Consolidated Financial Statements

Sumitomo Pharma Co., Ltd.

Years ended March 31, 2023 and 2022

Consolidated Statement of Profit or Loss

Year Ended March 31, 2023 and 2022

(Millions of yen)

	Note	Year ended March 31, 2022	Year ended March 31, 2023
Revenue	4,5	560,035	555,544
Cost of sales		157,127	178,919
Gross profit		402,908	376,625
Selling, general and administrative expenses	6	249,081	373,316
Research and development expenses		94,903	131,858
Other income	7	2,406	53,256
Other expenses	8	1,096	1,686
Operating profit (loss)		60,234	(76,979)
Finance income	9	25,777	32,218
Finance costs	9	3,050	3,159
Profit (loss) before taxes		82,961	(47,920)
Income tax expenses	10	42,361	48,794
Net profit (loss)		40,600	(96,714)
Net profit (loss) attributable to:			
Owners of the parent		56,413	(74,512)
Non-controlling interests		(15,813)	(22,202)
Net profit (loss) total		40,600	(96,714)
Earnings per share (yen)			
Basic earnings (loss) per share	11	141.99	(187.55)

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2023 and 2022

(Millions of yen)

	Note	Year ended March 31, 2022	Year ended March 31, 2023
Net profit (loss)		40,600	(96,714)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	12	(56,800)	18,334
Remeasurements of defined benefit liability (asset)	12	2,307	3,553
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	12	42,004	39,850
Cash flow hedges	12	50	(108)
Total other comprehensive income		(12,439)	61,629
Total comprehensive income		28,161	(35,085)
Total comprehensive income attributable to:			
Owners of the parent		37,574	(19,909)
Non-controlling interests		(9,413)	(15,176)
Total comprehensive income		28,161	(35,085)

Consolidated Statement of Financial Position

As of March 31, 2023 and 2022

(Millions of yen)

	Note	As of March 31, 2022	As of March 31, 2023
Assets			
Non-current assets			
Property, plant and equipment	13,16	64,091	58,909
Goodwill	14	195,144	209,415
Intangible assets	15	398,692	329,314
Other financial assets	17,30	115,844	134,007
Income taxes receivables		5,538	6,042
Other non-current assets		6,527	4,350
Deferred tax assets	10	22,650	10,845
Total non-current assets		808,486	752,882
Current assets			
Inventories	18	99,021	94,405
Trade and other receivables	19,30	151,407	95,908
Other financial assets	17,30	35,596	20,174
Income taxes receivables		93	2,722
Other current assets		10,420	17,675
Cash and cash equivalents	20	202,984	143,478
Subtotal		499,521	374,362
Assets held for sale	21	—	7,498
Total current assets		499,521	381,860
Total assets		1,308,007	1,134,742

(Millions of yen)

	Note	As of March 31, 2022	As of March 31, 2023
Liabilities and equity			
Liabilities			
Non-current liabilities			
Bonds and Borrowings	22,30	243,963	244,128
Other financial liabilities	16,24,30	16,471	11,869
Retirement benefit liabilities	27	11,461	5,008
Other non-current liabilities	26	57,620	57,756
Deferred tax liabilities	10	26,550	36,505
Total non-current liabilities		356,065	355,266
Current liabilities			
Borrowings	22,30	25,085	90,588
Trade and other payables	23,30	46,183	52,141
Other financial liabilities	16,24,30	13,302	7,010
Income taxes payable		7,583	24,053
Provisions	25	119,149	119,083
Other current liabilities	26	67,071	78,013
Subtotal		278,373	370,888
Liabilities directly associated with assets held for sale	21	—	1,806
Total current liabilities		278,373	372,694
Total liabilities		634,438	727,960
Equity			
Share capital	29	22,400	22,400
Capital surplus	29	16,725	—
Treasury shares	29	(681)	(682)
Retained earnings	29	514,210	280,999
Other components of equity	29	55,234	103,357
Other comprehensive income associated with assets held for sale		—	675
Equity attributable to owners of the parent		607,888	406,749
Non-controlling interests		65,681	33
Total equity		673,569	406,782
Total liabilities and equity		1,308,007	1,134,742

Consolidated Statement of Changes in Equity

Year Ended March 31, 2023 and 2022

(Millions of yen)

	Note	Equity attributable to owners of the parent					
						Other components of equity	
		Share capital	Capital surplus	Treasury shares	Retained earnings	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit liability (asset)
Balance as of April 1, 2021		22,400	15,855	(679)	508,677	38,575	—
Net profit		—	—	—	56,413	—	—
Other comprehensive income	12	—	—	—	—	(56,800)	2,307
Total comprehensive income		—	—	—	56,413	(56,800)	2,307
Purchase of treasury shares	29	—	—	(2)	—	—	—
Dividends	29	—	—	—	(11,124)	—	—
Changes associated with losing control of subsidiaries		—	—	—	—	—	—
Transactions with non-controlling interests		—	870	—	—	—	—
Reclassification from other components of equity to retained earnings		—	—	—	(39,756)	42,063	(2,307)
Transfer to other comprehensive income associated with assets held for sale		—	—	—	—	—	—
Transfer of negative balance of other capital surplus		—	—	—	—	—	—
Total transactions with owners		—	870	(2)	(50,880)	42,063	(2,307)
Balance as of March 31, 2022		22,400	16,725	(681)	514,210	23,838	—
Net profit (loss)		—	—	—	(74,512)	—	—
Other comprehensive income	12	—	—	—	—	18,334	3,553
Total comprehensive income		—	—	—	(74,512)	18,334	3,553
Purchase of treasury shares	29	—	—	(1)	—	—	—
Dividends	29	—	—	—	(11,124)	—	—
Changes associated with losing control of subsidiaries		—	—	—	991	(976)	—
Transactions with non-controlling interests		—	(170,105)	—	—	—	—
Reclassification from other components of equity to retained earnings		—	—	—	4,814	(1,261)	(3,553)
Transfer to other comprehensive income associated with assets held for sale		—	—	—	—	(675)	—
Transfer of negative balance of other capital surplus		—	153,380	—	(153,380)	—	—
Total transactions with owners		—	(16,725)	(1)	(158,699)	(2,912)	(3,553)
Balance as of March 31, 2023		22,400	—	(682)	280,999	39,260	—

(Millions of yen)

	Note	Equity attributable to owners of the parent					Non-controlling interests	Total equity
		Other components of equity			Other comprehensive income associated with assets held for sale	Total		
		Exchange differences on translation of foreign operations	Cash flow hedges	Total				
Balance as of April 1, 2021		(4,331)	73	34,317	—	580,570	67,608	648,178
Net profit		—	—	—	—	56,413	(15,813)	40,600
Other comprehensive income	12	35,604	50	(18,839)	—	(18,839)	6,400	(12,439)
Total comprehensive income		35,604	50	(18,839)	—	37,574	(9,413)	28,161
Purchase of treasury shares	29	—	—	—	—	(2)	—	(2)
Dividends	29	—	—	—	—	(11,124)	—	(11,124)
Changes associated with losing control of subsidiaries		—	—	—	—	—	—	—
Transactions with non-controlling interests		—	—	—	—	870	7,486	8,356
Reclassification from other components of equity to retained earnings		—	—	39,756	—	—	—	—
Transfer to other comprehensive income associated with assets held for sale		—	—	—	—	—	—	—
Transfer of negative balance of other capital surplus		—	—	—	—	—	—	—
Total transactions with owners		—	—	39,756	—	(10,256)	7,486	(2,770)
Balance as of March 31, 2022		31,273	123	55,234	—	607,888	65,681	673,569
Net profit (loss)		—	—	—	—	(74,512)	(22,202)	(96,714)
Other comprehensive income	12	32,824	(108)	54,603	—	54,603	7,026	61,629
Total comprehensive income		32,824	(108)	54,603	—	(19,909)	(15,176)	(35,085)
Purchase of treasury shares	29	—	—	—	—	(1)	—	(1)
Dividends	29	—	—	—	—	(11,124)	—	(11,124)
Changes associated with losing control of subsidiaries		—	(15)	(991)	—	—	—	—
Transactions with non-controlling interests		—	—	—	—	(170,105)	(50,472)	(220,577)
Reclassification from other components of equity to retained earnings		—	—	(4,814)	—	—	—	—
Transfer to other comprehensive income associated with assets held for sale		—	—	(675)	675	—	—	—
Transfer of negative balance of other capital surplus		—	—	—	—	—	—	—
Total transactions with owners		—	(15)	(6,480)	675	(181,230)	(50,472)	(231,702)
Balance as of March 31, 2023		64,097	—	103,357	675	406,749	33	406,782

Consolidated Statement of Cash Flows

Year Ended March 31, 2023 and 2022

(Millions of yen)

	Note	Year ended March 31, 2022	Year ended March 31, 2023
Cash flows from operating activities			
Net profit (loss)		40,600	(96,714)
Depreciation and amortization		38,348	41,263
Impairment losses		910	88,167
Gain on sales of shares in subsidiaries		—	(24,735)
Changes in fair value of contingent consideration		(3,282)	(3,388)
Loss (gain) on sales of property, plant and equipment		(141)	(338)
Loss (gain) on sales of intangible assets		(174)	(11,979)
Interest and dividend income		(1,175)	(5,486)
Interest expenses		2,970	2,640
Income tax expenses		42,361	48,794
(Increase) decrease in trade and other receivables		(6,097)	51,218
(Increase) decrease in inventories		5,356	4,560
Increase (decrease) in trade and other payables		(28,669)	5,318
Increase (decrease) in unearned revenue		(469)	(5,035)
Increase (decrease) in other financial liabilities		(11,540)	(4,731)
Increase (decrease) in retirement benefits liabilities		(348)	(5,435)
Increase (decrease) in provisions		8,034	(11,017)
Others, net		(11,779)	(38,775)
Subtotal		74,905	34,327
Interest received		173	4,510
Dividends received		992	974
Interest paid		(2,500)	(2,424)
Income taxes paid		(42,331)	(25,450)
Net cash provided by (used in) operating activities		31,239	11,937
Cash flows from investing activities			
Purchase of property, plant and equipment		(7,347)	(8,467)
Proceeds from sales of property, plant and equipment		1,313	1,322
Purchase of intangible assets		(6,147)	(4,275)
Proceeds from sales of intangible assets		174	12,115
Purchase of investments		(25,905)	(6,247)
Proceeds from sales and redemption of investments		19,472	10,068
Net decrease (increase) in short-term loan receivables		1,133	15,684
Proceeds from loss of control of subsidiaries		153	30,172
Others, net		(1,124)	2,047

Net cash provided by (used in) investing activities		(18,278)	52,419
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	22	29	85,559
Repayments of long-term borrowings	22	(4,960)	(20,060)
Repayments of lease liabilities	22	(4,499)	(3,755)
Dividends paid		(11,126)	(11,125)
Payments for acquisition of interest in a subsidiary from non-controlling interests		(3,636)	(198,409)
Others, net		2,766	973
Net cash provided by (used in) financing activities		(21,426)	(146,817)
Net increase (decrease) in cash and cash equivalents		(8,465)	(82,461)
Cash and cash equivalents at beginning of year	20	193,698	202,984
Effect of exchange rate changes on cash and cash equivalents		17,751	24,090
Cash and cash equivalents at end of year	20	202,984	144,613
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale		—	(1,135)
Cash and cash equivalents at end of year (Consolidated Statement of Financial Position)		202,984	143,478

Notes to Consolidated Financial Statements

1. Reporting Entity

Sumitomo Pharma Co., Ltd (the "Company") is a company domiciled in Japan. The closing date of the Company's Consolidated Financial Statements is March 31, 2023. The Company's Consolidated Financial Statements comprise the Company and its subsidiaries (the "Group"), its interests in associates. The Group is primarily involved in pharmaceutical business. The details of the main business are presented in Note 4 Operating Segments. The registered address of the Company's Head Office and its main places of business are presented on the Company's website (URL https://www.sumitomo-pharma.com).

2. Basis of Preparation

(1) Compliance with IFRS

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the international Accounting Standards Board. The provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements applies, as the Company meets the requirements for a "Specified Company Applying Designated International Accounting Standards" prescribed in Article 1 (2) of said ordinance.

The Group's consolidated financial statements were approved on June 27, 2023 by the Board of Directors.

(2) Basis of Measurement

The Group's consolidated financial statements are prepared on the historical cost basis, except for certain financial instruments presented in Note 3 Significant Accounting Policies.

(3) Functional Currency and Presentation Currency

The Group's consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, rounded to the nearest million yen.

(4) Significant Accounting Estimates, Judgments and Assumptions

In preparing the consolidated financial statements, management has made estimates, judgments and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues and expenses. However, due to the uncertainty of these estimates and assumptions, there are possibilities that material adjustments to the carrying amount of assets and liabilities are required in the fiscal year ending March 31, 2023.

Main accounting estimates, judgments, and assumptions are summarized as follows:

・ Goodwill and intangible assets (Note 14 and 15)

・ Provisions (Note 25)

・ Recoverability of Deferred tax assets (Note 10)

(5) Changes in Significant Accounting Policies

Starting from the year ended March 31, 2023, the Group has applied retroactively the “International Tax Reform – Pillar Two Model Rules (Amendments to IAS 12)” (“Revised IAS 12”) announced on May 23, 2023.

Revised IAS 12 provides a temporary exception from recognizing and disclosing deferred tax related to the Pillar Two model rules. This exception is retroactively applied since the Group is also expected to be affected by the taxation system related to the Pillar Two Model Rules.

As a result, no deferred taxes related to the Pillar Two Model Rules were recognized in the year ended March 31, 2023. and no impact of the Pillar Two Model Rules is also included in “10. Deferred Income Taxes and Income Tax Expenses.”

(6) Changes in Presentation

(Consolidated Statement of Cash Flows)

“Loss (gain) on sales of intangible assets” which were included in “Others, net” under “Cash Flows from operating activities” and “Proceeds from sales of intangible assets” and “Proceeds from loss of control of subsidiaries” which were included in “Others, net” under “Cash flows from investing activities” in the year ended March 31, 2022, are presented separately in the year ended March 31, 2023 due to the increase in amount from materiality perspective. To reflect this change in presentation, certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2022 to conform to the presentation for the year ended March 31, 2023.

As a result, “Others, net” under “Cash flows from operating activities” in the year ended March 31, 2022 amounting to (¥11,953 million) was reclassified into “Loss (gain) on sales of intangible assets” of (¥174 million) and “Others, net” of (¥11,779 million). In addition, “Others, net” under “Cash flows from investing” in the year ended March 31, 2022 amounting to (¥797 million) was reclassified into “Proceeds from sales of intangible assets” amounting to ¥174 million and “Proceeds from loss of control of subsidiaries” amounting to ¥153 million and “Others, net” amounting to (¥1,124 million).

(7) New Standards and Interpretations Issued but Not Yet Applied

There are no new or revised Standards and Interpretations issued by the date of approval of the consolidated financial statements but not adopted by the Group as of March 31, 2023 that would have a significant effect on the Group’s consolidated financial statements.

(8) Early application of the new standard

There are no Standards that were early applied by the Group.

3. Significant Accounting Policies

The significant accounting policies adopted by the Group are continuously applied to all the reporting periods presented in the consolidated financial statements.

(1) Basis of consolidation

1. Subsidiaries

Subsidiaries are entities controlled by the Group.

The Group controls an entity when the Group is exposed to, or has rights to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

The Group consolidates the financial statements of subsidiaries from the date when the Group controls the investees and excludes them from the scope of consolidation from the date when the Group loses control over the investees.

When the closing date of subsidiary is different from that of the Group, the financial statements of subsidiary, on which a provisional financial closing has been performed as of the Group's closing date, are used for consolidation purpose.

In preparing the consolidated financial statements, all intergroup balances and transactions, and unrealized gains and losses arising from intergroup transactions are eliminated.

