Consolidated Financial Statements

Sumitomo Pharma Co., Ltd.

Years ended March 31, 2024 and 2023

Consolidated Statement of Profit or Loss

Year Ended March 31, 2024 and 2023

(Millions of yen)

	Note	Year ended March 31, 2023	Year ended March 31, 2024
Revenue	4,5	555,544	314,558
Cost of sales		178,919	126,577
Gross profit		376,625	187,981
Selling, general and administrative expenses	6	373,316	429,538
Research and development expenses		131,858	112,637
Other income	7	53,256	7,467
Other expenses	8	1,686	8,132
Operating profit (loss)		(76,979)	(354,859)
Finance income	9	32,218	36,022
Finance costs	9	3,159	4,277
Profit (loss) before taxes		(47,920)	(323,114)
Income tax expenses	10	48,794	(8,185)
Net profit (loss)		(96,714)	(314,929)
Net profit (loss) attributable to:			
Owners of the parent		(74,512)	(314,969)
Non-controlling interests		(22,202)	40
Net profit (loss) total		(96,714)	(314,929)
Earnings per share (yen)			
Basic earnings (loss) per share	11	(187.55)	(792.79)

Consolidated Statement of Comprehensive Income

Year Ended March 31, 2024 and 2023

(Millions of yen)

	Note	Year ended March 31, 2023	Year ended March 31, 2024
Net profit (loss)		(96,714)	(314,929)
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of financial assets measured at fair value through other comprehensive income	12	18,334	36,488
Remeasurements of defined benefit liability / asset	12	3,553	3,424
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations	12	39,850	24,672
Cash flow hedges	12	(108)	—
Total other comprehensive income		61,629	64,584
Total comprehensive income		(35,085)	(250,345)
Total comprehensive income attributable to:			
Owners of the parent		(19,909)	(250,385)
Non-controlling interests		(15,176)	40
Total comprehensive income		(35,085)	(250,345)

Consolidated Statement of Financial Position

As of March 31, 2024 and 2023

(Millions of yen)

	Note	As of March 31, 2023	As of March 31, 2024
Assets			
Non-current assets			
Property, plant and equipment	13,16	58,909	57,895
Goodwill	14	209,415	199,783
Intangible assets	15	329,314	195,652
Other financial assets	17,30	134,007	161,711
Income taxes receivables		6,042	6,846
Retirement benefit assets	27	—	11,322
Other non-current assets		4,350	2,489
Deferred tax assets	10	10,845	2,239
Total non-current assets		752,882	637,937
Current assets			
Inventories	18	94,405	115,350
Trade and other receivables	19,30	95,908	81,023
Other financial assets	17,30	20,174	7,085
Income taxes receivables		2,722	16,216
Other current assets		17,675	18,997
Cash and cash equivalents	20	143,478	29,047
Subtotal		374,362	267,718
Assets held for sale	21	7,498	1,851
Total current assets		381,860	269,569
Total assets		1,134,742	907,506

(Millions of yen)

	Note	As of March 31, 2023	As of March 31, 2024
Liabilities and equity			
Liabilities			
Non-current liabilities			
Bonds and Borrowings	22,30	244,128	133,367
Other financial liabilities	16,24,30	11,869	12,738
Retirement benefit liabilities	27	5,008	11,150
Other non-current liabilities	26	57,756	40,430
Deferred tax liabilities	10	36,505	38,211
Total non-current liabilities		355,266	235,896
Current liabilities			
Borrowings	22,30	90,588	285,517
Trade and other payables	23,30	52,141	67,720
Other financial liabilities	16,24,30	7,010	14,101
Income taxes payable		24,053	1,348
Provisions	25	119,083	79,546
Other current liabilities	26	78,013	67,242
Subtotal		370,888	515,474
Liabilities directly associated with assets held for sale	21	1,806	—
Total current liabilities		372,694	515,474
Total liabilities		727,960	751,370
Equity			
Share capital	29	22,400	22,400
Treasury shares	29	(682)	(682)
Retained earnings	29	280,999	(22,665)
Other components of equity	29	103,357	157,010
Other comprehensive income associated with assets held for sale		675	—
Equity attributable to owners of the parent		406,749	156,063
Non-controlling interests		33	73
Total equity		406,782	156,136
Total liabilities and equity		1,134,742	907,506

