed of were considered to be zero.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

14. Intangible Assets

(1) Schedule of Movements

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

Cost

	<i>Millions of Yen</i>			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2019	¥ 65,179	¥ 14,070	¥ 1,132	¥ 80,381
Acquisition	9,296	867	1,409	11,572
Transfer	—	1,073	(1,073)	—
Disposal	—	(972)	(9)	(981)
Exchange differences on translation of foreign operations	—	(2)	—	(2)
Other	—	—	(156)	(156)
Balance at March 31, 2020	¥ 74,475	¥ 15,037	¥ 1,302	¥ 90,814
Acquisition	10,233	839	1,655	12,727
Transfer	—	1,148	(1,148)	—
Disposal	(2,500)	(528)	(6)	(3,034)
Exchange differences on translation of foreign operations	—	3	—	3
Other	—	—	(136)	(136)
Balance at March 31, 2021	¥ 82,208	¥ 16,499	¥ 1,668	¥ 100,375

	<i>Thousands of U.S. Dollars</i>			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2020	\$ 670,947	\$ 135,465	\$ 11,734	\$ 818,146
Acquisition	92,191	7,557	14,911	114,659
Transfer	—	10,340	(10,340)	—
Disposal	(22,523)	(4,756)	(52)	(27,330)
Exchange differences on translation of foreign operations	—	29	—	29
Other	—	—	(1,222)	(1,222)
Balance at March 31, 2021	\$ 740,615	\$ 148,635	\$ 15,030	\$ 904,281

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

Accumulated amortization and accumulated impairment losses

	<i>Millions of Yen</i>			
	Patents and licenses	Software	Other	Total
Balance at April 1, 2019	¥ (10,692)	¥ (6,239)	¥ (392)	¥ (17,322)
Amortization	(3,764)	(1,518)	(1)	(5,283)
Disposal	—	949	1	950
Impairment losses	(2,675)	(50)	—	(2,724)
Exchange differences on translation of foreign operations	—	1	—	1
Other	—	—	—	—
Balance at March 31, 2020	¥ (17,130)	¥ (6,856)	¥ (392)	¥ (24,378)
Amortization	(4,674)	(1,656)	(1)	(6,331)
Disposal	2,500	464	1	2,965
Impairment losses	(2,305)	—	—	(2,305)
Exchange differences on translation of foreign operations	—	(3)	—	(3)
Other	—	—	—	—
Balance at March 31, 2021	¥ (21,609)	¥ (8,051)	¥ (393)	¥ (30,053)

	<i>Thousands of U.S. Dollars</i>			
	Patents and licenses	Software	Other	Total
Balance at March 31, 2020	\$ (154,327)	\$ (61,766)	\$ (3,532)	\$ (219,626)
Amortization	(42,106)	(14,920)	(13)	(57,039)
Disposal	22,523	4,181	6	26,710
Impairment losses	(20,769)	—	—	(20,769)
Exchange differences on translation of foreign operations	—	(25)	—	(25)
Other	—	—	—	—
Balance at March 31, 2021	\$ (194,679)	\$ (72,529)	\$ (3,540)	\$ (270,748)

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

Carrying amount

<i>Millions of Yen</i>				
	Patents and licenses	Software	Other	Total
Balance at April 1, 2019	¥ 54,488	¥ 7,831	¥ 740	¥ 63,059
Balance at March 31, 2020	57,345	8,181	910	66,436
Balance at March 31, 2021	60,599	8,448	1,275	70,322

<i>Thousands of U.S. Dollars</i>				
	Patents and licenses	Software	Other	Total
Balance at March 31, 2021	\$ 545,936	\$ 76,106	\$ 11,491	\$ 633,533

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

2. Among the intangible assets above, intangible assets that are still not available for use amounted to ¥17,269 million and ¥20,201 million (\$181,991 thousand) as of March 31, 2020 and 2021, respectively. These mainly consist of separately acquired in-process research and development costs recorded in “Patents and licenses,” which are still in research and development phases, and accordingly, they are not in a condition for available for use until the phase where marketing approvals have been obtained from the related authorities and they are finally made into products.

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(2) Individually Significant Intangible Assets

① Details and Carrying Amounts

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

Item	Details	Millions of Yen		Thousands of U.S. Dollars
		March 31, 2020	March 31, 2021	March 31, 2021
Patents and licenses	In-process research and development costs			
	acquired separately	¥ 16,762	¥ 19,322	\$ 174,074
	Sales licenses	40,583	41,277	371,862
	Total	¥ 57,345	¥ 60,599	\$545,936

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

	March 31, 2020	March 31, 2021
In-process research and development costs acquired separately	ONO-7643/Anamorelin	ONO-7643/Anamorelin
	ONO-2370/Opicapone	ONO-7701 (BMS-986205) /Linrodostat
	ONO-7701 (BMS-986205) /Linrodostat	ONO-5704/SI-613
	ONO-5704/SI-613	ONO-7912(CPI-613) /Devimistat
	ONO-7912(CPI-613) /Devimistat	ONO-7913/Magrolimab
	ONO-7913/Magrolimab	Cenobamate
Sales licenses		RBN-2397
	FORXIGA	FORXIGA
	KYPROLIS	KYPROLIS
	PARSABIV	PARSABIV
	BRAFTOVI, MEKTOVI	BRAFTOVI, MEKTOVI
	CORALAN	CORALAN
		ONGENTYS

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

② Remaining Amortization Period

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

Item	Details	March 31, 2020	March 31, 2021
Patents and licenses	Sales licenses (years)	9.7	9.0

(3) Impairment Losses

Intangible assets are grouped into the smallest cash-generating unit(s) generating largely independent cash inflows.

In addition, patents and licenses are grouped separately by cash-generating units based on products and developed goods, which are the smallest group of units generating largely independent cash inflows.