A Change in ownership interest of a subsidiary, without losing control, is accounted for as an equity transaction. Differences between adjustment amount of non-controlling interests and fair value of the consideration are recognized directly as equity attributed to owner of the parent. In the event of losing control, any gain or loss arising from losing control is recognized in profit or loss.

2. Associates

Associates are those entities in which the Group has significant influence over the financial and operating policies but does not have control or joint control. 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.

Investment in associate is accounted for by using the equity method.

When the closing date of associates accounted for using the equity method is different from that of the Group, the financial statements of associates, on which a provisional financial closing has been performed as of the Group's closing date, are used for consolidation purpose.

3. Business combinations

Business combinations are accounted for using the acquisition method.

The identifiable assets and liabilities of the acquired company are measured at acquisition-date fair value. The fair value of all the assets and liabilities arising from contingent consideration contract is included in the consideration transferred.

Goodwill is measured at the excess of the aggregate of the consideration transferred and the amount of any non-controlling interests in the acquired company over the net of acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If it is a deficit, the deficit is recognized immediately in profit or loss.

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

4. Joint Control

Joint Control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. An investment in joint arrangement are classified as a joint operation or a joint venture according to the rights and obligations of the parties to the arrangement. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement.

When the Company holds an interest in a joint operation, its share of assets, liabilities, revenues, and expenses related to the joint operation are included in similar accounts, respectively.

(2) Foreign currency translations

1. Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate at the date of transactions or at the foreign exchange rate that approximates the spot exchange rate at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency using the exchange rate at the reporting date. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currency are translated into the functional currency at the exchange rates prevailing at the date when the fair value was measured.

Exchange differences arising from foreign currency translations and settlements are recognized in the profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and the effective portion of cash flow hedges are recognized in other comprehensive income.

2. Foreign operations

The assets and liabilities (including any goodwill arising on the acquisition and fair value adjustments) of the Group's foreign operations are translated into Japanese yen at the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rate for the period except for the case that the exchange rate fluctuates significantly.

Exchange differences arising from translation of financial statements of the foreign operations are recognized in other comprehensive income. The cumulative amount of such exchange differences is recognized as other components of equity in the Consolidated Statements of Financial Position.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation is reclassified to profit or loss during the period in which the foreign operation is disposed.

(3) Revenue

The Group recognizes revenue based on the following five-step model:

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

The Group's revenue mainly consists of revenue from sales of products such as pharmaceuticals for medical treatments (sales of products), revenue from lump sum payments received arising from technology licensing-out agreements, milestone income and royalty income (revenue arising from intellectual property rights). The revenue recognition policies for each type of revenue are as follows.

1. Sales of products

For sales of products, the performance obligation is judged to have been satisfied and revenue is recognized upon delivery of the products, because the customer obtains control over the products upon delivery. Revenue is measured at the consideration promised in a contract with a customer, less product returns, discounts and rebates, to the extent that it is highly probable that a significant reversal will not occur.

2. Revenue arising from intellectual property rights

Lump sum payments received arising from agreements are recognized as revenue, after signing the technology licensing-out agreements and at a point in time that the development and marketing rights are granted to the third party.

Milestone income is recognized as revenue at a point in time of the achievement of a milestone defined in an agreement.

Royalty income is a consideration on the technology licensing-out agreement that is calculated based on the revenue of counterparty. It is recognized as revenue at the later of either when the revenue of counterparty is recognized or when the performance obligation is satisfied.

The Group's trade receivables are generally collected in one to three months after recognizing revenue on satisfying of performance obligations. In addition, the consideration for performance obligations does not include a significant financing component.

(4) Joint development and joint sales

The Group has entered into a development and commercialization agreement related to the Group's developed products and finished goods with its alliance partner.

In this case, revenue from pharmaceutical sales (sales of goods) is recognized as sales revenue, and the Group's relevant expenses are recognized as cost of sales, selling, general and administrative expenses, and research and development expenses, and presented in gross basis. Also, the Group recognizes expenses paid to its alliance partner for equally sharing profit in cost of sales, selling, general and administrative expenses, and research and development expenses according to the nature.

The details of the major agreements among these are presented in Note 35. Joint Development and Joint Sales.

(5) Income taxes

Income taxes are presented as the aggregate amount of current taxes and deferred taxes, and recognized in the profit or loss, except for those related to business combinations and items that are recognized directly in equity or in other comprehensive income.

Current taxes are measured by the statutory tax rate and tax laws that have been enacted or substantively enacted at the reporting date and the amount expected to be paid to or recovered from the taxation authorities.

Deferred tax assets and liabilities are recognized for temporary differences arising from the difference between the carrying amount of assets or liabilities in the Consolidated Statement of Financial Position at the reporting date and its tax base, tax loss carryforwards and tax credit carryforwards. However, the deferred tax assets and liabilities are not recognized for the following temporary differences:

・Temporary difference arising from initial recognition of goodwill;

・Temporary differences arising from the initial recognition of assets and liabilities in a transaction which is not a business combination, and at the time of the transaction, affects neither accounting profit nor taxable profit or loss;

・Deductible temporary differences associated with investments in subsidiaries and associates when it is not probable that the temporary difference will reverse in the foreseeable future; or there will not be taxable profits will be available against which the deductible temporary differences can be utilized; and

・Taxable temporary differences associated with investments in subsidiaries and associates, to the extent that the Group is able to control the timing of reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognized for deductible temporary differences, the carryforwards of unused tax losses and the carryforward of unused tax credits to the extent that it is probable that future taxable profits will be available against which they can be used. In principle, deferred tax liabilities are recognized for all taxable temporary differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on statutory tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and income taxes are levied by the same taxation authority on the same taxable entity.

(6) Per share information

Basic earnings per share are calculated by dividing net profit attributable to owners of the parent by the weighted average number of ordinary shares outstanding during the period, excluding treasury shares held. When there are dilutive potential shares that have an antidilutive effect, such potential shares are not included in the calculation of diluted earnings per share.

(7) Property, plant and equipment

Cost model is applied for measurement of property, plant and equipment after initial recognition.

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes direct costs of acquisition, estimated costs of dismantlement, removal and restoration, and borrowing costs eligible for capitalization requirements.

Property, plant and equipment other than land and construction in progress is depreciated by using straight-line method over each asset's useful life. Depreciation of such asset begins when it is available for use.

The estimated useful lives of major categories of property, plant and equipment are as follows:

・ Buildings and structures	3~60 years
・ Machinery and vehicle	2~17 years
・ Tools, furniture and fixtures	2~20 years
・ Right-of-use assets	The shorter of the estimated useful lives or lease terms

The depreciation method, the residual value and the estimated useful life are reviewed at each reporting date and adjusted if appropriate.

(8) Lease

The Group assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If it is determined that a contract is, or contains, a lease, the Group recognizes right-of-use assets and lease liabilities at the commencement date of the lease.

(1) Right-of-use asset

The right-of-use asset is measured at cost. The cost of the right-of-use asset is measured at the amount of the initial measurement of the lease liability at the commencement date of the lease adjusted for the initial direct costs, etc.

The Group applies a cost model for subsequent measurement of right-of-use asset. After initial recognition, the right-of use asset is depreciated using the straight-line method over the shorter of lease term of underlying asset or its estimated useful life.

The right-of-use asset is stated at cost less accumulated depreciation and accumulated impairment losses and included in property, plant and equipment in the Consolidated Statement of Financial Position.

(2) Lease liability

The lease liability is initially recognized at the present value of the lease payments that are not paid at the commencement date. The Group normally uses the incremental borrowing rate as a discount rate. After the initial recognition, the lease liability is measured by increasing and reducing the carrying amount to reflect interest on the lease liability and the lease payments made by using the effective interest method. The lease liability is included in other financial liabilities in the Consolidated Statement of Financial Position.

Lease payments are allocated between finance costs which are the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability, and the payment portion of lease liabilities. Finance costs are separated from depreciation expenses of the right-of-use asset in the Consolidated Statement of Profit or Loss.

As for short-term leases and leases of low-value assets, the Group basically does not recognize right-of-use assets and lease liabilities but charges the lease payments associated with short-term leases and leases of low-value assets to the net profit or loss on a straight-line basis over the lease term.

(9) Goodwill

Initial measurement of goodwill is stated in (1) Basis of consolidation 3. Business Combinations.

Goodwill is carried at cost less any accumulated impairment losses.

Goodwill is not amortized and is allocated to cash-generating units or group of cash-generating units. Goodwill is tested for impairment annually and whenever there is an indication that it may be impaired. Impairment loss on goodwill is recognized in profit or loss and is not reversed in subsequent periods.

(10) Intangible assets

Intangible assets are non-monetary assets without physical substance, other than goodwill, including patents, technologies, marketing rights and in-process research and development acquired separately or acquired in a business combination.

Separately acquired intangible assets are measured initially at cost. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Cost model is applied for measurement of intangible assets after initial recognition. Intangible assets are carried at its cost less accumulated amortization and accumulated impairment losses.

Research expenditures of an internal project are recognized as expenses when they are incurred. Development expenditures of an internal project that satisfy all the recognition criteria are recognized as intangible assets. However, internally generated development expenditures incurred before acquisition of marketing approval, including clinical trial expenditures, etc. are recognized as expenses when they are incurred, because such expenditures are considered not meeting the criteria for recognition of intangible assets due to the uncertainties related to the length of period and the development.

Acquisition costs and development expenditures of software for internal use purpose are recognized as intangible assets if future economic benefits are expected to flow to the Group.

Intangible assets other than in-process research and development project are amortized using straight-line method over each asset’s useful life. Amortization of such asset begins when it is available for use.

The estimated useful lives of major categories of intangible assets are as follows:

・ Intangible assets related to products	3~20 years
・ Software	3~5 years

The amortization method, the residual value and the estimated useful life are reviewed at each reporting date and adjusted if appropriated.

In-process research and development project recognized as intangible asset is not amortized because it is not available for use. Impairment test is performed annually and whenever there is an indication that the in-process research and development project may be impaired.

In-process research and development expenditures are reclassified to patents, marketing rights or other related accounts when marketing approval from regulatory authorities is obtained and are amortized when they are available for use.

(11) Impairment of non-financial assets

The Group assesses whether there is any indication that non-financial assets other than inventories, retirement benefit assets and deferred tax assets may be impaired.

If there is an indication of impairment or annual impairment test is required, the recoverable amount of each asset is measured. Goodwill, intangible assets with indefinite useful lives and an intangible asset not yet available for use are tested for impairment annually or whenever there is an indication of impairment.

Recoverable amount of an asset or a cash-generating unit (“CGU”) is measured at the higher of its fair value less costs of disposal and its value in use. The estimated future cash flows are measured by applying discount rate that is a pre-tax rate reflecting the time value of money and the risk specific to the asset. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount, the Group reduces the carrying amount to the recoverable amount, and the reduction is recognized as an impairment loss in profit or loss.

A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The impairment loss recognized for a CGU is first allocated to reduce the carrying amount of goodwill allocated to the unit, and subsequently to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Impairment losses on goodwill are not reversed.

The Group assesses at each reporting date whether there is any indication that reversal of impairment loss recognized in prior periods for an asset other than goodwill may exist. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

The reversal of an impairment loss does not exceed the carrying amount (net of amortization or depreciation) that would have been determined if no impairment loss had been recognized for the asset in prior periods.

(12) Financial instruments

1. Financial assets

(i) Initial recognition and measurement

The Group initially recognizes financial assets on transaction date and classifies as financial assets measured at amortized cost and financial assets measured at fair value at the initial recognition. Financial assets are classified as financial asset measured at amortized cost if the following conditions are met. Otherwise, financial assets are classified as financial assets measured at fair value.

・ The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

・ Contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principals and interests.

(ii) Subsequent measurement

After initial recognition, financial assets are measured as follows:

(a) Financial assets measured at amortized cost

Financial assets are measured at amortized costs using the effective interest method.

(b) Financial assets measured at fair value through profit or loss

Financial assets are measured at fair value and subsequent changes in fair value are recognized in profit or loss.

(c) Financial assets measured at fair value through other comprehensive income

Among the financial assets measured at fair value, an entity may make an irrevocable election at initial recognition for an investment in an equity instrument that is not held for trading purpose to present subsequent changes in the fair value in other comprehensive income. Therefore, the Group makes such election for each financial instrument.

Financial assets measured at fair value through other comprehensive income are measured at fair value, and subsequent changes in fair value are recognized in other comprehensive income. The cumulative amount recognized in other comprehensive income is reclassified to retained earnings, but not profit or loss, when equity instruments are derecognized or when the fair value of equity instruments declines significantly. However, dividends are recognized in profit or loss.

(iii) Derecognition

A financial asset is derecognized when it meets one of the following conditions:

・ the contractual rights to the cash flows from the financial assets expire; or

・ the Group transfers the financial assets and substantially all the risks and rewards related to the ownership of the financial assets.

(iv) Impairment

Financial assets measured at amortized cost are presented at the carrying amount reduced by a loss allowance recognized for expected credit losses to be incurred in the future. The Group assesses whether a credit risk on a financial asset measured at amortized cost has increased significantly since initial recognition and considers all reasonable and supportable information in addition to delinquency information when assessing the credit risk.

The Group estimates expected credit losses for each individual financial asset measured at amortized cost at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If not, the Group estimates expected credit losses for that financial asset at an amount equal to expected credit losses for 12 months after the reporting date.

Among the financial assets measured at amortized cost, the Group estimates expected credit losses at an amount equal to lifetime expected credit losses for trade receivables, independently by each type of similar receivables.

2. Financial liabilities

(i) Initial recognition and measurement

The Group initially recognizes financial liabilities when the Group becomes a contractual party and classifies financial liabilities as follows:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities which were designated to be measured at fair value through profit or loss.

(b) Financial liabilities measured at amortized cost

Financial liabilities other than financial liabilities measured at fair value through profit or loss.

Financial liabilities are measured at fair value at initial recognition. However, financial liabilities measured at amortized cost are measured at fair value after deducting transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent measurement

After the initial recognition, financial liabilities are measured as follows:

(a) Financial liabilities measured at fair value through profit or loss

Financial liabilities are measured at fair value and subsequent changes are recognized in profit or loss.

(b) Financial liabilities measured at amortized cost

Financial liabilities are measured at amortized cost using the effective interest method.

(iii) Derecognition

A financial liability is derecognized only when the obligation specified in the contract is fulfilled, discharged, cancelled or expires.

3. Derivatives

The Group uses derivatives to hedge foreign currency risk exposures. Such derivatives used by the Group are foreign currency forward contracts. However, the Group does not use derivatives for speculative purpose. Derivatives are initially recognized at fair value and the related transaction costs are recognized as expenses when incurred. Derivatives not qualified for hedge accounting are measured at fair value after initial recognition and the change in fair value is recognized in profit or loss.

4. Hedge accounting

Certain derivatives are designated as hedging instruments in cash flow hedges and if they meet certain hedging criteria, the effective portion of fair value changes of derivatives is recognized in other comprehensive income and is cumulated in accumulated other comprehensive income.

At the inception of the designation of hedge, the Group has a formal documentation of the relationship between hedging instruments and hedged items, including risk management objective, strategy for undertaking the hedge and method for assessing whether the hedge effectiveness requirements are met. At the inception of the hedge and on an ongoing basis, the Group assesses whether the Group can forecast if the hedging instrument is effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

The other components of equity are reclassified to profit or loss, in the hedged item related account in the Consolidated Statement of Profit or Loss, during the same period in which the expected cash flows of hedged item affect profit or loss. If a hedged forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the cumulative amount previously recognized in other components of equity are reclassified to and included in the initial amount of the cost of the non-financial asset or the non-financial liability. In the changes in the fair value of derivatives, the portion of hedging ineffectiveness is immediately recognized in profit or loss.

Hedge accounting is discontinued when the Group revokes the designation of hedge, when the hedging instrument expires or is sold, terminated or executed or when the hedge no longer meets the criteria for hedge accounting.

(13) Inventories

Inventories mainly comprise merchandise and finished goods, work-in-process, raw materials and supplies.