Consolidated Statement of Changes in Equity

Year Ended March 31, 2024 and 2023

(Millions of yen)

	Note	Equity attributable to owners of the parent					
						Other components of equity	
		Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit liability / asset
Balance as of April 1, 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	—
Net profit (loss)		—	—	—	(314,969)	—	—
Other comprehensive income	12	—	—	—	—	36,488	3,424
Total comprehensive income		—	—	—	(314,969)	36,488	3,424
Purchase of treasury shares	29	—	—	(0)	—	—	—
Dividends	29	—	—	—	(2,781)	—	—
Changes associated with losing control of subsidiaries		—	—	—	(560)	—	—
Transactions with non-controlling interests		—	—	—	—	—	—
Reclassification from other components of equity to retained earnings		—	—	—	14,646	(11,222)	(3,424)
Transfer to other comprehensive income associated with assets held for sale		—	—	—	—	—	—
Transfer of negative balance of other capital surplus		—	—	—	—	—	—
Total transactions with owners		—	—	(0)	11,305	(11,222)	(3,424)
Balance as of March 31, 2024		22,400	—	(682)	(22,665)	64,526	—

(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, 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
Net profit (loss)		—	—	—	—	(314,969)	40	(314,929)
Other comprehensive income	12	24,672	—	64,584	—	64,584	—	64,584
Total comprehensive income		24,672	—	64,584	—	(250,385)	40	(250,345)
Purchase of treasury shares	29	—	—	—	—	(0)	—	(0)
Dividends	29	—	—	—	—	(2,781)	—	(2,781)
Changes associated with losing control of subsidiaries		3,715	—	3,715	(675)	2,480	—	2,480
Transactions with non-controlling interests		—	—	—	—	—	—	—
Reclassification from other components of equity to retained earnings		—	—	(14,646)	—	—	—	—
Transfer to other comprehensive income associated with assets held for sale		—	—	—	—	—	—	—
Transfer of negative balance of other capital surplus		—	—	—	—	—	—	—
Total transactions with owners		3,715	—	(10,931)	(675)	(301)	—	(301)
Balance as of March 31, 2024		92,484	—	157,010	—	156,063	73	156,136

Consolidated Statement of Cash Flows

Year Ended March 31, 2024 and 2023

(Millions of yen)

	Note	Year ended March 31, 2023	Year ended March 31, 2024
Cash flows from operating activities			
Net profit (loss)		(96,714)	(314,929)
Depreciation and amortization		41,263	37,765
Impairment losses		88,167	180,857
Changes in fair value of contingent consideration		(3,388)	1,562
Loss (gain) on sales of shares in subsidiaries		(24,735)	(5,890)
Loss (gain) on sales of intangible assets		(11,979)	—
Interest and dividend income		(5,486)	(2,839)
Interest expenses		2,640	3,893
Income tax expenses		48,794	(8,185)
(Increase) decrease in trade and other receivables		51,218	23,390
(Increase) decrease in inventories		4,560	(11,795)
Increase (decrease) in trade and other payables		5,318	5,645
Increase (decrease) in unearned revenue		(5,035)	(17,239)
Increase (decrease) in other financial liabilities		(4,731)	6,409
Increase or decrease in retirement benefit assets or liabilities		(5,435)	(5,217)
Increase (decrease) in provisions		(11,017)	(52,908)
Others, net		(39,113)	(44,132)
Subtotal		34,327	(203,613)
Interest received		4,510	2,030
Dividends received		974	1,019
Interest paid		(2,424)	(3,734)
Income taxes paid		(25,450)	(37,595)
Net cash provided by (used in) operating activities		11,937	(241,893)