The recoverable amount of an asset is calculated based on value in use measured based on the valuation of risk-adjusted future cash flows discounted at an appropriate rate. Future cash flows are estimated based on business forecasts. There is a possibility that a future event may result in changes in assumptions used in impairment tests and may affect future operating results of the Group. The Group's discount rate used in calculating the value in use is calculated based on the weighted-average cost of capital, and the pretax discount rate used in the calculation of value in use is from 8.1% to 14.2% and from 7.2% to 12.0% for the years ended March 31, 2020 and 2021, respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

As a result of impairment testing, the Group recognized impairment losses for intangible assets of ¥2,724 million and ¥2,305 million (\$20,769 thousand) for the years ended March 31, 2020 and 2021, respectively. Impairment losses on sales licenses present reductions in the carrying amounts to the recoverable amounts due to decreased profitability, and the recoverable amounts are calculated based on value in use of the licenses. Impairment losses on in-process research and development costs are recognized due to the discontinuation of new drug development. Impairment losses on sales licenses are included in “Cost of sales” in the consolidated statement of income and impairment losses on in-process research and development costs are included in “Research and development costs.” Impairment losses on software are included in “Other expenses.”

15. Investments in Associates

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2021</u>	<u>For the year ended March 31, 2021</u>
Profit (loss) from continuing operations attributable to the Group	¥ (4)	¥ 4	\$ 32
Other comprehensive income (loss) attributable to the Group	(4)	3	25
Total comprehensive income (loss) attributable to the Group	<u>¥ (7)</u>	<u>¥ 6</u>	<u>\$ 57</u>

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

16. Income Taxes

(1) Deferred Income Taxes

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
Deferred tax assets	¥ 34,817	¥ 33,619	\$ 302,871
Deferred tax liabilities	1,059	1,052	9,476
Net	¥ 33,758	¥ 32,567	\$ 293,395

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

For the year ended March 31, 2020

	<i>Millions of Yen</i>			
	Balance at April 1, 2019	Recognized in profit or loss	Recognized in other comprehensive income (loss)	Balance at March 31, 2020
Deferred tax assets				
Accrued bonuses	¥ 1,738	¥ (7)	¥ –	¥ 1,730
Accrued enterprise tax	980	107	–	1,087
Expenses for research and development commissions and others	36,266	4,841	–	41,107
Investment securities	29	4	–	33
Property, plant, and equipment	2,328	(22)	–	2,306
Intangible assets	44	17	–	61
Retirement benefit liabilities	3,642	115	48	3,806
Other accounts payable	1,731	86	–	1,817
Provision for patent royalties	5,265	1,076	–	6,341
Other	4,857	807	–	5,664
Total	¥ 56,880	¥ 7,024	¥ 48	¥ 63,953
Deferred tax liabilities				
Property, plant, and equipment	¥ (4,035)	¥ (103)	¥ –	¥ (4,138)
Intangible assets	(3,484)	729	–	(2,755)
Investment securities	(29,335)	2	6,031	(23,302)
Other	–	(0)	–	(0)
Total	¥ (36,854)	¥ 628	¥ 6,031	¥ (30,195)
Net	¥ 20,026	¥ 7,652	¥ 6,080	¥ 33,758

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

For the year ended March 31, 2021

<i>Millions of Yen</i>				
	Balance at April 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income (loss)	Balance at March 31, 2021
Deferred tax assets				
Accrued bonuses	¥ 1,730	¥ 37	¥ –	¥ 1,768
Accrued enterprise tax	1,087	250	–	1,337
Expenses for research and development				
commissions and others	41,107	3,961	–	45,068
Investment securities	33	(10)	–	23
Property, plant, and equipment	2,306	(80)	–	2,226
Intangible assets	61	(0)	–	61
Retirement benefit liabilities	3,806	123	(1,045)	2,884
Other accounts payable	1,817	502	–	2,319
Provision for patent royalties	6,341	–	–	6,341
Other	5,664	859	–	6,523
Total	¥ 63,953	¥ 5,643	¥ (1,045)	¥ 68,551
Deferred tax liabilities				
Property, plant, and equipment	¥ (4,138)	¥ (234)	¥ –	¥ (4,372)
Intangible assets	(2,755)	(4)	–	(2,759)
Investment securities	(23,302)	(35)	(5,516)	(28,854)
Other	(0)	0	–	–
Total	¥ (30,195)	¥ (272)	¥ (5,516)	¥ (35,984)
Net	¥ 33,758	¥ 5,371	¥ (6,561)	¥ 32,567

<i>Thousands of U.S. Dollars</i>				
	Balance at April 1, 2020	Recognized in profit or loss	Recognized in other comprehensive income (loss)	Balance at March 31, 2021
Deferred tax assets				
Accrued bonuses	\$ 15,589	\$ 337	\$ –	\$ 15,926
Accrued enterprise tax	9,794	2,255	–	12,049
Expenses for research and development				
commissions and others	370,334	35,684	–	406,017
Investment securities	300	(90)	–	210
Property, plant, and equipment	20,775	(719)	–	20,056
Intangible assets	552	(2)	–	550
Retirement benefit liabilities	34,285	1,111	(9,413)	25,983
Other accounts payable	16,372	4,524	–	20,896
Provision for patent royalties	57,123	–	–	57,123
Other	51,027	7,738	–	58,765
Total	\$ 576,150	\$ 50,837	\$ (9,413)	\$ 617,575
Deferred tax liabilities				
Property, plant, and equipment	\$ (37,277)	\$ (2,107)	\$ –	\$ (39,384)
Intangible assets	(24,820)	(34)	–	(24,853)
Investment securities	(209,930)	(314)	(49,698)	(259,942)
Other	(2)	2	–	–
Total	\$ (272,029)	\$ (2,453)	\$ (49,698)	\$ (324,179)
Net	\$ 304,122	\$ 48,385	\$ (59,111)	\$ 293,395

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

- Notes: 1. The differences between deferred tax expense and the amount recognized in profit or loss are exchange differences on translation of foreign operations and others.
2. The effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities as of March 31, 2020 and 2021 in Japan is 30.6%.
3. Taxable temporary differences associated with investments in subsidiaries, for which deferred tax liabilities were not recognized, amounted to ¥3,457 million and ¥4,098 million (\$36,921 thousand) as of March 31, 2020 and 2021, respectively. This is because the Group is able to control the timing of the reversal of the temporary differences, and it is certain that the temporary differences will not reverse in the foreseeable future.