Inventories are measured at the lower of acquisition cost and net realizable value. The cost of inventories is calculated by the average method and comprises purchase costs, processing costs and other related production costs. Finished goods and work-in-process include a proper allocation of production overheads that are based on the expected capacity of the production facilities. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

(14) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible to cash and are subjected to insignificant risks of changes in value, and whose maturities are three months or less from the date of acquisition.

(15) Employee benefits

1. Post-retirement benefits

The Group has both defined benefit plans and defined contribution plans as employee post-retirement benefits.

(i) Defined benefit plan

The present value of the defined benefit obligations arising from a defined benefit plan and the related current service cost and past service cost are measured by using the projected unit credit method by each plan. The discount rates are determined by reference to market yields at the fiscal year-end on high quality corporate bonds for the corresponding periods in which the retirement benefits are to be paid. The amount of the net defined benefit liability (asset) is calculated by deducting the fair value of plan assets from the present value of the defined benefit obligation. Service cost and net interest on the net defined benefit liability (asset) are recognized as post-retirement benefit expense in profit or loss. Remeasurement of the net defined benefit liability (asset) are recognized in other comprehensive income and immediately reclassified to retained earnings in the period in which they occur.

(ii) Defined contribution plan

The expense related to post-retirement arising from a defined contribution plan is recognized as post-retirement benefit expense in profit or loss in the period which the employee renders service to the Group.

2. Other long-term employee benefits

Long-term employee benefit obligations other than post-retirement benefit plan are measured at the present value of the future benefit payments by the Group in exchange for the services rendered by employees up to the reporting date.

3. Short-term employee benefits

Short-term employee benefits are recognized as an expense on an undiscounted basis at the time when the service is rendered by employee.

Bonuses are recognized as liabilities, when the Group has a present legal or constructive obligation to pay for service rendered as a result of the service rendered by employees in the past.

(16) Share-based payments

Certain consolidated subsidiaries in the Group introduce the equity-settled share-based payment plans.

In the equity-settled share-based payments, the service received are measured at the fair value of the equity instruments at the date of grant. The fair value of the equity instruments is recognized as an expense from the date of grant over the vesting period while the same amount is recognized as an increase in equity.

(17) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is generally a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(18) Government grants

Government grants are measured at fair value when the grant will be received and there is reasonable assurance that the Group will comply with the conditions attached to grants, and are recognized.

Government grants related to assets are being deducted from acquisition cost of the asset and are recognized in profit or loss over the useful life of the depreciable asset as a reduced depreciation expense. Also, government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

(19) Capital

1. Ordinary share

With regard to ordinary shares issued by the Company, the issuance value is recorded in share capital and capital surplus, and the costs directly attributable to the issue of ordinary shares (after tax effect) are recognized as a deduction from capital surplus.

2. Treasury share

When treasury shares are acquired, they are recognized at cost and presented as a deduction from equity. In addition, directly attributable costs arising from the acquisition of treasury shares are deducted from capital surplus.

When treasury shares are sold, the difference between carrying amount and consideration received is recognized in capital surplus.

4. Operating Segments

The Group sets core operating profit, which is an indicator showing the Company’s profitability from ordinary income, as its own business performance management indicator.

Core operating profit is operating profit after deducting gains and losses arising from extraordinary items prescribed by the Group. The amount deducted as extraordinary items mainly represents impairment losses, business structure improvement expenses, the changes in fair values of contingent considerations arising from business combinations and etc.

(1) Reportable segments

The Group is mainly engaged in manufacture, purchase and sales of pharmaceuticals for medical treatment and manages the performance of pharmaceutical business by market in Japan, North America, China and etc. Therefore, the Group has four reportable segments: Japan, North America, China, and Other Regions.

The Group's reportable segments are the components of the Group for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resources to be allocated to the segments and assess their performances.

(2) Revenues and operating results of the reportable segments

Revenues, profit or loss and other items by each of the Group's reportable segments are shown below.

The accounting policies of reportable segments are identical to those set forth in the Note 3 Significant Accounting Policies.

The Group sets core segment profit, which is an indicator showing the segment's profitability from ordinary income, as its own indicator of segment business performance management.

Core segment profit is calculated by deducting research and development expenses, gains and losses on sales of operations and etc. which are not allocated to operating segments because such expenses are managed on a global basis from core operating profit, and presented as segment profit.

1. Year ended March 31, 2022

(Millions of yen)

	Reportable segments					Other business (Note 1)	Total
	Pharmaceutical business						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers, etc. (Note 2)	149,915	319,790	38,296	12,176	520,177	39,858	560,035
Inter-segment revenues	61	—	—	—	61	40	101
Total	149,976	319,790	38,296	12,176	520,238	39,898	560,136
Segment profit (Core segment profit)	19,612	105,385	19,590	3,254	147,841	3,491	151,332
Other items							
Depreciation and amortization	5,733	26,865	893	654	34,145	327	34,472
Impairment losses	10	900	—	—	910	—	910

(Note) 1. The "Other business" category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs and other products.

2. Revenues from external customers in the North America segment includes the lump-sum payment of $270 million (¥30,348 million) for the license agreement for joint development and commercialization with Otsuka Pharmaceutical Co., Ltd.

2. Year ended March 31, 2023

(Millions of yen)

	Reportable segments					Other business (Note 1)	Total
	Pharmaceutical business						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers, etc.	126,106	328,467	39,397	16,752	510,722	44,822	555,544
Inter-segment revenues	58	—	—	—	58	62	120
Total	126,164	328,467	39,397	16,752	510,780	44,884	555,664
Segment profit (Core segment profit)	9,065	32,249	19,543	9,987	70,844	2,342	73,186
Other items							
Depreciation and amortization	6,060	29,095	989	537	36,681	331	37,012
Impairment losses (Note 2)	31	88,136	—	—	88,167	—	88,167

(Note) 1. The “Other business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs and other products.

2. Impairment losses are presented in Note 13. Property, Plant and Equipment, Note 14. Goodwill and Note 15. Intangible Assets.

(3) Reconciliations between the total amounts of reportable segments and the amounts in the consolidated financial statements (reconciliation items)

The details of reconciliation are as follows:

(Millions of yen)

Revenue	Year ended March 31, 2022	Year ended March 31, 2023
Total of reportable segments	520,238	510,780
Revenue of other business	39,898	44,884
Elimination of inter-segment revenue	(101)	(120)
Revenue on the consolidated financial statements	560,035	555,544

(Millions of yen)

Profit	Year ended March 31, 2022	Year ended March 31, 2023
Total of reportable segments	147,841	70,844
Segment profit of other business	3,491	2,342
Elimination of inter-segment profit	26	41
Research and development expenses (Note)	(94,004)	(106,061)
Gains on business transfers	1,146	49,159
Others	9	39
Core operating profit	58,509	16,364
Change in fair value of contingent consideration	3,282	3,388
Impairment losses	(910)	(88,167)
Business structure improvement expenses	(606)	(12,998)
Other income	1,251	4,058
Other expenses	(1,096)	(1,686)
Others	(196)	2,062
Operating profit (loss) in the consolidated financial statements	60,234	(76,979)

(Note) The Group does not allocate research and development expenses to the operating segments because such expenses are managed on a global basis. Differences from research and development expenses on Consolidated Statement of Profit or Loss consist of impairment losses and expenses related to research and development excluded from calculation of core operating profit.

(Millions of yen)

Other items	Total of reportable segments		Other business		Adjustments		Amount in the consolidated financial statements	
	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2022	Year ended March 31, 2023	Year ended March 31, 2022	Year ended March 31, 2023
Depreciation and amortization	34,145	36,681	327	331	3,876	4,251	38,348	41,263

(4) Revenues

The details of revenues from external customers etc. are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Sale of goods	509,050	518,433
Revenue arising from intellectual property rights	37,205	15,131
Other	13,780	21,980
Total	560,035	555,544

(5) Information by product and service

The details of sales from external customer, etc. by product and service are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Pharmaceuticals	520,177	510,722
Others	39,858	44,822
Total	560,035	555,544

(6) Geographic information

The Group’s geographic revenues are classified by country and region, based on the location of customers.

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Japan	222,884	170,612
North America	287,289	329,089
U.S.A.in North America	282,521	325,886
Others	49,862	55,843
Total	560,035	555,544

The details of the breakdown of carrying amounts of the Group’s non-current assets (except for financial assets, deferred tax assets and retirement benefit assets) by location are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Japan	65,438	62,307
North America	600,494	542,997
U.S.A. in North America	598,877	542,881
Others	4,060	3,111
Total	669,992	608,415

(7) Information of major customers

Revenue from major customers which individually accounts for greater than 10% of the total Group's revenue are as - follows:

(Millions of yen)

	Reportable segment	Year ended March 31, 2022	Year ended March 31, 2023
McKesson Corporation	North America	91,340	101,891
Cardinal Health Inc.	North America	85,425	97,085
AmerisourceBergen Corporation	North America	73,745	86,375

5. Revenue

(1) Disaggregation of revenue and its relationship with reportable segments

The Group disaggregates revenue by type of goods and services. The relationship between disaggregated revenue and the reportable segments are as follows:

Year ended March 31, 2022

(Millions of yen)

	Reportable segments					Other business (Note 1)	Total	Including revenue from contracts with customers	Including revenue from other sources (Note 2)
	Pharmaceutical business								
	Japan	North America	China	Other Regions	Subtotal				
Sales of goods	148,001	271,567	38,056	11,568	469,192	39,858	509,050	509,050	—
Revenue arising from intellectual property rights (Note 3)	163	36,434	—	608	37,205	—	37,205	37,205	—
Other	1,751	11,789	240	—	13,780	—	13,780	1,978	11,802
Total	149,915	319,790	38,296	12,176	520,177	39,858	560,035	548,233	11,802

(Note) 1. The "Other business" category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, and other products.

2. Revenue from other sources is sales revenue from contracts with joint partners in which the counterparty is not deemed as a customer. The details are presented in Note 35 Joint Development and Joint Sales.

3. Revenues from external customers in the North America segment in the year ended March 31, 2022 includes the lump-sum payment of $270 million (¥30,348 million) for the license agreement for joint development and commercialization with Otsuka Pharmaceutical Co., Ltd.

Year ended March 31, 2023

(Millions of yen)

	Reportable segments					Other business (Note 1)	Total	Including revenue from contracts with customers	Including revenue from other sources (Note 2)
	Pharmaceutical business								
	Japan	North America	China	Other Regions	Subtotal				
Sales of goods	123,879	300,506	38,984	10,243	473,612	44,821	518,433	518,433	—
Revenue arising from intellectual property rights	124	8,497	—	6,509	15,130	1	15,131	15,131	—
Other	2,103	19,464	413	—	21,980	—	21,980	2,557	19,423
Total	126,106	328,467	39,397	16,752	510,722	44,822	555,544	536,121	19,423

(Note) 1. The “Other business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, and other products.

2. Revenue from other sources is sales revenue from contracts with joint partners in which the counterparty is not deemed as a customer. The details are presented in Note 35 Joint Development and Joint Sales.

(2) Contract balances

Contract balances arising from contracts with customers are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Receivables from contracts with customers		
Accounts receivable and notes receivable	139,151	86,405
Contract assets	1,870	—
Contract liabilities	472	657

Receivables from contracts with customers and contract assets were included in "Trade and other receivable" and contract liabilities were included in "Other liabilities".

Contract assets are comprised of rights to consideration based on supply agreements. When these rights become unconditional, the Group reclassifies the contract assets to trade receivables.

Contract liabilities are the consideration of lump sum payments received arising from agreements related to some technology licensing-out agreements for which the performance obligation has not yet satisfied. Such consideration is recognized as revenue at the point of time when the performance obligations related to these technology licensing-out agreements are satisfied.

Among revenue recognized during the year ended March 31, 2023, none was included in contract liabilities balance at the beginning of the fiscal year ended March 31, 2023. Among revenue recognized during the year ended March 31, 2022, ¥2,011 million was included in contract liabilities balance at the beginning of the fiscal year ended March 31, 2022. Also, there are no significant amounts of revenue recognized during the year ended March 31, 2022 and 2023 from performance obligations satisfied (or partially satisfied) in the prior fiscal years.

(3) Transaction price allocated to the remaining performance obligations

As there are no transactions with expected revenue recognition period over one year, information related to remaining performance obligations are not disclosed. Also, there are no significant amounts in consideration from contracts with customers that are not included in transaction prices.

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

There are no incremental costs of obtaining contracts or the costs incurred for fulfilling contracts that shall be recognized as assets.

6. Selling, General and Administrative Expenses

The details of selling, general and administrative expenses are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Salaries and bonuses	91,652	108,616
Retirement benefit expenses	5,863	5,966
Advertising and promotion expenses	37,780	59,857
Depreciation and amortization	31,742	34,104
Impairment losses	1	59,126
Change in fair value of contingent consideration (Note)	(3,282)	(3,388)
Others	85,325	109,035
Total	249,081	373,316

(Note) Contingent considerations are future payments to the former shareholder when milestones specified at the time of acquisition are achieved. The details are presented in Note 30 Financial Instruments.

7. Other Income

The details of other operating income are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Gain on sales of intangible assets (Note 1)	174	11,979
Gain on business transfers (Note 2)	—	12,656
Gain on sales of shares of affiliates (Note 3)	—	24,735
Others	2,232	3,886
Total	2,406	53,256

(Note) 1. Gains on sales of intangible assets were recorded due to the sales of priority review voucher during the year ended March 31, 2023.

2. Gains on business transfers were recorded due to the transfers of business related to BROVANA® and XOPENEX HFA® in North America, and LUNESTA® during the year ended March 31, 2023.

3. Gains on sales of shares of affiliates were recorded due to the transfer of all the shares of Sumitomo Pharma Food & Chemical Co., Ltd., the Group's consolidated subsidiary, to MEDIPAL HOLDINGS CORPORATION during the year ended March 31, 2023.

8. Other Expenses

The details of other operating expenses are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Donation	597	629
Others	499	1,057
Total	1,096	1,686

9. Finance Income and Finance Expenses

(1) Finance income

The details of finance income are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Interest income		
Financial assets at amortized cost	183	4,512
Dividend income		
Financial asset at fair value through other comprehensive income	992	974
Exchange gain (net)	24,530	26,308
Others	72	424
Total	25,777	32,218

(2) Finance costs

The details of finance costs are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Interest expenses		
Financial liabilities at amortized cost	2,970	2,640
Others	80	519
Total	3,050	3,159

10. Deferred Income Taxes and Income Tax Expenses

(1) Deferred Income Taxes

1. Deferred tax assets and liabilities on the Consolidated Statement of Financial Position

The details of deferred tax assets and liabilities on the Consolidated Statement of Financial Position are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Deferred tax assets	22,650	10,845
Deferred tax liabilities	26,550	36,505
Net deferred tax assets	(3,900)	(25,660)

2. Details and movement in deferred tax assets and liabilities

The details of originations of deferred tax assets and liabilities by major reasons and movements are as follows:

Year ended March 31, 2022

(Millions of yen)

	As of April 1, 2021	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	As of March 31, 2022
Outsourced research expenses	5,565	231	—	—	5,796
Inventories	22,676	(417)	—	(45)	22,214
Property, plant and equipment	2,034	(444)	—	193	1,783
Intangible assets	(41,955)	2,049	—	(4,233)	(44,139)
Other financial assets	(18,064)	(23)	6,340	(2)	(11,749)
Accrued expenses and provisions	4,760	(1,336)	—	67	3,491
Retirement benefits	5,539	17	(1,013)	11	4,554
Tax loss carryforwards	10,999	1,012	—	1,251	13,262
Tax credits	208	419	—	59	686
Undistributed profits of foreign subsidiaries	(980)	(416)	—	—	(1,396)
Others	985	528	—	85	1,598
Total	(8,233)	1,620	5,327	(2,614)	(3,900)

(Note) Others mainly include exchange differences on translation of foreign operations.