Cash flows from investing activities			
Purchase of property, plant and equipment		(8,467)	(10,771)
Proceeds from sales of property, plant and equipment		1,322	434
Purchase of intangible assets		(4,275)	(4,959)
Proceeds from sales of intangible assets		12,115	—
Purchase of investments		(6,247)	(4,772)
Proceeds from sales and redemption of investments		10,068	34,499
Net decrease (increase) in short-term loan receivables		15,684	10,000
Proceeds from loss of control of subsidiaries		30,172	11,074
Expenditure from loss of control of subsidiaries		—	(2,469)
Others, net		2,047	—
Net cash provided by (used in) investing activities		52,419	33,036
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	22	85,559	84,000
Repayments of long-term borrowings	22	(20,060)	—
Repayments of finance lease liabilities	22	(3,755)	(4,016)
Dividends paid		(11,125)	(2,792)
Payments for acquisition of interest in a subsidiary from non-controlling interests		(198,409)	—
Others, net		973	659
Net cash provided by (used in) financing activities		(146,817)	77,851
Net increase (decrease) in cash and cash equivalents		(82,461)	(131,006)
Cash and cash equivalents at beginning of year	20	202,984	143,478
Effect of exchange rate changes on cash and cash equivalents		24,090	15,440
Cash and cash equivalents at end of year	20	144,613	27,912
Increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale		(1,135)	1,135
Cash and cash equivalents at end of year (Consolidated Statement of Financial Position)		143,478	29,047

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, 2024. The Company’s Consolidated Financial Statements comprise the Company, its subsidiaries (the “Group”) and its interests in associates. The Group is primarily involved in pharmaceutical business. The details of the main business are stated in Note 4 Operating Segments. The registered address of the Company’s Head Office and main places of business are described 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 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 25, 2024 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 stated in Note 3 Material 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, revenue and expenses. However, due to 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, 2024.

The information of main accounting estimates, judgments, and assumptions that could materially affect the amount reported in the consolidated financial statements are summarized as follows:

・ Impairment of goodwill and intangible assets (Note 14 and 15)

・ Provisions (Note 25)

・ Recoverability of deferred tax assets (Note 10)

(5) Changes in Material Accounting Policies

The Group has applied the amendment to IAS 12 “Income Taxes” (Deferred tax related to assets and liabilities arising from a single transaction) from the beginning of the year ended March 31, 2024. The application of the amendments to IAS 12 does not have a material impact on the Group’s consolidated financial statements.

(6) Changes in Presentation

(Consolidated Statement of Cash Flows)

“Loss (gain) on sales of property, plant and equipment”, which was presented separately under “Cash flows from operating activities” in the year ended March 31, 2023, is included in “Others, net” in the year ended March 31, 2024, due to the decrease 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, 2023.

As a result, “Loss (gain) on sales of property, plant and equipment” under “Cash flows from operating activities” in the year ended March 31, 2023 amounting to (¥338 million) was reclassified into “Others, net”.

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

Among the new or revised Standards and Interpretations issued by the date of approval of the consolidated financial statements by the Group as of March 31, 2024, the main ones that the Group has not applied early during the year ended March 31, 2024 are as follows: The impact of the application of new IFRS on the Group is currently under consideration and cannot be estimated at this time.

Standards	Name of standards	Effective date (From the year beginning)	To be applied by the Group	Description of new standards and amendments
IFRS 7 IFRS 9	Amendments to the Classification and Measurement of Financial Instruments	January 1, 2026	The year ended March 31, 2027	・ Clarifying the classification of financial assets with environmental, social and corporate governance (ESG) and similar features ・ Clarifying the date of derecognition of financial liabilities settled through electronic payment systems ・ Amendments to disclosures for investments in equity instruments designated at fair value through other comprehensive income and financial instruments with contingent features
IFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027	The year ended March 31, 2028	・ Improved comparability in the statement of profit or loss (income statement) ・ Enhanced transparency of management-defined performance measures ・ More useful grouping of information in the financial statements

(8) Early application of the new standard

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

3. Material Accounting Policies

The material 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 (investee) 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 obtains controls of the investees and excludes them from the scope of consolidation from the date when the Group loses controls of 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 intragroup balances and transactions, and unrealized gains and losses arising from intragroup 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 dates of associates accounted for using the equity method are different from that of the Group, the financial statements of the 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 the acquisition-date fair value. The fair value of all the assets and liabilities arising from the contingent consideration contract is included in the consideration transferred.

Goodwill is measured at an 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.

Business combination under common control, in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, is accounted for based on the book values.

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, revenue, 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 rates at the dates of the transactions or at the foreign exchange rates that approximates the spot exchange rates at the dates of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency using the exchange rates 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 dates when the fair values were measured.