(2) Income Tax Expense

Details of income tax expense are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Current tax expense	¥ 27,492	¥ 30,736	\$ 276,905
Deferred tax expense	(7,685)	(5,344)	(48,146)
Total	¥ 19,808	¥ 25,392	\$ 228,759

Note: The Group is subject to corporate tax, inhabitant tax, and enterprise tax in Japan, which in the aggregate resulted in an applicable tax rate for current tax expense of 30.6% for the years ended March 31, 2020 and 2021. Overseas subsidiaries use the income tax rates of the countries in which they are located.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

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

	For the year ended March 31, 2020	For the year ended March 31, 2021
Applicable tax rates	30.6 %	30.6 %
Permanent non-deductible items	0.4	0.2
Non-taxable dividends	(0.2)	(0.1)
Tax credit for research and development, etc.	(6.6)	(6.2)
Other	0.7	0.7
Average actual tax rates	24.9 %	25.2 %

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

17. Trade and Other Payables

Details of trade and other payables are as follows:

	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021
Notes payable	¥ 471	\$ 3,518
Trade accounts payable	5,926	65,314
Other accounts payable	25,956	262,715
Refund liabilities	2,085	21,277
Total	¥ 34,439	\$ 352,824

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

18. Other Financial Liabilities

Details of other financial liabilities are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
Current liabilities			
Dividends payable	¥ 114	¥ 97	\$ 874
Deposits received	309	331	2,984
Other	27	188	1,692
Total	¥ 450	¥ 616	\$ 5,551
Non-current liabilities			
Other	¥ 0	¥ 0	\$ 3
Total	¥ 0	¥ 0	\$ 3

19. Assets Pledged as Collateral

Assets pledged as collateral are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
Other current assets	¥ 4,000	¥ 6,500	\$ 58,559

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

20. Leases

(1) Right-of-use assets

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

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

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

<i>Millions of Yen</i>					
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at March 31, 2019	¥ –	¥ 1,202	¥ 802	¥ 57	¥ 2,060
Changes in accounting policies	1,869	4,376	–	–	6,245
Balance at April 1, 2019	1,869	5,577	802	57	8,305
Acquisition	527	1,303	945	–	2,774
Depreciation	(271)	(1,579)	(372)	(21)	(2,243)
Other	(321)	(179)	(2)	–	(502)
Balance at March 31, 2020	¥ 1,804	¥ 5,123	¥ 1,372	¥ 35	¥ 8,334
Acquisition	308	2,639	193	2	3,142
Depreciation	(283)	(1,789)	(451)	(22)	(2,545)
Other	(167)	(8)	(3)	0	(177)
Balance at March 31, 2021	¥ 1,663	¥ 5,965	¥ 1,110	¥ 16	¥ 8,754

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

Thousands of U.S. Dollars

	Land	Buildings and structures	Machinery and vehicles	Tools, furniture, and fixtures	Total
Balance at March 31, 2020	\$ 16,253	\$ 46,152	\$ 12,360	\$ 319	\$ 75,084
Acquisition	2,779	23,772	1,735	19	28,305
Depreciation	(2,548)	(16,120)	(4,066)	(195)	(22,929)
Other	(1,505)	(70)	(25)	1	(1,599)
Balance at March 31, 2021	\$ 14,980	\$ 53,735	\$ 10,003	\$ 144	\$ 78,861

Note: The balance as of March 31, 2019 is the carrying amount of leased assets under finance leases based on IAS 17.

(2) Lease liabilities

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

(3) Amount recognized in profit or loss

The amount recognized in profit or loss is as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Depreciation for right-of-use assets	¥ 2,243	¥ 2,545	\$ 22,929

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Total cash outflow for leases	¥ 3,824	¥ 3,646	\$ 32,846

21. Other Liabilities

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
Other current liabilities			
Accrued consumption taxes	¥ 2,629	¥ 1,757	\$ 15,830
Accrued salary and bonus	5,753	5,915	53,288
Accrued compensated vacation	3,256	3,002	27,041
Accrued expenses	1,416	1,476	13,301
Other	130	13	114
Total	¥ 13,185	¥ 12,163	\$ 109,574
Other non-current liabilities			
Compensated long-service benefit obligations	¥ 625	¥ 636	\$ 5,732
Other	188	177	1,596
Total	¥ 813	¥ 813	\$ 7,328

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

22. Retirement Benefits

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(1) Defined Benefit Plans

① Defined Benefit Plan Liabilities and Assets

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
Contributory			
Defined benefit obligations	¥ 50,802	¥ 50,309	\$ 453,231
Fair value of plan assets (including retirement benefit trust)	(45,535)	(48,074)	(433,102)
Subtotal	5,267	2,234	20,129
Non-contributory			
Defined benefit obligations	781	815	7,342
Subtotal	781	815	7,342
Net defined benefit liabilities (assets)	¥ 6,048	¥ 3,049	\$ 27,472
Retirement benefit liabilities stated in the consolidated statement of financial position	¥ 6,048	¥ 3,056	\$ 27,534
Retirement benefit assets stated in the consolidated statement of financial position	¥ —	¥ (7)	\$ (62)

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

② Obligations under Defined Benefit Plans

Movements in the defined benefit obligations are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Opening balance of defined benefit obligations	¥ 50,765	¥ 51,583	\$ 464,713
Service cost	2,496	2,446	22,034
Interest expense	308	322	2,904
Remeasurements			
Actuarial losses (gains) due to changes in financial assumptions	(235)	(1,031)	(9,288)
Other	40	(602)	(5,421)
Benefits paid	(1,791)	(1,595)	(14,369)
Closing balance of defined benefit obligations	¥ 51,583	¥ 51,124	\$ 460,573

Notes: 1. The weighted-average payment years for the defined benefit obligations as of March 31, 2020 and 2021, were 17.1 years and 16.6 years, respectively.

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

③ Plan Assets

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>	
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021	
Opening balance of fair value of plan assets	¥ 45,249	¥ 45,535	\$ 410,228	
Interest income	281	289	2,605	
Remeasurements				
Return on plan assets	(352)	1,782	16,052	
Contributions from employers	1,571	1,599	14,403	
Benefits paid	(1,214)	(1,131)	(10,186)	
Closing balance of fair value of plan assets	¥ 45,535	¥ 48,074	\$ 433,102	

Note: The Group expects to make contributions of ¥1,604 million (\$14,452 thousand) to the defined benefit corporate pension plans in the year subsequent to March 31, 2021.

