13. Income Taxes

(1) Income Taxes

The breakdown of income taxes for the fiscal years ended March 31, 2026, and March 31, 2025, respectively, is as follows:

(Millions of yen)

	Fiscal year ended March 31, 2026	Fiscal year ended March 31, 2025
Income taxes – current (Note 1) (Note 2)	14,473	14,619
Income taxes – deferred	(3,994)	(1,612)
Total	10,478	13,007

Notes:

(1) Changes in liabilities due to valuation of uncertain tax positions are included in "Income taxes - current" in the fiscal years ended March 31, 2026, and March 31, 2025, respectively.

(2) On March 28, 2023, the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 3 of 2023) was enacted in Japan, to introduce a global minimum tax system based on the Pillar Two model rules. Additionally, a global minimum taxation system has been enacted in countries where the Group conducts business activities and is applied to subsidiaries located in those countries. However, as the impact on the Group's current tax expense is immaterial, the impact is not disclosed separately.

Reconciliation between the statutory tax rate and the effective tax rate is as follows. The effective tax rate represents ratio of income taxes to profit before income taxes.

The Company has been mainly imposed corporate income taxes, resident taxes and business taxes, thus the statutory tax rate based on these items is 30.5%. Overseas subsidiaries have corporate income taxes imposed in each jurisdiction.

(%)

	Fiscal year ended March 31, 2026	Fiscal year ended March 31, 2025
Statutory tax rate	30.5	30.5
Tax credit for experiment and research expenses	(10.3)	(8.8)
Tax credit	(5.4)	(1.1)
Tax rate differences in subsidiaries	(1.6)	(0.3)
Incomes taxes for past years	0.2	0.6
Unrecognized deferred tax assets	1.1	(1.3)
Uncertain tax positions	1.1	0.8
Expenses not permanently deductible for income tax purposes, such as entertainment expenses	2.0	1.9
Size-based business tax (Added value component)	2.0	1.7
Transfer pricing related	3.0	—
Repayment of paid-in capital from U.S. subsidiary	—	(3.3)
Effect of tax rate changes	—	(1.1)
Others	(2.0)	1.7
Effective tax rate	20.5	21.3

(2) Deferred Tax Assets and Deferred Tax Liabilities

The breakdown of deferred tax assets and deferred tax liabilities for the fiscal years ended March 31, 2026, and March 31, 2025, respectively, is as follows:

Fiscal year ended March 31, 2026

(Millions of yen)

	April 1, 2025	Recognized through P&L	Recognized through OCI	March 31, 2026
Deferred tax assets				
Entrusted R&D expenses	14,167	(155)	—	14,012
Tax credit for experiment and research expenses	35,508	4,664	—	40,172
Retirement benefits liabilities, etc.	6,410	412	(1,212)	5,610
Depreciation and amortization	2,118	114	—	2,232
Accrued bonuses	4,668	(651)	—	4,016
Deferred charges for tax purposes	5,257	5,879	—	11,136
Unrealized gain on inventories	16,650	1,837	—	18,487
Net operating loss carryforward	21,598	(3,816)	—	17,781
Others	30,222	4,485	—	34,707
Subtotal	136,597	12,768	(1,212)	148,153
Deferred tax liabilities				
Intangible assets	11,906	6,002	—	17,908
Depreciation and amortization	4,855	119	—	4,975
Financial assets measured at fair value through OCI	8,497	—	(100)	8,397
Others	10,761	(266)	21	10,517
Subtotal	36,019	5,856	(79)	41,796
Balance (Note 1)	100,578	6,912	(1,133)	106,357

Note:

(1) The difference between the net amount recognized in profit or loss and income taxes – deferred is mainly attributable to two factors: the recognition of income taxes – current for liabilities arising from the assessment of uncertain tax positions that are presented net of deferred tax assets, and foreign exchange fluctuations.

Fiscal year ended March 31, 2025

(Millions of yen)

	April 1, 2024	Recognized through P&L	Recognized through OCI	March 31, 2025
Deferred tax assets				
Entrusted R&D expenses	15,085	(918)	－	14,167
Tax credit for experiment and research expenses	33,963	1,545	－	35,508
Retirement benefits liabilities, etc.	5,681	863	(133)	6,410
Depreciation and amortization	2,200	(82)	－	2,118
Accrued bonuses	4,334	334	－	4,668
Deferred charges for tax purposes	7,814	(2,557)	－	5,257
Unrealized gain on inventories	15,447	1,203	－	16,650
Net operating loss carryforward	27,713	(6,115)	－	21,598
Others	20,108	10,114	－	30,222
Subtotal	132,344	4,386	(133)	136,597
Deferred tax liabilities				
Intangible assets	12,571	(666)	－	11,906
Depreciation and amortization	5,490	(635)	－	4,855
Financial assets measured at fair value through OCI	7,912	－	585	8,497
Others	6,250	4,733	(221)	10,761
Subtotal	32,223	3,433	363	36,019
Balance (Note 1)	100,122	953	(496)	100,578

Note:

(1) The difference between the net amount recognized in profit or loss and income taxes – deferred is mainly attributable to two factors: the recognition of income taxes – current for liabilities arising from the assessment of uncertain tax positions that are presented net of deferred tax assets, and foreign exchange fluctuations

Deferred tax assets and deferred tax liabilities for the fiscal years ended March 31, 2026 and March 31, 2025 are as follows:

(Millions of yen)

	As of March 31, 2026	As of March 31, 2025
Deferred tax assets	108,039	101,311
Deferred tax liabilities	1,682	732
Net	106,357	100,578

(3) Deferred Tax Assets Not Recognized in the Consolidated Financial Statements

The Group does not recognize deferred tax assets when it is not probable that sufficient taxable profit will be available to utilize the benefits of the deferred tax assets. The following is a breakdown of deductible temporary differences, etc. for which deferred tax assets are not recognized in the consolidated financial statements.

(Millions of yen)

	As of March 31, 2026	As of March 31, 2025
Deductible temporary differences	3,796	6,100
Net operating loss carryforward (Note 1)	7,307	12,884
Tax credit carryovers (Note 2)	11,582	6,707
Total	22,685	25,690

Note:

(1) Breakdown by timing of expiration of net operating loss carryforward on which deferred tax assets are not recognized in the consolidated financial statements.

(Millions of yen)

	As of March 31, 2026	As of March 31, 2025
Within one year	—	—
Over one year and within five years	—	—
Over five years	7,307	12,884
Total	7,307	12,884

(2) Breakdown by timing of expiration of tax credit carryforward on which deferred tax assets are not recognized in the consolidated financial statements.

(Millions of yen)

	As of March 31, 2026	As of March 31, 2025
Within one year	—	—
Over one year and within five years	4,013	—
Over five years	7,570	6,707
Total	11,582	6,707

(4) Temporary Differences Regarding Investments in Subsidiaries on which Deferred Tax Liabilities Are Not Recognized in the Consolidated Statement

For the fiscal year ended March 31, 2026, the amount of temporary differences regarding investments in subsidiaries on which deferred tax liabilities are not recognized in the consolidated financial statements is ¥712,441 million (¥630,533 million for the fiscal year ended March 31, 2025). The Group does not recognize deferred tax liabilities on the temporary differences when the Company can control the timing of dissolution of the temporary differences and it is likely not to be dissolved within foreseeable period.