Exchange differences arising from foreign currency translations and settlements are recognized in 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 rates 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 those exchange differences is recognized as other components of equity in the Consolidated Statement of Financial Position.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation is recognized as a part of disposal gains or losses.

(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 parties.

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

Royalty income is a consideration on a 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 four 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 development and commercialization agreements related to the Group's products under development and marketed products 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, being 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 stated in Note 35. Joint Development and Joint Sales.

(5) Income taxes

Income taxes are presented as an aggregate amount of current taxes and deferred taxes, and recognized in 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 as an amount expected to be paid to or recovered from taxation authorities by applying statutory tax rates and tax laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are recognized for temporary differences arising from differences 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 differences arising from initial recognition of goodwill;

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

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

Deferred tax assets are recognized for deductible temporary differences, carryforwards of unused tax losses and carryforwards 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 assets are realized or the liabilities are 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 the income taxes are levied by the same taxation authority on the same taxable entity.

(6) Earnings per share

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 potential shares that have an antidilutive effect, those potential shares are not included in the calculation of diluted earnings per share.

(7) Property, plant and equipment

The cost model is applied for measurement of property, plant and equipment after initial recognition. Property, plant and equipment are presented at acquisition cost less accumulated depreciation and accumulated impairment losses.

The acquisition costs include 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 are depreciated by using straight-line method over each asset's useful life. Depreciation of each 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 vehicles	2~17 years
・ Tools, furniture and fixtures	2~20 years
・ Right-of-use assets	The shorter of the estimated useful lives or lease terms

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

(8) Leases

The Group assesses whether a 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 a right-of-use asset and a lease liability at the commencement date of the lease.

(1) Right-of-use assets

Right-of-use asset is measured at acquisition cost. The acquisition 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 the 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 assets are presented at acquisition 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 initial recognition, the lease liability is measured by increasing the carrying amount to reflect interest on the lease liability using the effective interest method, and reducing the carrying amount to reflect the lease payments made. The lease liability is included in other financial liabilities in the Consolidated Statement of Financial Position.

Lease payments are allocated between finance costs that are the result of application of 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 presented at initially recognized cost less any accumulated impairment losses.

Goodwill is not amortized and is allocated to cash-generating units or groups 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 individually or acquired in a business combination.

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

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

Research expenditures of internal projects are recognized as expenses when they are incurred. Development expenditures of internal projects 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 those expenditures are considered not meeting the criteria for recognition of intangible assets due to the uncertainties related to the length of development period and the development itself.

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 each 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

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

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 is reclassified to intangible assets related to products when marketing approval from regulatory authorities is obtained and are amortized over the estimated useful life from marketing approval.

(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 intangible assets 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 or its value in use. The estimated future cash flows are measured by applying discount 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 groups 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 previous periods for assets other than goodwill may exist. Impairment loss recognized in previous periods for assets other than goodwill is reversed if there has been change in the estimates used to determine the assets' recoverable amounts.

Reversal of an impairment loss does not exceed the carrying amount (net of amortization or depreciation) if no impairment loss had been recognized for the asset in previous periods.

(12) Financial instruments

1. Financial assets

(i) Initial recognition and measurement

The Group initially recognizes financial assets on transaction dates and classifies them as financial assets measured at amortized cost or 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 financial 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) Debt financial instruments measured at fair value through other comprehensive income

After the initial recognition, debt financial instruments measured at fair value through other comprehensive income are measured at fair value, and interest income measured by using effective interest method, exchange gains and losses, and impairment losses are recognized in profit or loss.

Other gains and losses arising from the changes of fair value are recognized in other comprehensive income and the cumulative amount recognized in other comprehensive income are reclassified to profit or loss as reclassification adjustments when the financial assets are derecognized.

(d) Equity financial instruments measured at fair value through other comprehensive income

Equity financial instruments 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 the equity financial instruments are derecognized or when the fair value of the equity financial instruments declines significantly. However, dividends are recognized in profit or loss.

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

(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 individual financial asset measured at amortized cost at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If not, the Group estimates expected credit losses for the 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 for trade receivables etc., at an amount equal to lifetime expected credit losses by group with similar characteristics.