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

	<i>Millions of Yen</i>						<i>Thousands of U.S. Dollars</i>		
	March 31, 2020			March 31, 2021			March 31, 2021		
	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total	Assets with active market prices	Assets without active market prices	Total
Equity instruments									
Domestic equity instruments	¥ 1,870	¥ –	¥ 1,870	¥ 2,873	¥ –	¥ 2,873	\$ 25,884	\$ –	\$ 25,884
Overseas equity instruments	1,758	–	1,758	2,580	–	2,580	23,247	–	23,247
Debt instruments									
Domestic debt instruments	–	2,957	2,957	–	2,962	2,962	–	26,689	26,689
Overseas debt instruments	–	1,825	1,825	–	1,929	1,929	–	17,381	17,381
General accounts at life insurance companies	–	30,339	30,339	–	30,982	30,982	–	279,116	279,116
Other	–	6,787	6,787	–	6,747	6,747	–	60,785	60,785
Total	¥ 3,627	¥41,908	¥45,535	¥ 5,454	¥42,621	¥48,074	\$49,132	\$ 383,970	\$ 433,102

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

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

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

④ Profit and Loss on Defined Benefit Plans

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Service costs	¥ 2,496	¥ 2,446	\$ 22,034
Net interest	28	33	299
Expenses recognized in the consolidated statement of income	¥ 2,524	¥ 2,479	\$ 22,333

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

⑤ Significant Assumptions Used for the Actuarial Valuations

The significant assumptions used for the purposes of the actuarial valuations are as follows:

	March 31, 2020	March 31, 2021
Discount rate (%)	0.6	0.8
Expected rate of salary increase (%)	2.8	2.8
Expected average remaining lives of current pensioners at age 60 at year-end (years)	25.3	25.5
Expected average remaining lives, from age 60, of future pensioners at age 40 at year-end (years)	26.8	27.0

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

⑥ Sensitivity Analysis

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

		<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
		<u>March 31, 2020</u>		<u>March 31, 2021</u>		<u>March 31, 2021</u>	
	Changes in principal assumptions	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Defined benefit obligations							
	0.5%						
Discount rate	increase/decrease	¥(4,187)	¥ 4,581	¥(4,018)	¥ 4,385	\$ (36,197)	\$39,501
Expected average remaining lives	1 year increase/decrease	990	(1,024)	1,027	(969)	9,255	(8,734)

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

(2) Multiemployer Pension Plans

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

(3) Defined Contribution Plans

The Group recognized ¥3,051 million and ¥3,102 million (\$27,948 thousand) as expenses for defined contribution plans for the years ended March 31, 2020 and 2021, respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

23. Provisions

(1) Details

Provisions stated in current liabilities are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>March 31, 2020</u>	<u>March 31, 2021</u>	<u>March 31, 2021</u>
Provision for patent royalties	¥ 20,721	¥ 20,721	\$ 186,678

(2) Schedule of Movements

The movements in provisions are as follows:

	<i>Provision for patent royalties</i>	
	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
Balance at April 1, 2020	¥ 20,721	\$ 186,678
Added to provisions	—	—
Balance at March 31, 2021	<u>¥ 20,721</u>	<u>\$ 186,678</u>

Note: Provision for patent royalties is recognized and measured based on estimated royalty payment to third parties. The information required in IAS 37, “Provisions, Contingent Liabilities and Contingent Assets,” is disclosed according to IAS 37. 92., instead of disclosing the respective figures, because such information may have some effects on the results of future discussion, etc.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

24. Share Capital and Other Equity Items

(1) Share Capital and Capital Reserves

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

	Number of authorized shares (Shares)	Number of issued shares (Shares)	<i>Millions of Yen</i>	
			Share capital	Capital reserves
Balance at April 1, 2019	1,500,000,000	543,341,400	¥ 17,358	¥ 17,202
Increase (decrease)	—	(15,000,000)	—	27
Balance at March 31, 2020	1,500,000,000	528,341,400	¥ 17,358	¥ 17,229
Increase (decrease)	—	—	—	2
Balance at March 31, 2021	1,500,000,000	528,341,400	¥ 17,358	¥ 17,231

Thousands of U.S. Dollars

	Share capital	Capital reserves
Balance at March 31, 2020	\$ 156,381	\$ 155,214
Increase (decrease)	—	20
Balance at March 31, 2021	\$ 156,381	\$ 155,234

Notes: 1. All shares issued by the Company are fully paid-up ordinary shares with no par value.

2. Increases and decreases in the number of issued shares for the year ended March 31, 2020 are due to retirement of treasury shares.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(2) Treasury Shares

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

	Number of shares (Shares)	Amount (Millions of Yen)
Balance at April 1, 2019	29,220,860	¥ 38,151
Increase (decrease)	1,412	6,587
Balance at March 31, 2020	29,222,272	¥ 44,737
Increase (decrease)	(22,856)	(32)
Balance at March 31, 2021	29,199,416	¥ 44,705

	Amount (Thousands of U.S. Dollars)
Balance at March 31, 2020	\$ 403,040
Increase (decrease)	(293)
Balance at March 31, 2021	\$ 402,748

- Notes: 1. Increases and decreases in the number and amount of treasury shares for the year ended March 31, 2020 are due to purchases under Article 156 of the Companies Act, applied by the reading of terms pursuant to the provisions of Paragraph 3, Article 165 of the Companies Act, retirement of treasury shares, and purchases of fractional unit shares, etc. The changes for the year ended March 31, 2021 are due to increases in purchases of fractional unit shares, etc. and a decrease in exercise of share option.
2. Treasury shares held by associates as of March 31, 2020 and 2021, are ¥29 million and ¥31 million (\$277 thousand), respectively.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(3) Other Components of Equity

Changes in other components of equity are as follows:

	<i>Millions of Yen</i>				
	Exchange differences on translation of foreign operations	Net fair value loss on derivatives under hedge accounting	Net gain (loss) on financial assets measured at FVOCI	Remeasurement of defined benefit plans	Total
Balance at April 1, 2019	¥ 682	¥ –	¥ 61,170	¥ –	¥ 61,852
Increase (decrease)					
Other comprehensive income	(219)	–	(1,884)	(109)	(2,212)
Transfer to retained earnings	–	–	(11,719)	109	(11,610)
Balance at March 31, 2020	¥ 463	¥ –	¥ 47,567	¥ –	¥ 48,030
Increase (decrease)					
Other comprehensive income	424	–	17,270	2,370	20,064
Transfer to retained earnings	–	–	(3,425)	(2,370)	(5,795)
Balance at March 31, 2021	¥ 887	¥ –	¥ 61,412	¥ –	¥ 62,299