Year ended March 31, 2023

(Millions of yen)

	As of April 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	As of March 31, 2023
Outsourced research expenses	5,796	516	—	(11)	6,301
Inventories	22,214	(9,634)	—	(61)	12,519
Property, plant and equipment	1,783	(1,508)	—	190	465
Intangible assets	(44,139)	2,331	—	(4,368)	(46,176)
Other financial assets	(11,749)	(84)	(7,815)	619	(19,029)
Accrued expenses and provisions	3,491	1,067	—	(215)	4,343
Retirement benefits	4,554	(3,579)	(1,851)	(310)	(1,186)
Tax loss carryforwards	13,262	537	—	1,198	14,997
Tax credits	686	–	—	62	748
Undistributed earnings of foreign subsidiaries	(1,396)	(270)	—	–	(1,666)
Others	1,598	1,045	—	381	3,024
Total	(3,900)	(9,579)	(9,666)	(2,515)	(25,660)

(Note) Others mainly include exchange differences on translation of foreign operations, changes associated with losing control of subsidiaries and changes in reclassification to group of assets held for sale.

3. Unrecognized deferred tax assets

Tax loss carryforwards, tax credit carryforwards and deductible temporary differences for which deferred tax assets are not recognized are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Tax loss carryforwards	46,048	63,615
Tax credit carryforwards	19,690	22,631
Deductible temporary differences	29,085	63,895

4. Unrecognized deferred tax assets and expiry schedule

(i) Expiry schedule of the tax loss carryforwards for which deferred tax assets are not recognized

The expiry schedule of tax losses carryforwards for which deferred tax assets are not recognized are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Not later than 1 year	—	—
Later than 1 year and not later than 2 years	—	—
Later than 2 years and not later than 3 years	—	—
Later than 3 years and not later than 4 years	—	—
Later than 4 years	46,048	63,615
Total	46,048	63,615

(ii) Expiry schedule of the tax credit carryforward for which deferred tax assets are not recognized

The expiry schedule of tax credit carryforwards for which deferred tax assets are not recognized are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Not later than 1 year	—	—
Later than 1 year and not later than 2 years	—	—
Later than 2 years and not later than 3 years	—	—
Later than 3 years and not later than 4 years	—	—
Later than 4 years	19,690	22,631
Total	19,690	22,631

5. Recoverability of deferred tax assets

Deferred tax assets as of March 31, 2023 was ¥ 56,366 million. Recoverability of deferred tax assets depends upon the future taxable income and future taxable temporary differences, and deferred tax assets are recognized to the extent that future taxable income and future taxable temporary differences will be available.

6. Unrecognized deferred tax liabilities

There are no taxable temporary differences in respect of investments in subsidiaries, etc. for which unrecognized deferred tax liabilities were not recognized as of March 31, 2022 and 2023.

(2) Income Tax Expenses

1. Income tax expenses

The details of income tax expenses are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Current tax expenses	43,981	39,215
Deferred tax expense		
Origination and reversal of temporary differences	(1,620)	3,360
Assessment of the recoverability of deferred tax assets	—	6,219
Subtotal	(1,620)	9,579
Total	42,361	48,794

Income tax expenses recognized for the sales of financial assets measured at fair value through other comprehensive income and the significant declines of the fair value of financial assets were (¥18,612 million) (profit) for the year ended March 31, 2022 and ¥491 million (loss) for the year ended March 31, 2023.

2. Reconciliation of income tax rate

The reconciliation between the normal statutory tax rate and the effective tax rate is as follows:

The Group is mainly subject to corporate tax, inhabitant tax and enterprise tax for the years ended March 31, 2022 and 2023. The normal statutory tax rate based on these taxes is 30.6% for the years ended March 31, 2022 and 2023. However, overseas subsidiaries are subject to income taxes in their respective countries of domicile.

	Year ended March 31, 2022	Year ended March 31, 2023
Normal statutory tax rate	30.6%	30.6%
Permanent non-deductible expenses such as entertainment expenses	0.9%	(2.1%)
Permanent non-taxable income such as dividend received	(0.5%)	0.8%
Tax credit for research and development expenses	(2.8%)	6.6%
Changes in unrecognized deferred tax assets	9.1%	(58.0%)
Difference of subsidiaries' applicable income tax rates	14.3%	(80.4%)
Changes in tax effect of undistributed earnings of subsidiaries	0.5%	(0.6%)
Effect of change in fair value of contingent consideration	(0.9%)	1.6%
Impairment of goodwill	—	(1.7%)
Others	(0.1%)	1.4%
Effective tax rate	51.1%	(101.8%)

11. Per Share Information

The basis for calculation and the amount of basic earnings per share are as follows:

	Year ended March 31, 2022	Year ended March 31, 2023
The basis for calculation of basic earnings per share		
Net profit (loss) attributable to owners of the parent (Millions of yen)	56,413	(74,512)
Amounts not attributable to ordinary shareholders of the parent (Millions of yen)	—	—
Net profit (loss) used to calculate basic earnings per share (Millions of yen)	56,413	(74,512)
Weighted average number of ordinary shares (Thousands of shares)	397,293	397,292
Earnings per share		
Basic earnings per share (loss) (Yen)	141.99	(187.55)

(Note) Diluted earnings per share is not disclosed as there are potential shares that have an antidilutive effect. These potential shares are stock options issued by certain subsidiaries. The details are presented in Note 28, Share-based payments.

12. Other Comprehensive Income

The movement of other comprehensive income is as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income		
Amounts arising during the year	(63,156)	26,197
Tax effect	6,356	(7,863)
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(56,800)	18,334
Remeasurements of defined benefit liability (asset)		
Amounts arising during the year	3,320	5,404
Tax effect	(1,013)	(1,851)
Remeasurements of defined benefit liability (asset)	2,307	3,553
Exchange differences on translation of foreign operations		
Amounts arising during the year	42,004	39,850
Exchange differences on translation of foreign operations	42,004	39,850
Cash flow hedges		
Amounts arising during the year	65	(156)
Tax effect	(15)	48
Cash flow hedges	50	(108)
Total	(12,439)	61,629

13. Property, Plant and Equipment

(1) Movements in acquisition cost, accumulated depreciation and accumulated impairment losses and carrying amount

Movements in acquisition cost, accumulated depreciation and accumulated impairment losses and carrying amount of property, plant and equipment are as follows:

1. Acquisition cost

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Balance as of April 1, 2021	75,438	55,771	29,474	4,838	1,409	20,855	187,785
Additions	570	473	317	—	6,224	2,378	9,962
Transfer from construction in progress	1,904	1,990	1,466	—	(5,360)	—	—
Sales and disposals	(341)	(885)	(1,048)	—	(914)	(1,142)	(4,330)
Foreign currency translation differences	1,192	672	635	44	9	1,152	3,704
Others	(37)	(3)	(91)	—	(33)	22	(142)
Balance as of March 31, 2022	78,726	58,018	30,753	4,882	1,335	23,265	196,979
Additions	1,551	482	475	—	5,167	4,487	12,162
Transfer from construction in progress	1,950	1,608	2,056	—	(5,614)	—	—
Sales and disposals	(4,462)	(1,830)	(1,789)	—	—	(5,227)	(13,308)
Foreign currency translation differences	950	461	516	42	(1)	1,091	3,059
Transfer to assets held for sale	(161)	(107)	(122)	—	—	(396)	(786)
Changes associated with losing control of subsidiaries	(955)	(236)	(719)	—	—	(400)	(2,310)
Others	(1)	(315)	(320)	—	—	(5,777)	(6,413)
Balance as of March 31, 2023	77,598	58,081	30,850	4,924	887	17,043	189,383

2. Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Balance as of April 1, 2021	(44,267)	(46,798)	(24,383)	(64)	(128)	(7,179)	(122,819)
Depreciation	(2,807)	(2,131)	(2,122)	—	—	(4,391)	(11,451)
Impairment losses	—	—	(1)	—	(10)	—	(11)
Sales and disposals	321	707	1,022	—	—	881	2,931
Foreign currency translation differences	(612)	(470)	(523)	—	—	(376)	(1,981)
Others	70	—	73	—	128	172	443
Balance as of March 31, 2022	(47,295)	(48,692)	(25,934)	(64)	(10)	(10,893)	(132,888)
Depreciation	(3,509)	(2,164)	(2,063)	—	—	(4,223)	(11,959)
Impairment losses	—	(394)	—	—	(31)	—	(425)
Sales and disposals	4,447	1,800	1,690	—	—	4,196	12,133
Foreign currency translation differences	(475)	(324)	(432)	—	—	(356)	(1,587)
Transfer to assets held for sale	56	103	69	—	—	292	520
Changes associated with losing control of subsidiaries	242	72	548	—	—	206	1,068
Others	—	294	254	—	10	2,106	2,664
Balance as of March 31, 2023	(46,534)	(49,305)	(25,868)	(64)	(31)	(8,672)	(130,474)

3. Carrying amount

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Right-of-use assets	Total
Balance as of April 1, 2021	31,171	8,973	5,091	4,774	1,281	13,676	64,966
Balance as of March 31, 2022	31,431	9,326	4,819	4,818	1,325	12,372	64,091
Balance as of March 31, 2023	31,064	8,776	4,982	4,860	856	8,371	58,909

(Note)1. There is no capitalized borrowing cost for property, plant and equipment for the years ended March 31, 2022 and 2023.

2. Details of commitment in respect of acquisitions of property, plant and equipment are presented in Note 31. Capital Expenditure Commitments.

3. Property, plant and equipment under construction is presented as Construction in progress.

(2) Impairment losses

Impairment losses recognized for the year ended March 31, 2022 and 2023 were ¥11 million and ¥425 million, respectively. Impairment loss was recorded in Cost of sales in the Consolidated Statement of Profit or Loss.

Impairment losses amounting to ¥11 million recognized for the year ended March 31, 2022 represented impairment losses of construction in progress with the decreased profitability in Japan segment of pharmaceutical business. The recoverable amount is measured based on value in use. However, as the profitability is no longer expected, the total carrying amount is reduced to zero.

Impairment losses amounting to ¥425 million recognized for the year ended March 31, 2023 represented impairment losses of machinery and vehicles with the decreased profitability in North America segment of pharmaceutical business. As the profitability is no longer expected, the total carrying amount is reduced to zero.

14. Goodwill

(1) Movements in acquisition cost and accumulated impairment losses and carrying amount of goodwill

Movements in acquisition cost and accumulated impairment losses and carrying amount of goodwill are as follows:

1. Acquisition cost

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Beginning balance	176,492	195,144
Acquisition through business combinations	—	—
Foreign currency translation differences	18,652	17,743
Ending balance	195,144	212,887

2. Accumulated impairment losses

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Beginning balance	—	—
Impairment losses	—	(3,523)
Foreign currency translation differences	—	51
Ending balance	—	(3,472)

3. Carrying amount

(Millions of yen)

Balance as of April 1, 2021	176,492
Balance as of March 31, 2022	195,144
Balance as of March 31, 2023	209,415

(2) Significant goodwill

Significant goodwill recognized in the Consolidated Statement of Financial Position arose from the acquisition of Sumitovant Biopharma Ltd., Sepracor Inc. (currently known as Sunovion Pharmaceuticals Inc.) and Tolero Pharmaceuticals, Inc. (currently known as Sumitomo Pharma Oncology, Inc.) by the Group. The carrying amounts of significant goodwill are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Sumitovant Biopharma Ltd.	85,583	93,365
Sepracor Inc.	77,075	84,083
Tolero Pharmaceuticals, Inc.	24,205	22,934

(3) Impairment test of goodwill

In principle, the geographical business segment managed for internal reporting purposes is identified as a CGU used in the impairment test by the Group. Some business segments contain multiple CGUs. The North America segment of the pharmaceutical business are comprised of two individual CGUs, which are “excluding oncology area” and “oncology area”. All the goodwill recognized for the years ended March 31, 2022 and 2023 were attributed to the North America segment of the pharmaceutical business. The Group performs the impairment test of goodwill by the above two individual CGUs.

The carrying amounts of goodwill attributable to the North America segment of the pharmaceutical business that were allocated to the two individual CGUs are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
North America (excluding oncology area)	168,346	183,653
North America (oncology area)	26,798	25,763
Total	195,144	209,415

Impairment losses of goodwill are recognized when recoverable amount is less than carrying amount, and the carrying amount of goodwill is reduced to the extent of the recoverable amount. The recoverable amount is determined by fair value less costs of disposal that was measured based on business plan approved at management meeting. Fair value less cost of disposal is determined by the present value of estimated future cash flows based on the past experience and external information, using assumptions such as the planned launch schedules, the probability of success of R&D activities and business plans on revenue forecasts including selling prices of products and developed products, and forecasts of fixed costs, etc. In the impairment test for goodwill attributable to excluding oncology area in North America, the fair value less cost of disposal is calculated by deducting the estimated disposal cost after discounting the estimated cash flows based on 15-year future forecasts with the consideration of permanent growth rate to the present value. In addition, in the impairment test for goodwill attributable to the oncology area in North America, the fair value less cost of disposal is calculated by deducting the estimated disposal cost after discounting the estimated cash flows based on 18-year future forecasts to the present value.

Because this valuation technique uses inputs that are not observable market data, this fair value less costs of disposal is classified within Level 3 of the fair value hierarchy.

The discount rate used in the impairment test for goodwill is based on the weighted average cost of capital, etc. set by each CGU. The pre-tax discount rate used in the impairment test of goodwill were 12.1%-18.0% and 14.8%-20.5% as of March 31, 2022 and 2023, respectively.

As a result of impairment test, the recoverable amount of the CGU of oncology area in North America segment of the pharmaceutical business is ¥25,763 million which is less than the carrying amount of CGU including goodwill. Therefore, impairment loss on goodwill amounting to ¥3,523 million was recorded in selling, general and administrative expenses of the Consolidated Statement of Profit or Loss.

Fair value less costs of disposal of the CGUs excluding oncology area in North America segment of the pharmaceutical business, is sufficiently greater than its carrying amount, even if key assumptions used in measuring fair value less costs of disposal change within a reasonable range. Therefore, the Group considers the possibility of occurring an impairment loss low.

15. Intangible Assets

(1) Movements in acquisition cost, accumulated amortization and accumulated impairment losses and carrying amount

Movements in acquisition cost, accumulated amortization and accumulated impairment losses and carrying amount of intangible assets are as follows:

1. Acquisition cost

(Millions of yen)

	Intangible assets related to products	Software	Others	Total
Balance as of April 1, 2021	511,066	19,568	239	530,873
Individual acquisition	3,176	2,507	455	6,138
Sales and disposals	—	(114)	(3)	(117)
Foreign currency translation differences	51,735	1,043	13	52,791
Others	—	—	—	—
Balance as of March 31, 2022	565,977	23,004	704	589,685
Individual acquisition	1,763	2,368	1	4,132
Sales and disposals	(17,895)	(1,160)	(136)	(19,191)
Foreign currency translation differences	48,915	910	14	49,839
Transfer to assets held for sale	(30)	(132)	(27)	(189)
Changes associated with losing control of subsidiaries	(15)	(523)	(5)	(543)
Others	—	—	—	—
Balance as of March 31, 2023	598,715	24,467	551	623,733

2. Accumulated amortization and accumulated impairment losses

(Millions of yen)

	Intangible assets related to products	Software	Others	Total
Balance as of April 1, 2021	(134,478)	(12,808)	(181)	(147,467)
Amortization	(24,178)	(2,710)	(9)	(26,897)
Impairment losses	(899)	—	—	(899)
Sales and disposals	—	114	3	117
Foreign currency translation differences	(15,072)	(773)	(2)	(15,847)
Others	—	—	—	—
Balance as of March 31, 2022	(174,627)	(16,177)	(189)	(190,993)
Amortization	(26,450)	(2,846)	(8)	(29,304)
Impairment losses	(80,003)	(63)	—	(80,066)
Sales and disposals	17,875	1,145	—	19,020
Foreign currency translation differences	(12,924)	(705)	—	(13,629)
Transfer to assets held for sale	15	85	27	127
Changes associated with losing control of subsidiaries	13	388	3	404
Others	1	21	—	22
Balance as of March 31, 2023	(276,100)	(18,152)	(167)	(294,419)

3. Carrying amount

(Millions of yen)

	Intangible assets related to products	Software	Others	Total
Balance as of April 1, 2021	376,588	6,760	58	383,406
Balance as of March 31, 2022	391,350	6,827	515	398,692
Balance as of March 31, 2023	322,615	6,315	384	329,314

(Note) 1. The amortization of intangible assets is recognized in cost of sales, selling, general and administrative expenses, and research and development expenses of the Consolidated Statement of Profit or Loss.