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 owns derivatives to hedge foreign currency risk exposures. The derivatives used by the Group are foreign currency forward contracts. However, the Group does not own 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 changes in fair value are 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 the 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 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 hedging relationship meets the hedge effectiveness requirements. 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 change in fair value or cash flow 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 flow of hedged item affect profit or loss. If a hedged forecast 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 is 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 and raw materials and supplies.

Inventories are measured at the lower of acquisition cost and net realizable value. Acquisition 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 estimated selling price in the ordinary course of business, less estimated costs of completion and costs 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

Present value of the defined benefit obligations arising from 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.

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. Net defined benefit liability (asset) is calculated by deducting the fair value of the plan assets from the present value of the defined benefit obligation. If the defined benefit plan has a surplus, the net defined benefit assets is limited to the present value of any future economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. Service cost and net interest on the net defined benefit liability (asset) is recognized as post-retirement benefit expense in profit or loss. Remeasurement of the net defined benefit liability (asset) is recognized in other comprehensive income and immediately reclassified to retained earnings in the period in which they occur.

(ii) Defined contribution plan

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 when the service is rendered by employee.

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 expenses on an undiscounted basis at the time when the services are rendered by employees.

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

(16) Share-based payments

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

In the equity-settled share-based payment, the service received is measured at the fair value of the equity instrument at the date of grant. The fair value of the equity instrument 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 an 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. A 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 recognized when there is reasonable assurance that the grants will be received and the Group will comply with the conditions attaching to the grants, and are measured at fair value.

Government grants related to assets are deducted from acquisition costs of the assets and are recognized in profit or loss over the useful life of the depreciable asset as reduced depreciation expenses. Also, government grants related to income are recognized in profit or loss on a systematic basis over the periods in which the Group recognizes the related costs as expenses 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 issuance are recognized as a deduction (after tax effect) 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, difference between the carrying amount and the consideration received is recognized in capital surplus.

4. Operating Segments

The Group has set an original performance indicator to show the Group's recurring profitability in the form of "core operating profit."

"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors designated by the Group. Main non-recurring items are impairment losses, business structure improvement expenses and changes in fair value of contingent consideration related to company acquisitions.

(1) Reportable segments

The Group is mainly engaged in manufacture, purchase and sales of pharmaceuticals for medical treatment and manages the performance by market in Japan, North America, and Asia. Therefore, the Group has three reportable segments: Japan, North America, and Asia.

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) Changes in Reportable Segments

Formerly, the Group set four reportable segments such as Japan, North America, China, and Other Regions. In accordance with the formulation of the Mid-term Business Plan 2027, its reportable segments have been changed to three, which are Japan, North America, and Asia, to show its business situation properly from the year ended March 31, 2024. The segment information for the year ended March 31, 2023 has been prepared based on the changed reportable segments.

(3) Revenue and operating results of the reportable segments

Revenue, 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 Material Accounting Policies.

The Group sets core segment profit, which is an indicator showing each segment's recurring profitability, as its own indicator of segment business performance management.

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

1. Year ended March 31, 2023

(Millions of yen)

	Reportable segments			
	Japan	North America	Asia	Total
Revenue from external customers, etc.	183,624	328,467	43,453	555,544
Segment profit (Core segment profit)	19,532	32,249	21,446	73,227
Other items				
Depreciation and amortization	6,673	29,273	1,066	37,012
Impairment losses (Note)	31	88,136	—	88,167

(Note) Impairment losses are described in Note 13. Property, Plant and Equipment, Note 14. Goodwill and Note 15. Intangible Assets.

2. Year ended March 31, 2024

(Millions of yen)

	Reportable segments			
	Japan	North America	Asia	Subtotal
Revenue from external customers, etc.	114,657	159,037	40,864	314,558
Segment profit (Core segment profit)	13,360	(80,218)	18,402	(48,456)
Other items				
Depreciation and amortization	6,055	27,178	1,203	34,436
Impairment losses (Note)	3,787	177,070	—	180,857

(Note) Impairment losses are described in Note 13. Property, Plant and Equipment, Note 14. Goodwill and Note 15. Intangible Assets.