	<i>Thousands of U.S. Dollars</i>				
	Exchange differences on translation of foreign operations	Net fair value loss on derivatives under hedge accounting	Net gain (loss) on financial assets measured at FVOCI	Remeasurement of defined benefit plans	Total
Balance at March 31, 2020	\$ 4,175	\$ –	\$ 428,528	\$ –	\$ 432,703
Increase (decrease)					
Other comprehensive income	3,817	–	155,588	21,348	180,753
Transfer to retained earnings	–	–	(30,855)	(21,348)	(52,200)
Balance at March 31, 2021	\$ 7,992	\$ –	\$ 553,261	\$ –	\$ 561,253

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

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

25. Dividends

(1) Dividends Paid

Dividends paid are as follows:

For the year ended March 31, 2020

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 20, 2019	Ordinary shares	¥ 11,568	¥ 22.5	March 31, 2019	June 21, 2019
Board of Directors' meeting held on October 31, 2019	Ordinary shares	¥ 11,230	¥ 22.5	September 30, 2019	December 2, 2019

For the year ended March 31, 2021

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General shareholders' meeting held on June 18, 2020	Ordinary shares	¥ 11,230	¥ 22.5	\$ 101,173	\$ 0.20	March 31, 2020	June 19, 2020
Board of Directors' meeting held on October 29, 2020	Ordinary shares	¥ 11,231	¥ 22.5	\$ 101,178	\$ 0.20	September 30, 2020	December 1, 2020

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

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

For the year ended March 31, 2020

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 18, 2020	Ordinary shares	¥ 11,230	¥ 22.5	March 31, 2020	June 19, 2020

For the year ended March 31, 2021

Date of resolution	Share type	Total dividends (Millions of Yen)	Dividends per share (Yen)	Total dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General shareholders' meeting held on June 17, 2021	Ordinary shares	¥ 13,726	¥ 27.5	\$ 123,661	\$ 0.25	March 31, 2021	June 18, 2021

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

26. Revenue

(1) Disaggregation of revenue

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

① Details of revenue by type of goods or services

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Revenue of goods and products	¥ 205,614	¥ 214,544	\$ 1,932,832
Royalty and others			
Opdivo Intravenous Infusion	61,608	59,758	538,360
Keytruda® from Merck & Co., Inc.	19,297	24,333	219,213
Others	5,900	10,649	95,940
Subtotal	86,805	94,740	853,513
Total	¥ 292,420	¥ 309,284	\$ 2,786,345

② Details of revenue by geographic area

Details of revenue by geographic area are included in “6. Segment Information

(3) Revenue by Geographic Area.”

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(2) Contract balances

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

	<i>Millions of Yen</i>			<i>Thousands of U.S. Dollars</i>
	<u>April 1, 2019</u>	<u>March 31, 2020</u>	<u>March 31, 2021</u>	<u>March 31, 2021</u>
Receivables from contracts with customers				
Trade accounts receivable	¥ 67,868	¥ 68,962	¥ 74,090	\$ 667,475
Notes receivable	2,885	1,832	1,917	17,272

Notes: 1. There were no material contract liabilities.

2. Revenue recognized relating to performance obligations satisfied in previous periods were ¥81,329 million and ¥85,515 million (\$770,405 thousand) for the years ended March 31, 2020 and 2021, respectively, and mainly represents royalty revenue.

(3) Transaction price allocated to the remaining performance obligations

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

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

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

27. Selling, General, and Administrative Expenses

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	<u>For the year ended March 31, 2020</u>	<u>For the year ended March 31, 2021</u>	<u>For the year ended March 31, 2021</u>
Business planning expenses	¥ 3,774	¥ 4,151	\$ 37,395
Sales promotion expenses	5,778	6,903	62,187
Employee benefit expenses	26,986	27,226	245,278
Depreciation and amortization	2,483	2,614	23,553
Business consignment expenses	9,086	7,853	70,748

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

28. Employee Benefit Expenses

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Salary and bonus	¥ 35,176	¥ 35,971	\$ 324,065
Retirement benefit expenses (defined benefit plans)	2,496	2,446	22,034
Retirement benefit expenses (multiemployer pension plans)	20	20	177
Retirement benefit expenses (defined contribution plans)	3,051	3,102	27,948
Legal welfare expenses	1,948	2,149	19,362
Other welfare expenses	1,572	1,480	13,337
Other employee benefit expenses	3,400	3,381	30,456
Total	¥ 47,662	¥ 48,549	\$ 437,379

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

29. Other Income and Other Expenses

Details of other income and other expenses are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Other income			
Gain on sale of non-current assets	¥ 163	¥ 99	\$ 891
Insurance proceeds	257	238	2,143
Gain on legal settlement	—	1,193	10,745
Gain on upfront payment	—	6,459	58,193
Subsidy income	88	—	—
Others	314	177	1,592
Total	¥ 822	¥ 8,165	\$ 73,563
Other expenses			
Impairment losses	¥ 141	¥ 2	\$ 16
Loss on disposal of non-current assets	29	106	958
Donations	1,807	1,380	12,433
Litigation costs, etc.	299	384	3,455
Others	235	60	542
Total	¥ 2,512	¥ 1,932	\$ 17,404

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

30. Finance Income and Finance Costs

Details of finance income and finance costs are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
(Finance income)			
Interest income			
Financial assets measured at amortized cost	¥ 92	¥ 62	\$ 560
Dividend income			
Financial assets measured at FVOCI	2,876	2,400	21,619
Gains on marketable securities			
Financial assets measured at FVPL	—	145	1,310
Exchange gains	—	4	35
Others	85	82	736
Total	¥ 3,053	¥ 2,693	\$ 24,261
(Finance costs)			
Interest expenses			
Financial liabilities measured at amortized cost	¥ 1	¥ 3	\$ 31
Lease liabilities	76	69	624
Losses on marketable securities			
Financial assets measured at FVPL	6	23	210
Net interest on employee benefits	28	33	299
Exchange losses	717	—	—
Others	18	8	73
Total	¥ 845	¥ 137	\$ 1,238