2. There are no internally generated intangible assets.

3. There are no interest expenses capitalized as intangible assets.

4. Intangible assets related to products include expenditures incurred in the research and development phase, of which the approval for sales by regulatory authorities has not been obtained. As they are not yet available for use, it is determined that the period for which future economic benefits will inflow to the Group is unforeseeable. Therefore, such assets are classified as intangible assets with indefinite useful lives. The carrying amounts of such intangible assets as of March 31, 2022 and 2023 were ¥29,799 million, and ¥11,743 million, respectively.

(2) Significant intangible assets

Significant intangible assets recognized in the Consolidated Statement of Financial Position are as follows:

			Carrying amount (Millions of yen)		Residual amortization period
			As of March 31, 2022	As of March 31, 2023	As of March 31, 2023
Myovant Sciences Ltd.	MYFEMBREE®	Patent rights	139,604	142,471	15 years
	ORGOVYX®	Patent rights	64,745	66,075	15 years
Urovant Sciences Ltd.	GEMTESA®	Patent rights	93,894	94,691	13 years
Cynapsus Therapeutics Inc.	KYNMOBI®	Patent rights	51,481	—	—
Tolero Pharmaceuticals, Inc.	TP-0903	In-process research and development	18,606	—	—

The above table mainly represent the intangible assets related to products arising from the acquisition of Myovant Sciences Ltd., Urovant Sciences Ltd. (currently known as Sumitovant Biopharma Ltd.), Cynapsus Therapeutics Inc. (currently known as Sunovion CNS Development Canada ULC), and Tolero Pharmaceuticals, Inc. (currently known as Sumitomo Pharma Oncology, Inc.) by the Group.

As the in-process research and development, which represents ongoing research development assets, are not approved for sales by regulatory authorities and not yet available for use, it is determined that the period for which future economic benefits will inflow to the Group is unforeseeable. Therefore, such assets are classified as intangible asset with indefinite useful lives. In addition, there exists a risk of impairment losses to be incurred due to failure in product commercialization due to the inherent uncertainties in the research and development processes, and due to a decrease in the profitability associated with changes in market environment and other factors.

(3) Impairment losses

Intangible assets are grouped into CGU that is the smallest group of assets independently generating cash flows. As for the intangible assets related to products, any individual assets of each finished goods and developed products are classified as a CGU.

Impairment losses of intangible assets are recognized when recoverable amount is less than carrying amount, and the carrying amount of intangible assets is reduced to the extent of the recoverable amount. The recoverable amount is determined based on value in use. Value in use is determined by the present value of estimated future cash flows based on the past experience and external information.

The discount rate used in the impairment test for intangible assets is based on the weighted average cost of capital, etc. set by each cash generating unit. The pre-tax discount rate used in the impairment test of intangible assets were 7.0% - 18.0% and 7.0% - 13.8% as of March 31, 2022 and 2023, respectively.

As a result of impairment test, impairment losses for the year ended March 31, 2023 amounting to ¥80,066 million recognized in selling, general and administrative expenses, and research and development expenses in the Consolidated Statement of Profit or Loss were ¥58,926 million and ¥21,140 million, respectively.

Impairment losses on intangible assets were mainly impairment losses of North America segment of the pharmaceutical business, including patent rights associated with KYNMOBI® (OFF episodes associated with

Parkinson's disease) amounting to ¥55,369 million and software amounting to ¥63 million, patent rights associated with LONHALA® MAGNAIR® (therapeutic agent for COPD) amounting to ¥3,494 million and in-process research and development related to TP-0903, which was being developed targeting acute myeloid leukemia (AML), amounting to ¥20,598 million.

As the profitability of patent rights and software associated with KYNMOBI®, and patent rights associated with LONHALA® MAGNAIR® is no longer expected and in-process research and development of TP-0903 has been discontinued and its profitability is no longer expected as well, the carrying amount of these assets is reduced to zero.

As for in-process research and development excluding the above, value in use is significantly greater than the carrying amount of that assets, even if key assumptions used in measuring the value in use change within a reasonable range, the Group considers the possibility of occurring an impairment loss low.

16. Leases

The Group mainly uses offices and warehouses under lease contacts. Certain lease contracts contain renewal options after termination of lease terms. There are no escalation clauses and any significant restrictions provided in the lease contracts.

Leases as a lessee

(1) Amounts recognized in profit or loss

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Depreciation	4,391	4,223
Interest expenses on lease liabilities	307	225
Expenses related to short-term leases	222	205
Expenses related to leases of low-value assets	789	771
Variable lease payments not included in the measurement of lease liabilities	17	41
Income from sublease of right-of-use assets	671	673

(2) Right-of-use assets

The movements in acquisition cost, accumulated depreciation, accumulated impairment losses and carrying amounts of right-of-use assets included in property, plant and equipment are as follows:

1. Acquisition cost

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Land	Total
Balance as of April 1, 2021	16,221	4,629	5	20,855
Additions	1,791	2,057	—	3,848
Sales and disposals	(441)	(701)	—	(1,142)
Foreign currency translation differences	958	194	—	1,152
Others	(162)	(1,286)	—	(1,448)
Balance as of March 31, 2022	18,367	4,893	5	23,265
Additions	3,409	1,078	—	4,487
Sales and disposals	(3,128)	(2,099)	—	(5,227)
Foreign currency translation differences	892	199	—	1,091
Transfer to assets held for sale	(396)	—	—	(396)
Changes associated with losing control of subsidiaries	(395)	—	(5)	(400)
Others (Note)	(5,779)	2	—	(5,777)
Balance as of March 31, 2023	12,970	4,073	—	17,043

(Note) Changes in right-of-use assets mainly due to early termination are included.

2. Accumulated depreciation and accumulated impairment losses

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Land	Total
Balance as of April 1, 2021	(5,543)	(1,635)	(1)	(7,179)
Depreciation	(3,459)	(932)	—	(4,391)
Sales and disposals	441	440	—	881
Foreign currency translation differences	(301)	(75)	—	(376)
Others	167	5	—	172
Balance as of March 31, 2022	(8,695)	(2,197)	(1)	(10,893)
Depreciation	(3,360)	(863)	—	(4,223)
Sales and disposals	3,096	1,100	—	4,196
Foreign currency translation differences	(278)	(78)	—	(356)
Transfer to assets held for sale	292	—	—	292
Changes associated with losing control of subsidiaries	205	—	1	206
Others	2,101	5	—	2,106
Balance as of March 31, 2023	(6,639)	(2,033)	—	(8,672)

3. Carrying amount

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Land	Total
Balance as of April 1, 2021	10,678	2,994	4	13,676
Balance as of March 31, 2022	9,672	2,696	4	12,372
Balance as of March 31, 2023	6,331	2,040	—	8,371

(3) Lease liabilities

The contractual maturities of lease liabilities are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Contractual undiscounted cash flows		
Within 1 year	5,772	4,871
Over 1 year, within 5 years	9,118	6,358
Over 5 years	1,429	1,302
Balance of undiscounted lease liabilities	16,319	12,531
Balance of lease liabilities	15,496	11,656
Lease liabilities (non-current)	10,033	6,996
Lease liabilities (current)	5,463	4,660

(4) Amounts recognized in the Consolidated Statement of Cash Flows

The total cash outflows for leases are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Repayments of lease liabilities	4,499	3,755
Interest expenses on lease liabilities paid	307	225
Others	1,028	1,017
Total	5,834	4,997

17. Other Financial Assets

(1) Details of other financial assets

The details of other financial assets are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Financial assets at amortized cost		
Loan receivables	27,253	10,012
Others	8,615	9,148
Financial assets at fair value through profit or loss		
Equity securities, etc.	176	820
Financial assets at fair value through other comprehensive income		
Equity securities, etc.	111,855	131,161
Bonds	3,364	3,040
Derivative assets	177	—
Total	151,440	154,181
Other financial assets（non-current）	115,844	134,007
Other financial assets（current）	35,596	20,174
Total	151,440	154,181

(2) Financial assets measured at fair value through other comprehensive income

1. Details of fair value

The fair values of major investees are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Roivant Sciences Ltd.	52,227	85,117
MEDIPAL HOLDINGS CORPORATION	6,541	5,864
JCR Pharmaceuticals Co., Ltd.	7,674	4,804
Ono Pharmaceutical Co., Ltd.	5,105	4,602
Alfresa Holdings Corporation	2,788	2,783
Mochida Pharmaceutical Co., Ltd.	2,023	1,809
TOHO HOLDINGS Co., Ltd.	1,070	1,359
Shikoku Yakugyo Co., Ltd.	2,596	1,317
VITAL KSK HOLDINGS, INC.	882	1,072
Others	30,949	22,434
Total	111,855	131,161

2. Others

The dividend income derived from the financial assets measured at fair value through other comprehensive income held by the Group are ¥851 million and ¥750 million for the years ended March 31, 2022 and 2023, respectively.

The details of “Other financial assets” under financial assets measured at fair value through other comprehensive income which were disposed in the years ended March 31, 2022 and 2023 are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Fair value at the time of disposal	8,022	5,961
Accumulated gains (losses)	5,475	3,425
Dividend income	141	224

These were disposed as a result of the revision of business strategies, etc. The accumulated gains (net of tax) reclassified from other components of equity to retained earnings at the disposal are ¥3,801 million and ¥2,378 million for the years ended March 31, 2022 and 2023, respectively.

The accumulated losses (net of tax) of those financial assets measured at fair value through other comprehensive income of which the significant decline in fair value compared with acquisition cost is other-than-temporary, amounting to (¥46,219 million) and (¥1,049 million) for the years ended March 31, 2022 and 2023, respectively, are reclassified from other components of equity to retained earnings.

18. Inventories

The details of Inventories are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Merchandise and finished goods	78,962	65,813
Work-in-process	3,712	3,491
Raw materials and supplies	16,347	25,101
Total	99,021	94,405

Certain inventories included in raw materials and supplies are expected to be consumed over more than 12 months from each fiscal year-end. However, these are included in Inventories as they are held within the normal operating cycle.

The amount of write-downs of inventories recognized as cost of sales in profit or loss are ¥2,937 million and ¥1,317 million for the years ended March 31, 2022 and 2023, respectively.

19. Trade and Other Receivables

(1) Details of trade and other receivables

The details of trade and other receivables are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Financial assets measured at amortized cost		
Accounts receivable and notes receivable	139,151	86,405
Other receivables	10,387	9,503
Contract assets	1,870	—
Allowance for credit losses	(1)	—
Total	151,407	95,908
Trade and other receivables (non-current)	—	—
Trade and other receivables (current)	151,407	95,908
Total	151,407	95,908

(2) Credit risk and market risk, and loss allowances

The exposures to credit risk and foreign currency risk, and the loss allowances for trade and other receivables are presented on Note 30. Financial Instruments.

20. Cash and Cash Equivalents

The details of cash and cash equivalents are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Financial assets measured at amortized cost		
Cash and deposits	140,566	96,412
Short-term investments (cash equivalents)	62,418	47,066
Total	202,984	143,478

21. Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, recovered primarily through sale rather than through continuing use, are classified as held for sale if they are available for immediate sale in its current condition and the sale is highly probable. Non-current assets, or disposal groups classified as held for sale, are measured at the lower of their carrying amount and fair value less cost to sell.

The details of assets held for sale and liabilities directly associated with assets held for sale are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Other financial assets	—	1,195
Inventories	—	2,736
Trade and other receivables	—	2,043
Others	—	1,524
Total	—	7,498
Retirement benefit liabilities	—	407
Trade and other payables	—	622
Other current liabilities	—	412
Others	—	365
Total	—	1,806

The Company entered into an agreement on December 26, 2022 for the transfer of all shares of its subsidiary, Sumitomo Pharma Animal Health, Co., Ltd. (hereinafter, “Sumitomo Pharma Animal Health”) to Mitsui & Co., Ltd. All shares in Sumitomo Pharma Animal Health will be transferred during the first quarter of the fiscal year ending March 31, 2024 as the target.

Accordingly, it is highly probable that Sumitomo Pharma Animal Health will discontinue to be a subsidiary of the Company and the Company classified assets and liabilities directly associated with assets related to Sumitomo Pharma Animal Health as a disposal group held for sale.

22. Bonds and Borrowings

(1) Details of Bonds and Borrowings

The details of Bonds and Borrowings are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023	Average interest rate	Repayment due date
Bonds (other than current portion)	119,116	119,240	1.47%	September 2050
Long-term borrowings (other than current portion)	124,847	124,888	0.26%	December 2024~ December 2025
Current portion of long-term borrowings	20,060	—	—%	—
Short-term borrowings	5,025	90,588	0.66%	—
Total	269,048	334,716	—	—
Bonds and Borrowings (non-current)	243,963	244,128	—	—
Borrowings(current)	25,085	90,588	—	—
Total	269,048	334,716	—	—

(Note) The average interest rate is the weighted average interest rate calculated based on the balance of the borrowings as of March 31, 2023.

(2) Issuance conditions of bonds

A summary of issuance conditions of bonds is as follows:

(Millions of yen)

Issuer	Bond name	Issue date	As of March 31,2022	As of March 31,2023	Interest rate (%)	Collateral	Maturity date
Sumitomo Pharma Co., Ltd.	1st Unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions	September 10, 2020	60,000	60,000	1.39 (Note 1)	None	September 9, 2050 (Note 3)
Sumitomo Pharma Co., Ltd.	2nd Unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions	September 10, 2020	60,000	60,000	1.55 (Note 2)	None	September 9, 2050 (Note 4)
Total	—	—	120,000	120,000	—	—	—

(Note) 1. The fixed interest rate has been applied since the day after September 10, 2020 and will have been applied until September 10, 2027, and a variable interest rate from the day after September 10, 2027 ("Step-up interest rates" will be applied from the day after September 10, 2027).

2. The fixed interest rate has been applied since the day after September 10, 2020 and will have been applied until September 10, 2030, and a variable interest rate from the day after September 10, 2030 ("Step-up interest rates" will be applied from the day after September 10, 2030).

3. The Company may redeem the Hybrid Bonds at its discretion on each interest payment date from and including September 10, 2027, or in case a tax event or an equity credit change event occurs.

4. The Company may redeem the Hybrid Bonds at its discretion on each interest payment date from and including September 10, 2030, or in case a tax event or an equity credit change event occurs.

The above bonds are classified as financial liabilities measured at amortized cost and measured at cost less direct transaction cost.

(3) Changes in liabilities associated with cash flows from financing activities

The changes in liabilities associated with cash flows from financing activities are as follows:

(Millions of yen)

	Short-term borrowings	Long-term borrowings	Bonds	Lease liabilities	Total
Balance as of April 1, 2021	5,001	149,826	119,087	16,875	290,789
Cash flows from financing activities	29	(4,960)	—	(4,499)	(9,430)
Other changes					
Additions due to acquisition of right-of-use assets	—	—	—	3,758	3,758
Interest expenses	73	396	1,887	307	2,663
Payment of interests	(79)	(349)	(1,764)	(309)	(2,501)
Effect of foreign currency translation differences	5	—	—	857	862
Others	(4)	(6)	—	(1,481)	(1,491)
Balance as of March 31, 2022	5,025	144,907	119,210	15,508	284,650
Cash flows from financing activities	85,559	(20,060)	—	(3,755)	61,744
Other changes					
Additions due to acquisition of right-of-use assets	—	—	—	4,572	4,572
Interest expenses	99	322	1,888	215	2,524
Payment of interests	(105)	(394)	(1,698)	(227)	(2,424)
Effect of foreign currency translation differences	6	—	—	804	810
Others	4	113	(66)	(5,461)	(5,410)
Balance as of March 31, 2023	90,588	124,888	119,334	11,656	346,466

(Note) Interest payables are included in the above.

23. Trade and Other Payables

The details of trade and other payables are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Financial liabilities measured at amortized cost		
Accounts payable and notes payables	22,455	13,403
Other payables	23,728	38,738
Total	46,183	52,141
Trade and other payables (non-current)	—	—
Trade and other payables (current)	46,183	52,141
Total	46,183	52,141

24. Other Financial Liabilities

The details of other financial liabilities are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Financial liabilities at amortized cost		
Deposit received	4,125	4,370
Others (Note)	4,739	549
Financial liabilities at fair value through profit or loss		
Contingent considerations	4,419	1,482
Others	994	822
Lease liabilities	15,496	11,656
Total	29,773	18,879
Other financial liabilities (non-current)	16,471	11,869
Other financial liabilities (current)	13,302	7,010
Total	29,773	18,879

(Note) "Others" under Financial liabilities at amortized cost include upfront payment received from Pfizer Inc. based on development and commercialization agreement on relugolix in North America in oncology and women's health in the year ended March 31, 2022.

25. Provisions

(1) Movements of provisions

The movement of provisions is as follows:

Year ended March 31, 2023

(Millions of yen)

	Reserve for sales returns	Reserve for sales rebates	Total
Balance at the beginning of the year	11,065	108,084	119,149
Increase	18,883	97,286	116,169
Decrease (utilization)	(2,175)	(124,878)	(127,053)
Decrease (reversal)	(52)	(81)	(133)
Foreign currency translation differences	763	10,200	10,963
Others (Note)	—	(12)	(12)
Balance at the end of the year	28,484	90,599	119,083
Provision (non-current)	—	—	—
Provision (current)	28,484	90,599	119,083
Total	28,484	90,599	119,083

(Note) Others mainly include reclassification to liabilities directly associated with assets held for sale.

(2) Details of Provisions

Provisions are measured based on the best estimation on the timing of settlement of the future obligations as well as cash flows estimated to be required to settle obligations as of reporting date. Significant adjustments to provisions are possible to be made in the consolidated financial statements for the fiscal years subsequent to the reporting date, in case the result that is different from the assumptions used for estimation occurs.

1. Reserve for sales returns

Reserve for sales returns is provided based on the estimated amount of sales return of all the products and goods. Among the balance as of March 31 2023, ¥22,744 million was reserve for sales returns recognized for products sold by Sumitomo Pharma America Holdings, Inc. (hereinafter, "SMPA") and ¥5,740 million was reserve for sales returns recognized for products sold by Sumitovant Biopharma Ltd. (hereinafter, "Sumitovant"). The future outflow of economic benefits is expected to be incurred within the normal operating cycle from the end of each reporting period.

2. Reserve for sales rebates

Reserve for sales rebates is provided based on the estimated amount to be paid for sales rebates related to public programs, wholesales and other contacts. Among the balance as of March 31, 2023, ¥78,822 million was reserve for sales rebates recognized for products sold by SMPA and ¥11,477 million was reserve for sales rebates recognized for products sold by Sumitovant. Sales rebates related to various insurance programs (Medicaid, etc.) that are applied to major products sold in the United States need time to be determined as the settlement period is about one year. As for estimation of reserves for sales rebates, final distribution channels and applicable insurance programs need to be estimated as the rates of sales rebates, which are the basis of calculation of sales rebates, differ depending on distribution channels (wholesalers, pharmacies and hospitals) and applicable insurance programs. These management judgements would have significant effect on estimation of reserves for sales rebates. The future outflow of economic benefits is expected to be incurred within the normal operating cycle from the end of each reporting period.

26. Other liabilities

The details of other non-current liabilities and other current liabilities are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Unearned revenue (Note)	58,401	58,749
Accrued bonuses	36,792	46,998
Accrued expenses	17,603	12,451
Others	11,895	17,571
Total	124,691	135,769
Other non-current liabilities	57,620	57,756
Other current liabilities	67,071	78,013
Total	124,691	135,769

(Note) “Unearned revenue” is upfront payment received from Pfizer, Inc. based on development and commercialization agreement on relugolix in North America in oncology and women’s health. The details are presented in Note 35. Joint Development and Joint Sales.

27. Employee Benefits

(1) Summary of post-retirement benefit plans

The Company and certain consolidated subsidiaries adopt funded or unfunded defined benefit plans and defined contribution plans to pay for the employee post-retirement benefits.

Under the defined benefit corporate pension plans which are funded plan, lump-sum payments or pensions are mainly paid based on job position and length of service period. Certain defined benefit corporate pension plans are established by retirement benefit trusts.

Under the lump-sum payment retirement plans as post-retirement benefit, payments are paid based on job grade and length of service period.

(2) Defined benefit plan

1. Details of defined benefit liabilities and assets

Net defined benefit liabilities and assets recognized in the Consolidated Statement of Financial Position are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Present value of defined benefit obligations	96,144	87,357
Fair value of the plan assets (including retirement benefit trusts)	84,683	82,349
Net defined benefit (assets) liabilities	11,461	5,008
Retirement benefit liabilities	11,461	5,008
Retirement benefit assets	—	—

2. Defined benefit obligations

Changes in the present value of defined benefit obligations are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of the year	99,327	96,144
Current service cost	3,068	2,895
Interest expense	676	800
Remeasurement of net defined benefit liability (asset)		
Changes in demographic assumptions	(232)	246
Changes in financial assumptions	(2,084)	(6,087)
Experience adjustments	(69)	(37)
Past service cost	(178)	(95)
Benefits paid	(4,411)	(3,676)
Foreign currency translation differences	60	55
Reclassification to liabilities directly associated with assets held for sale	—	(407)
Changes associated with losing control of subsidiaries	—	(2,448)
Others	(13)	(33)
Balance at end of the year	96,144	87,357

(Note) The weighted average number of payment years of defined benefit obligations are 14.0 years and 13.8 years as of March 31, 2022 and 2023, respectively.

3. Plan assets

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

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at beginning of the year	84,258	84,683
Interest income	586	717
Benefits paid	(3,437)	(2,917)
Contributions by the employer	2,356	2,390
Remeasurement of defined benefit plans		
Return on plan assets	935	(474)
Changes associated with losing control of subsidiaries	—	(1,994)
Others	(15)	(56)
Balance at end of the year	84,683	82,349

(Note) The Group is expected to pay contributions amounting to ¥1,690 million in the year ending March 31, 2024.

4. Components of plan assets

The details of plan assets by category are as follows:

(Millions of yen)

	As of March 31, 2022			As of March 31, 2023		
	With quoted prices in active markets	Without quoted prices in active markets	Total	With quoted prices in active markets	Without quoted prices in active markets	Total
Equity securities	19,272	—	19,272	21,816	—	21,816
Debt securities	30,136	—	30,136	27,460	—	27,460
General accounts of life insurance companies	—	9,288	9,288	—	8,956	8,956
Cash and cash equivalents	2,680	—	2,680	2,910	—	2,910
Others	—	23,307	23,307	—	21,207	21,207
Total	52,088	32,595	84,683	52,186	30,163	82,349

(Note) The retirement benefit trusts set for defined benefit pension plans consist of 8.3% and 9.1% in the total plan assets as of March 31, 2022 and 2023 respectively. For general accounts of life insurance companies, a certain level of interest rate and principal are guaranteed by life insurance companies.

5. Significant actuarial assumptions

The key actuarial assumptions used for calculating the present value of defined benefit obligations are as follows:

	As of March 31, 2022	As of March 31, 2023
Discount rate (%)	0.8	1.3

6. Sensitivity analysis

The effects of changes in the significant actuarial assumptions on the defined benefit obligations as of March 31, 2022 and 2023 are as follows:

The sensitivity analysis is performed under the assumption that other parameters remain unchanged. The analysis is performed on the same basis with calculation of defined benefit obligation recognized in the Consolidated Statement of Financial Position.

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
In case that the discount rate increases by 0.5%	(6,209)	(5,263)
In case that the discount rate decreases by 0.5%	6,945	5,405

7. Investment strategy and operating policy of plan assets

The Company's basic policy of plan asset management is aimed to generate a required long-term comprehensive return within an acceptable range of risk exposure in order to provide sufficient funding for future pension payments and lump-sum payments that are stipulated in the Group's regulations on retirement benefits and regulations on corporate pension funds.

The targeted rate of return is the required return rate to operate and maintain a sound defined benefit plan in the future. Concretely, the objective is to achieve a mid-to-long term expected rate of return that exceeds the discount rate. In order to achieve the objective, the Group establishes the basic policy for plan asset management. Such policy is subject to change according to the changes of the Group's status and systems or operating environment surrounding the Group.

8. Impact of the defined benefit plan on future cash flows

In relation to the defined benefit corporate pension plan, the Group's funds revise the amounts of contributions every five years to ensure balanced finances for future periods. The funds also revise the amounts of contributions in the event that the balance of the fund reserve falls below the amount of the liability reserve following adjustment by the amount of deficit eligible for carry-forward as of the fund's reporting date.

(3) Defined contribution plan

The expenses recognized for defined contribution plans were ¥3,412 million and ¥4,128 million for the years ended March 31, 2022 and 2023, respectively.

(4) Other Employee benefit expenses

The employee benefit expenses for the years ended March 31, 2022 and 2023 are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Salaries	90,059	105,153
Bonuses	38,043	46,577
Retirement benefit expenses	8,094	8,288
Others	16,354	17,603
Total	152,550	177,621

28. Share-based payments

Myovant Sciences Ltd. (hereinafter, “Myovant”), the Company’s consolidated subsidiary, has introduced Stock Compensation Plans for its directors and employees and granted stock options to them.

1. Stock Option Plans

Stock options that Myovant has issued are equity-settled share-based compensation and the vesting conditions are mainly based on service period.

Information related to stock options of Myovant for the years ended March 31, 2022, and 2023 are as follows:

Myovant became a wholly owned subsidiary of the Group during the year ended March 31, 2023, and has no outstanding balance of stock options as of March 31, 2023.

(i) Year ended March 31, 2022

	Number of stock options (shares)	Weighted average exercise price (USD)	Weighted average remaining contractual years (year)
Outstanding balance as of April 1, 2021	8,293,331	9.90	6.48
Granted	1,178,625	18.93	—
Exercised	(827,389)	17.07	—
Expired	(2,513,887)	9.80	—
Outstanding balance as of March 31, 2022	6,130,680	10.71	6.98
Exercisable balance as of March 31, 2022	3,754,020	8.41	6.08

(Note) 1. The weighted average share prices at the time of exercising is $19.07 USD.

2. The range of exercise prices for outstanding as of March 31, 2022 is from $2.38 to $26.17 USD.

(ii) Year ended March 31, 2023

	Number of stock options (shares)	Weighted average exercise price (USD)	Weighted average remaining contractual years (year)
Outstanding balance as of April 1, 2022	6,130,680	10.71	6.98
Granted	204,808	11.33	—
Exercised	(868,306)	8.27	—
Expired and repurchased	(5,467,182)	11.12	—
Outstanding balance as of March 31, 2023	—	—	—
Exercisable balance as of March 31, 2023	—	—	—

(Note) The weighted average share price at the time of exercising is $17.49 USD.

The Black-Scholes model was used for the purpose of valuation of the fair value of the stock options. As for the granted stock options during the year ended March 31, 2022 and 2023, the assumptions used for the Black-Scholes model are as follows. Also, expected weighted average fair value per one stock option is $7.44 USD.

	Year ended March 31, 2022	Year ended March 31, 2023
Expected weighted average share price (USD)	$18.95	$19.56
Expected exercise price (USD)	$18.93	$11.33
Expected volatility	71.9%	71.0%
Expected stock option period	6.2 years	6.3 years
Expected dividends	—	—
Risk-free interest rate	1.0%	2.8%

(Note) 1. The estimate of expected volatility is based on the historical volatility of Myovant and similar listed companies that and comparable with Myovant corresponding to the expected remaining period of stock options.

2. The assumptions used for measuring the fair value of the stock options granted after the date of acquisition of Myovant are described as above.

2. Stock Compensation Expenses

Stock compensation expenses recorded in the Consolidated Statement of Profit or Loss were as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Selling, general and administrative expenses	3,627	11,120
Research and development expenses	1,912	4,135
Total	5,539	15,255

29. Share Capital and Other Equity Items

(1) Share capital

The numbers of shares authorized and the changes in shares issued are as follows:

(Thousands of shares)

	Year ended March 31, 2022	Year ended March 31, 2023
Number of shares authorized	1,500,000	1,500,000
Number of issued shares		
Balance at the beginning of the year	397,900	397,900
Changes during the year	—	—
Balance at the end of the year	397,900	397,900

(Note) All the shares issued by the Company are ordinary shares with no par value which have no limitations on any rights. The issued shares are fully paid.

(2) Treasury shares

The changes of number of treasury shares are as follows:

(Thousands of shares)

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at the beginning of the year	606	607
Changes during the year	1	1
Balance at the end of the year	607	608

(Note) The treasury shares held by the Company are all ordinary shares. The changes during the year mainly represents the increase due to the request for purchases of shares less than one unit, and the decrease due to the request for sales of shares less than one unit.

(3) Surplus

1. Capital surplus

Out of the amount generated from the equity transactions, capital surplus consists of the amount which is not included in share capital. If capital surplus becomes a negative value due to the difference between the additional equity interest in the subsidiary's shares acquired and the amount of additional investment, the capital surplus is set to zero and the remaining amount is deducted from retained earnings.

2. Retained earnings

Retained earnings consist of net profit (loss) recognized in the current year and prior years, and the amount reclassified from other components of equity.

(4) Other components of equity

1. Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income

It represents the cumulative amount of net gain (loss) arising from the changes in the fair value of financial assets measured at fair value through other comprehensive income.

2. Remeasurements of net defined benefit liability (asset)

It represents the effects of differences between the actuarial assumptions at the beginning of the year and actual result, and the effects of changes in actuarial assumptions, and the income derived from changes in fair value on plan assets other than interest income.

3. Foreign differences on translation of foreign operations

It represents the cumulative translation differences arising from consolidating financial statements of foreign operations prepared using foreign currencies.

4. Cash flow hedges

It represents the effective portion of the cumulative amount of net gain (loss) in fair value of cash flow hedges relating to hedge transactions that have not yet been realized.

(5) Dividends

1. Dividends paid and dividends per share

The total dividends paid and dividends per share are as follows:

(i) For the year ended March 31, 2022

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Declaration date	Effective date of distribution
Annual shareholders meeting (June 24, 2021)	Ordinary share	5,562	14.00	March 31, 2021	June 25, 2021
Meeting of the Board of directors (October 27, 2021)	Ordinary share	5,562	14.00	September 30, 2021	December 1 ,2021

(ii) For the year ended March 31, 2023

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Declaration date	Effective date of distribution
Annual shareholders meeting (June 23, 2022)	Ordinary share	5,562	14.00	March 31, 2022	June 24, 2022
Meeting of the Board of directors (October 31, 2022)	Ordinary share	5,562	14.00	September 30, 2022	December 1 ,2022

2. Dividends with record date in the current fiscal year but whose effective date in the following years

Dividends with record date in the current fiscal year but whose effective date in the following years are as follows:

(i) For the year ended March 31, 2022

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Declaration date	Effective date of distribution
Annual shareholders meeting (June 23, 2022)	Ordinary share	5,562	14.00	March 31, 2022	June 24, 2022

(ii) For the year ended March 31, 2023

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Declaration date	Effective date of distribution
Annual shareholders meeting (June 27, 2023)	Ordinary share	2,781	7.00	March 31, 2023	June 28, 2023

30. Financial Instruments

(1) Capital management

In order to achieve sustainable and integrative increase of corporate value and shareholder value, the Group conducts capital management under the policy of introducing merchandise and developed products and making investments in domestic business, North America business, and new business, etc., and also positioning return on profits to shareholders as a key management priority. There are no significant capital restrictions applicable to the Group.