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

31. Other Comprehensive Income

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

For the year ended March 31, 2020

<i>Millions of Yen</i>					
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net gain (loss) on financial assets measured at FVOCI	¥ (2,673)	¥ —	¥ (2,673)	¥ 764	¥ (1,909)
Remeasurement of defined benefit plans	(157)	—	(157)	48	(109)
Share of net gain (loss) on financial assets measured at FVOCI of associates	(5)	—	(5)	2	(4)
Total	(2,836)	—	(2,836)	813	(2,022)
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	(219)	—	(219)	—	(219)
Net fair value gain (loss) on cash flow hedges	30	(30)	—	—	—
Total	(188)	(30)	(219)	—	(219)
Total other comprehensive income	¥ (3,024)	¥ (30)	¥ (3,054)	¥ 813	¥ (2,241)

For the year ended March 31, 2021

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

<i>Thousands of U.S. Dollars</i>					
	Amount incurred	Reclassification adjustments	Before tax effects	Tax effects	Net of tax amount
Items that will not be reclassified to profit or loss					
Net gain (loss) on financial assets measured at FVOCI	\$ 224,250	\$ —	\$ 224,250	\$ (68,634)	\$ 155,616
Remeasurement of defined benefit plans	30,761	—	30,761	(9,413)	21,348
Share of net gain (loss) on financial assets measured at FVOCI of associates	37	—	37	(11)	25
Total	255,048	—	255,048	(78,058)	176,990
Items that may be reclassified subsequently to profit or loss					
Exchange differences on translation of foreign operations	3,817	—	3,817	—	3,817
Net fair value gain (loss) on cash flow hedges	(1,502)	1,502	—	—	—
Total	2,314	1,502	3,817	—	3,817
Total other comprehensive income	\$ 257,363	\$ 1,502	\$ 258,865	\$ (78,058)	\$ 180,807

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

32. Earnings per Share

(1) Basic Earnings per Share

① Basic earnings per share are as follows:

	<i>Yen</i>		<i>U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Basic earnings per share	¥ 118.47	¥ 151.11	\$ 1.36

② Basis of Calculation of Basic Earnings per Share

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Profit for the year attributable to owners of the Company	¥ 59,704	¥ 75,425	\$ 679,504
Weighted-average number of ordinary shares outstanding (thousands of shares)	503,975	499,137	

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(2) Diluted Earnings per Share

① Diluted earnings per share are as follows:

	<i>Yen</i>		<i>U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Diluted earnings per share	¥ 118.45	¥ 151.09	\$ 1.36

② Basis of Calculation of Diluted Earnings per Share

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Profit for the year attributable to owners of the Company	¥59,704	¥75,425	\$ 679,504
Weighted-average number of ordinary shares outstanding (thousands of shares)	503,975	499,137	
Increased number of ordinary shares under to share option (thousands of shares)	69	66	
Weighted-average number of diluted ordinary shares outstanding (thousands of shares)	504,044	499,203	

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

33. Financial Instruments

(1) Equity Management

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

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

(2) Financial Risk Management

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(3) Credit Risk Management

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

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

The Group's revenue mainly consists of royalty revenue and sales of products through a small number of wholesalers, and the total revenue from the top five group companies (including the Company and the group company) accounts for about 73% of "Revenue" in the consolidated statement of income. Trade receivables from the top five group companies as of March 31, 2020 and 2021 were ¥56,591 million and ¥59,689 million (\$537,739 thousand), respectively.

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

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

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

The movements in allowance for doubtful accounts are as follows:

	<i>Millions of Yen</i>	<i>Millions of Yen</i>	<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Balance at the beginning of the year	¥ 8	¥ 5	\$ 50
Increase	—	—	—
Decrease (utilization)	(2)	—	—
Decrease (other)	(1)	(1)	(11)
Balance at the end of the year	<u>¥ 5</u>	<u>¥ 4</u>	<u>\$ 38</u>

(4) Liquidity Risk Management

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

Financial liabilities by maturity are as follows:

March 31, 2020

	<i>Millions of Yen</i>			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	¥ 34,439	¥ 34,439	¥ 34,439	¥ –
Lease liabilities	8,362	8,744	2,271	6,473
Other financial liabilities	450	450	450	0

March 31, 2021

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

	<i>Thousands of U.S. Dollars</i>			
	Carrying amount	Contractual cash flows	One year or less	More than one year
Trade and other payables	\$ 352,824	\$ 352,824	\$ 352,824	\$ –
Lease liabilities	81,553	84,658	18,852	65,806
Other financial liabilities	5,554	5,554	5,551	3

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(5) Market Risk Management

① Foreign Exchange Risk

1) Foreign Exchange Risk Management

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

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

2) Details of Forward Foreign Exchange Contracts by Currency

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

	March 31, 2020		March 31, 2021		March 31, 2021
	Contractual amount (Millions of U.S. Dollars)	Fair value (Millions of Yen)	Contractual amount (Millions of U.S. Dollars)	Fair value (Millions of Yen)	Fair value (Thousands of U.S. Dollars)
(Sell)					
U.S. Dollar	\$ 40	¥ (27)	\$ 37	¥ (188)	\$ (1,692)
- Cash flow hedge included in the above	40	(27)	37	(188)	(1,692)

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

3) Foreign Exchange Sensitivity Analysis

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

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	March 31, 2020		March 31, 2021		March 31, 2021	
	Equity	Profit or (loss)	Equity	Profit or (loss)	Equity	Profit or (loss)
U.S. Dollar	¥ 307	¥ (56)	¥ 424	¥ 130	\$ 3,816	\$ 1,172
Euro	—	(11)	—	(25)	—	(223)
British pound	117	(24)	143	(12)	1,292	(110)

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

② Price Fluctuation Risk

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

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

In case that the share price of equity instruments held by the Group increases or decreases by 10% at year-end, accumulated other comprehensive income (net-of-tax) would increase or decrease by ¥9,253 million and ¥10,053 million (\$90,567 thousand) as of March 31, 2020 and 2021, respectively, as a result of changes in fair value of the equity instruments designated as financial assets measured at FVOCI.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(6) Hedge Accounting

① Hedging instruments

The periods over which the Group hedges cash flow fluctuations by foreign exchange contract are within one year or less.

The carrying amounts (i.e. fair value) of the assets of hedging instruments are included in “Other financial assets,” and the carrying amounts (i.e. fair value) of the liabilities of hedging instrument are included in “Other financial liabilities.”

March 31, 2020

Type of hedge	Risk classification	Hedging instrument	Notional amount (Millions of U.S. Dollars)	Carrying amount (Fair value)		Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness Millions of Yen
				Assets (Millions of Yen)	Liabilities (Millions of Yen)	
Cash flow hedge	Foreign currency risk	Forward exchange contract	\$ 40	¥ –	¥ 27	¥ 18

Note: The average foreign exchange rate in foreign exchange contracts is ¥108.15 per U.S. dollar.

March 31, 2021

Type of hedge	Risk classification	Hedging instrument	Notional amount (Millions of U.S. Dollars)	Carrying amount (Fair value)				Change in fair value of the hedging instrument used as the basis for recognizing hedge ineffectiveness	
				Assets (Millions of Yen)	Liabilities (Millions of Yen)	Assets (Thousands of U.S. Dollars)	Liabilities (Thousands of U.S. Dollars)	Millions of Yen	Thousands of U.S. Dollars
Cash flow hedge	Foreign currency risk	Forward exchange contract	\$ 37	¥ -	¥ 188	\$ -	\$ 1,692	¥(179)	\$ (1,612)

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

② Hedged items

March 31, 2020

Type of hedge	Change in value of the hedged item used as the basis for recognizing hedge ineffectiveness	Balance in cash flow hedge reserve for continuing hedges
	Millions of Yen	Millions of Yen
Cash flow hedge	¥ (30)	¥ -

March 31, 2021

Type of hedge	Change in value of the hedged item used as the basis for recognizing hedge ineffectiveness		Balance in cash flow hedge reserve for continuing hedges	
	Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars
Cash flow hedge	¥ 167	\$ 1,502	¥ -	\$ -

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

For the year ended March 31, 2020

Type of hedge	Risk classification	Hedging instrument	Gains or losses on hedges recognized in other comprehensive income	Amount transferred from cash flow hedge reserve to profit or loss	Line item in profit or loss affected by the transfer
			Millions of Yen	Millions of Yen	
Cash flow hedge	Foreign currency risk	Forward exchange contract	¥ 30	¥ 30	Revenue, etc.

For the year ended March 31, 2021

Type of hedge	Risk classification	Hedging instrument	Gains or losses on hedges recognized in other comprehensive income		Amount transferred from cash flow hedge reserve to profit or loss		Line item in profit or loss affected by the transfer
			Millions of Yen	Thousands of U.S. Dollars	Millions of Yen	Thousands of U.S. Dollars	
Cash flow hedge	Foreign currency risk	Forward exchange contract	¥ (167)	\$ (1,502)	¥ (167)	\$ (1,502)	Revenue, etc.

Note: The figures represent amounts before tax effect adjustments.

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(7) Fair Value of Financial Instruments

① Fair Value Measurements

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

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

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

Marketable securities and investment securities

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

Other financial assets and other financial liabilities

- Insurance reserve fund

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

- Forward foreign exchange contracts

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

- Time deposits

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

- Others

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

② Fair Value and Carrying Amount

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

	<i>Millions of Yen</i>				<i>Thousands of U.S. Dollars</i>	
	March 31, 2020		March 31, 2021		March 31, 2021	
	Carrying amount	Fair value	Carrying amount	Fair value	Carrying amount	Fair value
(Financial assets)						
Financial assets measured at amortized cost						
- Marketable securities and investment securities	¥ 4,507	¥ 4,591	¥ 3,915	¥ 3,968	\$ 35,270	\$ 35,750
- Other financial assets	115,800	115,800	165,952	165,952	1,495,065	1,495,065

③ Fair Value Hierarchy

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

The fair value hierarchy is as follows:

Level 1: Inputs are unadjusted quoted prices in active markets for identical assets or liabilities that are available at the measurement date.

Level 2: Inputs are inputs other than quoted market prices included within Level 1 that are observable for assets or liabilities, either directly or indirectly.

Level 3: Inputs are unobservable inputs for assets or liabilities.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

1) Financial Assets and Financial Liabilities Measured at Fair Value

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

<i>Millions of Yen</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	¥ 311	¥ –	¥ 144	¥ 454
- Other financial assets	–	–	6,694	6,694
Financial assets measured at FVOCI				
- Investment securities	130,850	–	2,472	133,322
Total	¥ 131,161	¥ –	¥ 9,310	¥ 140,470
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	¥ –	¥ 27	¥ –	¥ 27
Total	¥ –	¥ 27	¥ –	¥ 27

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

<i>Thousands of U.S. Dollars</i>				
March 31, 2021				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at FVPL				
- Marketable securities and investment securities	\$ 4,080	\$ –	\$ 4,958	\$ 9,038
- Other financial assets	–	–	62,054	62,054
Financial assets measured at FVOCI				
- Investment securities	1,279,171	–	25,832	1,305,004
Total	\$ 1,283,251	\$ –	\$ 92,845	\$ 1,376,096
(Financial liabilities)				
Financial liabilities measured at FVPL				
- Other financial liabilities	\$ –	\$ 1,692	\$ –	\$ 1,692
Total	\$ –	\$ 1,692	\$ –	\$ 1,692

Note: For the years ended March 31, 2020 and 2021, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

2) Financial Assets and Financial Liabilities Measured at Amortized Cost

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

<i>Millions of Yen</i>				
March 31, 2020				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	¥ –	¥ 4,591	¥ –	¥ 4,591
- Other financial assets	–	115,800	–	115,800
Total	¥ –	¥ 120,391	¥ –	¥ 120,391

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

<i>Thousands of U.S. Dollars</i>				
March 31, 2021				
	Level 1	Level 2	Level 3	Total
(Financial assets)				
Financial assets measured at amortized cost				
- Marketable securities and investment securities	\$ –	\$ 35,750	\$ –	\$ 35,750
- Other financial assets	–	1,495,065	–	1,495,065
Total	\$ –	\$ 1,530,815	\$ –	\$ 1,530,815

Note: For the years ended March 31, 2020 and 2021, the Group has not transferred any financial assets or liabilities between Levels 1, 2, and 3.