(2) Overview of financial risk management

Risk management policy

In order to reduce financial risks (such as credit risk, liquidity risk, and market risks, etc.) arising from business operations, the Group performs risk management. Derivatives are used to mitigate part of such risks and are not used for speculative purposes.

(3) Credit risk

1. Summary

Credit risk is the risk of financial loss to the Group if a customer or a counterparty of financial instrument fails to meet its contractual obligations. It mainly arises from the debtors, such as trade receivables due from the Group's customers.

As for the customers' credit risk arising from trade receivables and etc., the Group monitors the status of overdue balances, reviews outstanding balances of each customer according to the Group's internal credit management policies and assesses the credibility of major customers on a regular basis in order to reduce credit risks.

2. Maximum credit risk exposures

The maximum exposures related to the credit risk of financial assets held by the Group are the carrying amount of financial assets presented in the Consolidated Statements of Financial Position.

As there are no financial assets or credit-impaired financial assets of which significant credit risk has increased significantly after the initial recognition, the carrying amount by credit risk category of financial instruments at the end of each fiscal year is not presented.

3. Changes in allowance for doubtful accounts

An allowance for doubtful accounts is recognized for expected credit losses for trade receivables and other receivables.

(i) Trade receivables

Allowance for doubtful accounts related to trade receivables that do not contain a significant financing component is recognized at the amount equal to the lifetime expected credit loss by similar receivables.

(ii) Other receivables

For assets of which credit risk significantly increases, in principle, an allowance for doubtful accounts is recognized at the amount equal to the 12-month expected credit loss, and calculated by multiplying the carrying amount by the provision rate calculated by considering prospects of future economic conditions, etc. in addition to the historical rate of credit losses of similar assets. For assets of which credit risk is considered significantly increased, and credit-impaired financial assets, the allowance for doubtful accounts is recognized at an amount equal to the lifetime expected credit losses, and is calculated based on the difference between recoverable amount that is individually determined by considering the prospects of future economic conditions, in addition to the financial conditions of counterparty and total carrying amount.

Any financial asset will be treated as credit-impaired financial assets, if there is a request to change terms and conditions for repayment from the debtor, serious financial difficult of the debtor, or commencement of legal liquidation procedures due to bankruptcy and others of the debtor, etc. In addition, if a financial asset is impaired, the impairment loss is recognized in the account of allowance for doubtful accounts rather than deducted directly from the carrying amount of the asset.

Changes in the allowance for doubtful accounts of the Group are not presented, as they are immaterial.

(4) Liquidity risk

1. Overview

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages the liquidity risk by preparing monthly funding plan by each company and etc.

2. Maturity analysis

The balance of financial liabilities of each contractual maturity is as follows:

The interest is represented by the amount of estimated payment in future.

(i) As of March 31, 2022

(Millions of yen)

	Carrying amount	Total contractual cash flow	Due within one year or less	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years	Due after five Years
Borrowings	149,932	151,161	25,429	317	60,284	65,131	—	—
Bonds	119,116	132,492	1,764	1,764	1,764	1,764	1,764	123,672
Total	269,048	283,653	27,193	2,081	62,048	66,895	1,764	123,672

(Note) The principal amount of publicly offered hybrid bonds (publicly offered subordinated bonds) is included in "Due after five years" based on the contractual maturity date, but may be redeemed early due to special provisions. The details are presented in Notes to Consolidated Financial Statements, Note 22. Bonds and Borrowings

(ii) As of March 31, 2023

(Millions of yen)

	Carrying amount	Total contractual cash flow	Due within one year or less	Due after one year within two years	Due after two years within three years	Due after three years within four years	Due after four years within five years	Due after five Years
Borrowings	215,476	216,925	91,504	60,286	65,135	—	—	—
Bonds	119,240	130,728	1,764	1,764	1,764	1,764	61,347	62,325
Total	334,716	347,653	93,268	62,050	66,899	1,764	61,347	62,325

(Note) Among the publicly offered hybrid bonds (publicly offered subordinated bonds), the principal amount of 1st Unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions is included in “Due after four years within five years” since the full amount of principal may be redeemed early on each interest payment date after September 10, 2027. The principal amount of 2nd

Unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions is included in "Due after five years" based on the contractual maturity date, but may be redeemed early due to special provisions. The details are presented in Notes to Consolidated Financial Statements, Note 22. Bonds and Borrowings.

(5) Market risk

1. Overview

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates, and equity prices - will affect the Group's income or the value of its holdings of the financial instruments. The Group implements certain measures for each kind of risks.

2. Foreign exchange risk

(i) Foreign exchange risk exposure

A summary of the quantitative data regarding the Group's foreign exchange risk exposure provided to the Management of the Group which is prepared according to the risk management policy is as follows.

(Thousands of USD)

	As of March 31, 2022	As of March 31, 2023
Receivables	2,346,473	1,665,078
Payables	98,947	44,933
Net exposures of the Consolidated Statement of Financial Position	2,247,526	1,620,145
Forward foreign exchange contracts	(153,410)	—
Net exposures	2,094,116	1,620,145

Receivables are mainly foreign currency deposit, trade receivables and loan receivables. Payables are mainly trade payables and other payables.

Forward foreign exchange contracts are used for trade receivables recorded with a certain export transactions.

(ii) Foreign exchange sensitivity analysis

The Group is exposed mainly to the foreign exchange risks against US dollars.

If the Japanese yen depreciates by 5% against the US dollar, the impact on profit or loss arising from the financial instruments held by the Group would be ¥8,898 million and ¥7,513 million as of March 31, 2022 and 2023, respectively.

The analysis includes neither the impact arising from the translation of financial instruments denominated in functional currencies, nor the translation of assets, liabilities, revenue and expenses of foreign operations into Japanese yen. It is assumed that other variable factors are constant.

3. Interest rate risk

A part of interest-bearing debts held by the Group are variable interest rates. The impact of interest rate risk on the Group's net profit or loss is immaterial because part of its variable interest rates is less than 0.1% as of March 31, 2023. Therefore, the sensitivity analysis of interest rate risk is not presented as it is immaterial.

(6) Fair value of financial instrument

1. Fair value hierarchy levels

For financial instruments measured at fair value, the fair value developed observability of the inputs into the valuation techniques used in measurement are categorized within the following three levels.

Level 1: Fair value measured at quoted prices in active markets for identical assets or liabilities.

Level 2: Fair value measured using inputs other than quoted price included in Level 1 that are observable price for the assets or liabilities, either directly or indirectly.

Level 3: Fair value measured using inputs that are not based on observable market data.

2. Financial instruments at amortized cost

The carrying amount and fair value of financial instruments at amortized cost are as follows：

The financial instruments of which the carrying amounts are reasonable approximation of their fair value or financial instrument that are not material, are not included in the below table.

(Millions of yen)

	As of March 31, 2022		As of March 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds	119,116	121,560	119,240	111,960
Borrowings	149,932	149,362	215,476	215,137
Total	269,048	270,922	334,716	327,097

Fair value measurement of main financial instruments at amortized cost are as follows:

(i) Bonds

The fair value of bonds is measured at market prices for the same debt in inactive markets at the reporting date. Fair value hierarchy of the bonds is classified as Level 2.

(ii) Borrowings

The fair value of the borrowings is measured at the present value of remaining principal and interest discounted using an interest rate that would be used for new borrowings. Fair value hierarchy of the borrowings is classified as Level 3.

3. Financial instruments at fair value in the Consolidated Statement of Financial Position

The fair value hierarchy of financial instruments at fair value in the Consolidated Statement of Financial Position is as follows:

Transfers of financial instruments among levels of fair value hierarchy are recognized at each year-end. There was a transfer from Level 3 to Level 1 in the year ended March 31, 2022. The Group holds investment securities which were not listed on an exchange and there were no observable transactions in an active market as of March 31, 2021. However, such investment securities were listed on an exchange in the year ended March 31, 2022 and the equity shares are currently actively traded in that market. Because the investment securities now have a trading price in an active market, the fair value hierarchy was transferred from Level 3 to Level 1 for fair value measurement in the year ended March 31, 2022. Except for the above, there were no transfers among levels of fair value hierarchy for significant financial assets and liabilities occurred in the years ended March 31, 2022 and 2023.

(i) As of March 31, 2022

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss				
Investment securities, etc.	176	—	—	176
Financial assets measured at fair value through other comprehensive income				
Investment securities, etc.	87,905	—	23,950	111,855
Bonds	—	3,364	—	3,364
Derivative assets	—	177	—	177
Total	88,081	3,541	23,950	115,572
Financial liabilities measured at fair value through profit or loss				
Contingent consideration	—	—	4,419	4,419
Derivative liabilities	—	816	—	816
Others	178	—	—	178
Total	178	816	4,419	5,413

(ii) As of March 31, 2023

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss				
Investment securities, etc.	820	—	—	820
Financial assets measured at fair value through other comprehensive income				
Investment securities, etc.	108,963	—	22,198	131,161
Bonds	—	3,040	—	3,040
Total	109,783	3,040	22,198	135,021
Financial liabilities measured at fair value through profit or loss				
Contingent consideration	—	—	1,482	1,482
Others	822	—	—	822
Total	822	—	1,482	2,304

The movement of the financial instruments of which fair value is classified as Level 3 is as follows:

(i) Financial assets

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at the beginning of the year	138,875	23,950
Purchase	11,042	2,091
Changes in financial assets measured at fair value through other comprehensive income	(73,318)	(1,531)
Sales/settlement	(27)	(1)
Transfer to Level 1	(52,227)	—
Transfer to investment in associates accounted for by using the equity method	(395)	—
Reclassification to assets held for sale	—	(1,112)
Changes associated with losing control of subsidiaries	—	(1,197)
Others	—	(2)
Balance at the end of the year	23,950	22,198

(ii) Financial liabilities

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Balance at the beginning of the year	8,337	4,419
Changes in fair value of contingent consideration (Note)	(3,282)	(3,388)
Settlement of contingent considerations	(1,124)	—
Foreign currency translation differences	488	451
Balance at the end of the year	4,419	1,482

(Note) The changes in fair value of contingent consideration is recognized in selling, general and administrative expenses in the Consolidated Statement of Profit or Loss.

The financial assets classified as Level 3 of fair value hierarchy mainly consist of unlisted securities. For unlisted securities for which fair value approximates their net asset value, the fair value is mainly calculated by valuation techniques based on the net asset value.

The financial liabilities classified as Level 3 of fair value hierarchy mainly consist of contingent consideration arising from business combination. Contingent consideration is determined by development milestones for which payment will be required upon achievement of the development progress in a specific development product, and commercial milestones for which payment will be required based on revenue earned since commencement of sales, etc. The fair value of the contingent consideration is measured by taking account of possibility of achievement of milestones and time value of money.

These fair value measurements are determined in accordance with the Group's valuation policies and procedures. The valuation models are determined so that they most appropriately reflect each financial instrument’s nature, characteristics and risks. The Group examines the changes in important metrics that could affect the changes in fair value, on an ongoing basis.

The Group considers there are no material changes in fair values of financial instruments classified as Level 3, in case the unobserved inputs are replaced by alternative assumptions that are considered reasonable.

4. Contingent consideration

As for the acquisitions of Elevation Pharmaceuticals, Inc. (currently known as Sunovion Pharmaceuticals Inc., hereinafter “Elevation”), and Tolero Pharmaceuticals, Inc. (currently known as Sumitomo Pharma Oncology, Inc., hereinafter “Tolero”), the contingent considerations are to be additionally paid to former shareholders upon the achievement of predetermined milestone.

As for the acquisition of Elevation, consideration for acquisition amounting to $189 million (¥17,800 million) has been paid till March 31, 2023, and it is possible to pay a maximum amount of $210 million (¥28,043 million), before considering time value of money, on achievement of the commercial milestones determined based on revenue earned.

As for the acquisition of Tolero, consideration for acquisition amounting to $205 million (¥23,289 million) has been paid till March 31, 2023, and it is possible to pay a maximum amount of $210 million (¥28,043 million) on achievement of the development milestones for chemical compounds under development by Tolero. In addition, it is possible to pay a maximum amount of $150 million (¥20,031 million), before considering time value of money, on achievement of the commercial milestones determined based on revenue earned after commencement of sales.

The Group recognize these contingent considerations in other financial liabilities in the Consolidated Statement of Financial Position after considering the time value of the money.

The fair value of contingent consideration is classified as Level 3 in the fair value hierarchy. The fair value of contingent consideration is measured by taking account of probability of achievement of development milestones of a specific developed product and revenue to be earned since commencement of sales and time value of money. The development milestones in a specific developed product, forecast on future sales, and discount rates, etc., may be affected by uncertain future events.

The changes in the fair value are recognized in Selling, general and administrative expenses in the Consolidated Statement of Profit or Loss.

The total amount of future payments that the Group may be required to make is ¥95,480 million (undiscounted) and ¥76,118 million (undiscounted) as of March 31, 2022 and 2023, respectively. The amounts payable by due date of contingent consideration are not presented because of the uncertainty.

The impact on fair value of contingent considerations due to changes in significant assumptions which affect the fair value of contingent considerations is as follows:

(Millions of yen)

		As of March 31, 2022	As of March 31, 2023
Revenue	Increase by 5%	122	41
	Decrease by 5%	(122)	(41)
Discount rate	Increase by 0.5%	(122)	(27)
	Decrease by 0.5%	122	27

31. Capital Expenditure Commitments

Capital expenditure commitments of acquisition of assets are as follows:

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Property, plant and equipment	2,936	3,315
Intangible assets	76,446	68,569
Total	79,382	71,884

Commitments in place to purchase intangible assets are mainly related to purchase of rights on contracts signed with third parties regarding introduction of technology. These contracts have terms related to payment achievement of a development milestone depend upon the progress of development, in addition to the lump-sum payment executed upon signing the contract. The above amount is pre-discounted amount, and includes all potential payments for milestones, assuming that all products in process would be successful, without adjustments made on success probability. Because it is highly uncertain whether a milestone will be achieved, actual payments may be significantly different from these commitment amounts.

32. Subsidiaries and Associates

(1) The significant subsidiaries and associates

The significant subsidiaries and associates of the Group as of March 31, 2023 are as follows:

Major Consolidated Subsidiaries

Name	Location	Amount of Stated Capital	Principal Businesses (Operating Segment)	Ratio of Voting Rights
Sumitomo Pharma America Holdings, Inc. (Note)	Marlborough, MA, U.S.	$1 thousand	Holding company Shared service for general management operations (North America)	100%
Sunovion Pharmaceuticals Inc.	Marlborough, MA, U.S.	$0 thousand	Manufacturing and sales of pharmaceuticals (North America)	100%
Sumitomo Pharma Oncology, Inc.	Cambridge, MA, U.S.	$0 thousand	R&D in the oncology area (North America)	100%
Sumitovant Biopharma Ltd.	London, U.K.	$2 thousand	Holding company Management of Sumitovant group companies, and formulation and promotion of business strategies, etc. (North America)	100%
Myovant Sciences Ltd.	London, U.K.	$2 thousand	Manufacturing and sales of pharmaceuticals in the women's health and prostate cancer area (North America)	100%
Urovant Sciences, Inc.	Irvine, CA, U.S.	$0 thousand	Manufacturing and sales of pharmaceuticals in the urology area (North America)	100%
Enzyvant Therapeutics, Inc.	Cary, NC, U.S.	$0 thousand	Manufacturing and sales of pharmaceuticals in the pediatric and respiratory rare diseases area (North America)	100%
Spirovant Sciences Inc.	Philadelphia, PA, U.S.	$0 thousand	R&D in the cystic fibrosis gene therapy area (North America)	100%
Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.	Suzhou, Jiangsu, China	$35,000 thousand	Manufacturing and sales of pharmaceuticals (China)	100%
Sumitomo Pharma Animal Health Co., Ltd.	Chuo-ku, Osaka	¥200 million	Manufacturing and sales of veterinary medicines, etc. (Other Business)	100%
Sumitomo Pharma Promo Co., Ltd.	Suita, Osaka	¥480 million	Manufacturing and sales of pharmaceuticals, etc. (Japan)	100%

(2) Subsidiaries with significant non-controlling interests

The summarized financial information for the subsidiaries that the Company recognizes significant non-controlling interest are as follows:

Myovant became a wholly owned subsidiary of the Group during the year ended March 31, 2023. Cumulative equity and summary financial information for the year ended March 31, 2023, are not provided. Since there were no significant non-controlling interests as of March 31, 2023.