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Balance at the beginning of the year	¥ 9,064	¥ 9,310	\$ 83,870
Total gains or losses	33	405	3,648
Profit or loss	110	57	514
Other comprehensive income	(77)	348	3,134
Purchase	766	1,066	9,606
Sale	—	—	—
Settlement	(553)	(475)	(4,280)
Balance at the end of the year	¥ 9,310	¥ 10,306	\$ 92,845

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

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

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

34. Share-based Payments

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

(1) Contractual conditions of share options

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

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

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

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

	For the year ended March 31, 2020		For the year ended March 31, 2021		For the year ended March 31, 2021
	Number of share options (Shares)	Weighted- average exercise price (Yen)	Number of share options (Shares)	Weighted- average exercise price (Yen)	Weighted- average exercise price (Dollar)
Outstanding of unexercised options at the beginning of the year	56,500	1	76,500	1	0.01
Granted	20,000	1	19,500	1	0.01
Exercised	—	—	24,500	1	0.01
Forfeited	—	—	—	—	—
Outstanding of unexercised options at the end of the year	76,500	1	71,500	1	0.01
Options exercisable, at the end of the year	—	—	—	—	—

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

2. The weighted-average share price at the date of exercise in the fiscal year ended March 2021 was ¥3,130 (\$28).

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

① Measurement method

Black-Scholes model

② Primary base assumptions and measurement method

	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Fair value	¥1,338	¥2,264	\$20
Share price at the grant date	¥2,068.5	¥3,044	\$27
Exercise price	¥1	¥1	\$0.01
Expected volatility	31.409%	30.538%	
Option life	20 years	20 years	
Expected dividend yield	¥45	¥45	\$0.41
Risk-free interest rate	0.208%	0.427%	

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

(4) Expenses related to share-based payments

Expenses related to share-based payments are as follows:

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Share-based payments	¥ 27	¥ 40	\$ 359

35. Non-cash Transactions

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Additions to right-of-use assets	¥2,774	¥3,142	\$28,305

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

36. Related Parties

(1) Subsidiaries and Associates

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

(Consolidated subsidiaries)

Name	Primary business	Location	Proportion of voting rights held by the Group	
			March 31, 2020	March 31, 2021
			(%)	(%)
ONO PHARMA USA, INC. (Note 2)	Pharmaceutical business	Massachusetts, the United States of America	100.0	100.0
ONO PHARMA UK Ltd.	Pharmaceutical business	London, United Kingdom	100.0	100.0
ONO PHARMA KOREA CO., LTD.	Pharmaceutical business	Seoul, Korea	100.0	100.0
ONO PHARMA TAIWAN CO., LTD.	Pharmaceutical business	Taipei, Taiwan	100.0	100.0
TOYO Pharmaceutical Co., Ltd. (Note 3)	Pharmaceutical business	Chuo-ku, Osaka City	45.5	45.5
BEE BRAND MEDICO DENTAL.CO.,LTD.	Pharmaceutical business	Higashiyodogawa-ku, Osaka City	80.0 (40.0)	80.0 (40.0)
Ono Venture Investment, Inc.	Pharmaceutical business	California, the United States of America	—	100.0
Ono Venture Investment Fund I, L.P.	Pharmaceutical business	California, the United States of America	—	100.0 (1.0)
Ono Pharma Healthcare Co., Ltd.	Pharmaceutical business	Chuo-ku, Osaka City	—	100.0
Other 1				

(Associates accounted for using equity method)

Name	Primary business	Location	Proportion of voting rights held by the Group	
			March 31, 2020	March 31, 2021
			(%)	(%)
NAMICOS CORPORATION	Pharmaceutical business	Chuo-ku, Osaka City	18.8	18.8

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

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

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

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

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

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

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

(2) Transactions with Related Parties

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

Notes to Consolidated Financial Statements
Year Ended March 31, 2021

(3) Remuneration of Key Management Personnel

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	For the year ended March 31, 2020	For the year ended March 31, 2021	For the year ended March 31, 2021
Base remuneration	¥ 260	¥ 260	\$ 2,346
Bonuses	81	84	756
Share options	27	40	359
Total	¥ 368	¥ 384	\$ 3,461

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

37. Commitments for Expenditure

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

	<i>Millions of Yen</i>		<i>Thousands of U.S. Dollars</i>
	March 31, 2020	March 31, 2021	March 31, 2021
Property, plant, and equipment	¥ 1,122	¥ 2,636	\$ 23,748
Intangible assets	109	—	—
Total	¥ 1,231	¥ 2,636	\$ 23,748

The Group has milestone payments relating to the success of development projects and achievement of specific sales targets. Milestone payments that the Group may potentially pay within three years are ¥11,760 million and ¥14,661 million (\$132,077 thousand) as of March 31, 2020 and 2021, respectively.

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

Notes to Consolidated Financial Statements

Year Ended March 31, 2021

38. Contingent Liabilities

In September 2015, Dana-Farber Cancer Institute in the United States of America filed a suit in the U.S. District Court for Massachusetts against the Company, Bristol-Myers Squibb Company, and Professor Tasuku Honjo for addition of inventors for patent applications on anti-PD-1 antibodies and anti-PD-L1 antibodies that the Company owned. On May 17, 2019, in the first instance, the Court ruled that Clive Wood, PhD and Dana-Farber Cancer Institute scientist, Gordon Freeman, PhD are coinventors on the patents. The Company was dissatisfied with the decision and appealed. However, the ruling was issued in support of the first instance in July 2020. The petition for rehearing filed by the Company to the Circuit Court was denied. Then, the Company filed "The petition for a writ of certiorari" to the US supreme Court in March 2021, but the petition was denied in May 2021 and the judgement was finalized.

On June 21, 2019, Dana-Farber Cancer Institute, that received the rights and interests relating to the invention from Gordon Freeman, PhD, filed a suit in the U.S. District Court for Massachusetts for the right to receive a part of license revenue that the Company and Bristol-Myers Squibb Company received by a settlement or a license agreement as a result of suits for infringement of patents that the Company and Bristol-Myers Squibb Company, as owners of the patent monopoly, filed against their competitors.

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

39. Approval of Consolidated Financial Statements

The consolidated financial statements for the year ended March 31, 2021, were approved by Gyo Sagara, President, Representative Director, and Chief Executive Officer, on June 17, 2021.

40. Significant Subsequent Events

There is no applicable item.