Myovant Sciences Ltd.

1. Non-controlling interests ratio and accumulated amount of non-controlling interests

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Non-controlling interests ratio	47.3%	—
Accumulated amount of non-controlling interests	65,650	—

2. Net profit or loss allocated to non-controlling interests and dividends paid to non-controlling interests

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Net profit or loss allocated to non-controlling interests	(15,819)	(22,204)
Dividends paid to non-controlling interests	—	—

3. Summarized financial information

(i) Summary of Consolidated Statement of Profit or Loss and Summary of Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Revenue	25,961	—
Net profit (loss)	(33,789)	—
Comprehensive income (loss)	(33,789)	—

(ii) Summary of Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2022	As of March 31, 2023
Non-current assets	208,350	—
Current assets	59,754	—
Total assets	268,104	—
Non-current liabilities	108,931	—
Current liabilities	30,708	—
Total liabilities	139,638	—
Total equity	128,466	—
Total liabilities and equity	268,104	—

(iii) Summary of Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Net cash flows from operating activities	(30,186)	—
Net cash flows from investing activities	(2,026)	—
Net cash flows from financing activities	2,912	—
Effect of exchange rate changes on cash and cash equivalents	—	—
Net increase (decrease) in cash and cash equivalents	(23,983)	—
Cash and cash equivalents at end of year	51,021	—

(Note) Net increase (decrease) in cash and cash equivalents includes foreign currency translation differences arising from translating local currencies into Japanese yen for the years ended March 31, 2022. The summarized financial information for the year ended March 31, 2023 is not presented because there are no subsidiaries that the Company has significant non-controlling interests.

(3) Decrease arising from sales of shares in subsidiaries

Sumitomo Pharma Food & Chemical Co., Ltd.

The details of assets and liabilities of subsidiaries at the date when control was lost and reconciliation between consideration received and proceeds from loss of control of subsidiaries are as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Assets at the date when control was lost		
Current assets	—	24,569
Non-current assets	—	4,543
Liabilities at the date when control was lost		
Current liabilities	—	18,395
Non-current liabilities	—	602

	Year ended March 31, 2022	Year ended March 31, 2023
Consideration received	—	34,472
Cash and cash equivalents of subsidiaries at the date when control was lost	—	4,300
(Balance) Proceeds from loss of control of subsidiaries	—	30,172

33. Related Parties

(1) Parent company

Sumitomo Chemical Company, Limited is the parent company of the Group.

(2) Related party transactions

Transactions and balances with the parent company are as follows:

(Millions of yen)

Type	Company name	Description of transaction	Year ended March 31, 2022		Year ended March 31, 2023	
			Transaction amount	Outstanding balance	Transaction amount	Outstanding balance
Parent company	Sumitomo Chemical Company, Limited	Lending and collection of funds	(1,133)	27,241	(15,684)	10,000

Related party transactions are under general terms and conditions that are the same as those of transactions with a third party. Outstanding balances are not secured by any collateral, and are settled by cash. There is no allowance for doubtful accounts on the outstanding balances.

(3) Remuneration of key management personnel

Remuneration of key management personnel is as follows:

(Millions of yen)

	Year ended March 31, 2022	Year ended March 31, 2023
Basic remuneration and bonus	481	419

34. Acquisition of Non-Controlling Interests

(Changes in parent company's ownership interest due to acquisition of non-controlling interests)

The Group acquired 1.5% of the shares of Myovant to strengthen the relationship between the Group and Myovant additionally for the year ended March 31, 2022. As a result, capital surplus was decreased by ¥1,772 million.

To provide Myovant optimal support in maximizing the value of ORGOVYX® (therapeutic agent for advanced prostate cancer) and MYFEMBREE® (therapeutic agent for uterine fibroids and endometriosis), the Group acquired all of the shares of Myovant, which then became a wholly owned subsidiary of the Group for the year ended March 31, 2023. As a result, capital surplus was decreased by ¥161,086 million. Transaction costs incurred from making Myovant become a wholly owned subsidiary was ¥9,618 million, which is deducted from capital surplus.

35. Joint Development and Joint Sales

The Group has entered into a development and commercialization agreement related to the Group's developed products and finished goods with its alliance partner.

(1) Joint development and joint sales with Pfizer Inc.

On December 26, 2020, Myovant and Pfizer Inc. have entered into a joint development and joint sales agreement on relugolix in oncology and women's health in the U.S. and Canada.

Based on this agreement, Myovant recognizes sales revenue of relugolix monotherapy tablet and relugolix combination tablet (hereinafter, "combination tablet"), and Myovant and Pfizer Inc. will equally share profits and certain expenses necessary for development and sales.

As considerations of this agreement, Myovant received $650 million (¥67,353 million) as upfront payment and $200 million (¥24,179 million) as regulatory milestones for U.S. Food and Drug Administration approvals for relugolix combination tablet in women's health from Pfizer Inc. Also, Myovant will receive at a maximum of $4,200 million (¥540,901 million) and tiered sales milestones upon reaching certain thresholds up to $2,500 million in net sales of relugolix for prostate cancer and also for women's uterine fibroids and endometriosis.

After this alliance, the Group recognizes sales revenue and cost of sales related to the sale of relugolix. In addition to selling, general and administrative expenses, and research and development expenses related to relugolix incurred in the Group, the Group recognizes expenses paid to Pfizer Inc. for equally sharing profits in cost of sales, selling, general and administrative expenses, and research and development expenses according to the nature as well.

The Group received $100 million (¥10,875 million) as accomplishment of milestone at the time of obtaining approvals of relugolix combination tablet for indication of uterine fibroids in U.S. in the year ended March 31, 2022 and recognized this payment as other liabilities and subsequently recognized as revenue for consideration related to joint development being included in aforementioned upfront payment.

The Group received $100 million (¥13,304 million) as accomplishment of milestone at the time of obtaining approvals of relugolix combination tablet for indication of endometriosis in U.S. in the year ended March 31, 2023 and recognized this payment as other liabilities and subsequently recognized as revenue for consideration related to joint development being included in aforementioned upfront payment.

(2) Joint development and joint sales with Otsuka Pharmaceutical Co., Ltd.

On September 30, 2021, the Company, Sunovion Pharmaceuticals Inc. (hereinafter, “Sunovion”) and Otsuka Pharmaceutical Co., Ltd. entered into a collaboration and license agreement for worldwide joint development and commercialization of four novel compounds (SEP-363856 (ulotaront), SEP-4199, SEP-378614, SEP-380135, hereinafter referred to as the “four compounds”) currently under development in psychiatry and neurology area by the Company and Sunovion.

Under the terms and conditions of this agreement, Sunovion grants Otsuka Pharmaceutical Co., Ltd. rights to jointly develop and commercialize the four compounds worldwide. The Group (the Company, Sunovion, Sumitomo Pharma (Suzhou) Co., Ltd. and Sumitomo Pharma Asia Pacific Pte. Ltd.) and Otsuka Pharmaceutical Co., Ltd. will pursue joint development of these compounds. With regard to commercialization, the Group will record sales in the United States, Canada, Japan and Asia (China, Taiwan, Singapore, Thailand, Vietnam and Malaysia) and Otsuka Pharmaceutical Co., Ltd. will record sales in 41 other countries and regions including Europe. The Group and Otsuka Pharmaceutical Co., Ltd. plan to co-promote the four compounds jointly in principle in each of these countries and regions. Sunovion and Otsuka Pharmaceuticals Co., Ltd. will equally share expenses and profits involved in clinical studies, applications for approval, and commercialization in each of these countries and regions under the agreement.

Upon the completion of this agreement, the Group received $270 million (¥30,227 million) as a lump-sum upfront payment from Otsuka Pharmaceuticals Co., Ltd. and also will receive $620 million (¥83,167 million) as development milestone payments for the four compounds, and potentially more depending on the number of additional indications obtained for them. The Group will potentially receive sales milestone payments from Otsuka Pharmaceuticals Co., Ltd as well.

The Group received $270 million (¥30,227 million) as a lump-sum upfront payment due to the completion of this agreement from Otsuka Pharmaceuticals Co., Ltd. and recognized the entirety of this payment as revenue in the year ended March 31, 2022.

36. Subsequent Events

There are no significant subsequent events.

Independent Auditor's Report

To the Board of Directors of Sumitomo Pharma Co., Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Pharma Co., Ltd. and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of profit or loss, statement of comprehensive income, statement of financial position, statement of changes in equity and statement of cash flows for the year then ended March 31, 2023, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (hereinafter referred to as "IFRS").

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of 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.

Reasonableness of the estimate of the recoverable amount used for the impairment testing on goodwill allocated to the oncology area in North America	
The key audit matter	**How the matter was addressed in our audit**
As described in Note 14. "Goodwill" to the consolidated financial statements, Sumitomo Pharma Co., Ltd. and its subsidiaries (hereinafter, collectively referred to as the "Group") recognized goodwill of ¥25,763 million in the consolidated statement of financial position, which was allocated to the oncology area, a cash generating unit included within the North America segment of the pharmaceutical business (hereinafter, the "oncology area in North America"). The goodwill, representing 2.3% of the total assets in the consolidated financial statements, arose when the Group acquired control of Boston Biomedical, Inc. and Tolero Pharmaceuticals, Inc. The Group presents its consolidated financial	In order to assess whether the estimate of the recoverable amount used for the impairment testing on goodwill allocated to the oncology area in North America was reasonable, we performed the following procedures, including the component auditors of Sumitomo Pharma America Holdings, Inc. (hereinafter, "SMPA"), a consolidated subsidiary that oversees the oncology area in North America, performed. We requested to the component auditors to perform an audit and evaluated the report of the component auditors and concluded on whether sufficient and appropriate audit evidence was obtained from the following procedures, among others: (1) Internal control testing

statements in accordance with International Financial Reporting Standards (IFRS). Goodwill is tested for impairment annually or whenever there is an impairment indicator. In the impairment testing, when the recoverable amount is less than the carrying amount, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss. As described in Note 14. "Goodwill" to the consolidated financial statements, impairment losses amounting to ¥3,523 million were recognized on goodwill allocated to the oncology area in North America as a result of the impairment testing for the fiscal year ended March 31, 2023. In the current fiscal year, the Group used the fair value less costs of disposal as the recoverable amount in the impairment testing on goodwill allocated to the oncology area in North America. The future cash flows used for measuring the fair value less costs of disposal were estimated based on the business plan of the oncology area in North America prepared by management. Key assumptions underlying the projected revenue from new medicines currently being developed in the oncology area in North America, such as the planned launch schedules, the probability of success of R&D activities and selling prices, among others, as well as the projected reduction of fixed costs, involved a high degree of estimation uncertainty. Accordingly, management judgement thereon had a significant effect on the estimated future cash flows. Moreover, selecting the appropriate calculation method and input data for estimating the discount rate used to measure the fair value less costs of disposal required a high degree of expertise in valuation. We, therefore, determined that the reasonableness of the estimate of the recoverable amount used for the impairment testing on goodwill allocated to the oncology area in North America was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	Testing the design and operating effectiveness of certain internal controls relevant to measuring the fair value less costs of disposal used for the impairment testing on goodwill allocated to the oncology area in North America with a particular focus on controls relevant to estimating the future cash flows. (2) Assessment of the reasonableness of the estimated fair value less costs of disposal Inquiry of management and the personnel responsible for the oncology area in North America about the rationale for key assumptions adopted in developing the business plan of the oncology area in North America that formed the basis for the estimated future cash flows; in addition to the assessment of the reasonableness of the estimated fair value less costs of disposal by performing the following procedures: ● compared the business plan that formed the basis for estimating the future cash flows with the business plan approved by management, for consistency; ● compared key assumptions underlying the projected revenue from new medicines currently being developed, such as the planned launch schedules, the probability of success of R&D activities, and selling prices, with information obtained from external professional research organizations; ● compared the management's point estimate associated with the projected reduction of fixed costs with the point estimate used alternative assumptions, inspecting the relevant documents and comparing with historical results; ● compared key assumptions used for accounting estimates in the current fiscal year with those in the previous fiscal year to examine whether the reasons for changes in assumptions made during the current fiscal year were appropriate in view of the current year circumstances; and ● involved valuation specialists who assisted in the assessment of the reasonableness of the discount rate by comparing it with a rate independently estimated by the specialists using external information.

Reasonableness of the estimate of reserves for sale rebates under the Medicaid program that cover major products of SMPA within the North America segment of the pharmaceutical business	
The key audit matter	**How the matter was addressed in our audit**
In the consolidated statement of financial position for the current fiscal year, the Group recognized reserves	In order to assess the reasonableness of the estimate of reserves for sales rebates under the Medicaid

for sales rebates of ¥78,822million related to SMPA, a consolidated subsidiary within the North America segment of the pharmaceutical business, which represented 6.9% of the total assets. As described in Note 25. "Provisions" to the consolidated financial statements, the Group recognizes reserves for sales rebates at an estimated amount to be paid for sales rebates related to public programs, and wholesale and other contracts. Sales rebates related to various insurance programs (including Medicaid) that cover major products sold in the U.S. are material revenue adjustment items in terms of amount. As the length of time until the settlement can be as long as one year, it takes a long time period to fix the amount. In addition, the rebate rates used as the basis for calculating sales rebates differ depending on distribution channel (wholesalers, pharmacies, and hospitals) and insurance programs. To estimate reserves for sales rebates, the ultimate distribution channel and the insurance program to be applied are required to be estimated. Accordingly, management judgment thereon had a significant effect on the estimate of reserves for sales rebates. We, therefore, determined that the reasonableness of the estimate of reserves for sales rebates under the Medicaid program that cover major products of SMPA within the North America segment of the pharmaceutical business was one of the most significant in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	program that cover major products of SMPA within the North America segment of the pharmaceutical business, we requested the component auditors of SMPA to perform an audit and evaluated the report of the component auditors and concluded on whether sufficient and appropriate audit evidence was obtained from the following procedures among others: (1) Internal control testing Testing the design and operating effectiveness of certain internal controls relevant to calculating reserves for sales rebates related to insurance programs including Medicaid for the major products of SMPA. (2) Assessment of the reasonableness of the estimate of reserves for sales rebates under the Medicaid program that cover major products of SMPA Assessment of the reasonableness of the estimate of reserves for sales rebates by performing the following procedures: ● assessed the accuracy of the estimate by comparing the reserves for sales rebates recognized in the past years with actual amounts paid; ● assessed the reasonableness of the estimated quantity of units sold within each distribution channel for each major product considering external information provided by wholesalers and others; and ● involved government pricing specialists who assisted in examining whether the method of calculating sales rebate rates was based on the programs effective at the time of estimation.

Other Information

The other information comprises the information included in the "Consolidated Financial Statements", but does not include the consolidated financial statements and our auditor's report thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Audit & Supervisory Board Members and 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 IFRS, 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 IFRS 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 Audit & Supervisory Board are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of 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 our audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express 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 presentation and disclosures in the consolidated financial statements are in accordance with IFRS, 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 Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board Members and 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 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

We 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.

Daisuke Harada
Designated Engagement Partner
Certified Public Accountant

Hiroyuki Matano
Designated Engagement Partner
Certified Public Accountant

Masato Tateishi
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
June 21, 2023

Notes to the Reader of Independent Auditor's Report:
This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.