(4) 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)

Profit	Year ended March 31, 2023	Year ended March 31, 2024
Total of reportable segments	73,227	(48,456)
Research and development expenses (Note 1)	(106,061)	(90,890)
Gains on business transfers	49,159	6,391
Others	39	(23)
Core operating profit	16,364	(132,978)
Change in fair value of contingent consideration	3,388	(1,562)
Impairment losses	(88,167)	(180,857)
Business structure improvement expenses (Note 2)	(12,998)	(30,122)
Other income	4,058	1,099
Other expenses	(1,686)	(8,132)
Others	2,062	(2,307)
Operating profit (loss) in the consolidated financial statements	(76,979)	(354,859)

(Note) 1. 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.

2. Business structure improvement expenses mainly comprise retirement expenses, etc. associated with the reorganization and rationalization of group companies in North America.

(Millions of yen)

Other items	Total of reportable segments		Adjustments		Amount in the consolidated financial statements	
	Year ended March 31, 2023	Year ended March 31, 2024	Year ended March 31, 2023	Year ended March 31, 2024	Year ended March 31, 2023	Year ended March 31, 2024
Depreciation and amortization	37,012	34,436	4,251	3,329	41,263	37,765

(5) Revenue

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

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Sale of goods	518,433	292,671
Revenue arising from intellectual property rights	15,131	2,746
Other	21,980	19,141
Total	555,544	314,558

(6) 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, 2023	Year ended March 31, 2024
Pharmaceuticals	510,722	313,194
Japan	138,802	113,293
Equa® and EquMet® (therapeutic agent for type 2 diabetes)	33,551	30,616
TRERIEF® (therapeutic agent for Parkinson's disease)	16,664	15,494
LATUDA® (atypical antipsychotic)	9,582	11,734
METGLUCO® (therapeutic agent for type 2 diabetes)	7,702	7,296
TWYMEEG® (therapeutic agent for type 2 diabetes)	2,219	4,562
LONASEN® Tape (atypical antipsychotic)	2,940	3,820
Authorized generic products	9,161	9,689
Others	56,983	30,082
North America	328,467	159,037
ORGOVYX® (therapeutic agent for advanced prostate cancer)	24,700	42,194
MYFEMBREE® (therapeutic agent for uterine fibroids and Endometriosis)	4,494	9,198
GEMTESA® (therapeutic agent for overactive bladder (OAB))	24,673	36,821
APTIOM® (antiepileptic)	33,720	33,970
RETHYMIC® (allogeneic cultured thymus tissue / therapeutic agent for pediatric congenital athymia)	4,438	6,315
LATUDA® (atypical antipsychotic)	198,486	6,725
Others	37,956	23,814
Asia	43,453	40,864
MEROPEN® (China) (carbapenem antibiotic)	28,530	21,261
MEROPEN® (Southeast Asia) (carbapenem antibiotic)	3,073	5,746
Others	11,850	13,857
Others (Note)	44,822	1,364
Japan	44,822	1,364
Total	555,544	314,558

（Note）Others include food ingredients, food additives, chemical product materials, veterinary drugs, etc. The decrease during the year ended March 31,2024 is due to the transfer of all shares of consolidated subsidiaries Sumitomo Pharma Food & Chemical Co., Ltd. and Sumitomo Pharma Animal Health Co., Ltd.

(7) Geographic information

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

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Japan	170,612	107,343
North America	329,089	155,183
U.S.A.in North America	325,886	152,554
Others	55,843	52,032
China in Others	39,676	33,795
Total	555,544	314,558

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, 2023	As of March 31, 2024
Japan	62,307	57,450
North America	542,997	402,007
U.S.A. in North America	542,881	401,906
Others	3,111	3,208
Total	608,415	462,665

(8) 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, 2023	Year ended March 31, 2024
McKesson Corporation	North America	101,891	44,793
Cencora, Inc. (Note)	North America	86,375	38,637
Cardinal Health, Inc.	North America	97,085	33,874

(Note) Cencora, Inc. changed its company name from AmerisourceBergen Corporation in the year ended March 31, 2024.

5. Revenue

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

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

Year ended March 31, 2023

(Millions of yen)

	Reportable segments			Total	Of which revenue from contracts with customers	Of which revenue from other sources (Note)
	Japan	North America	Asia			
Sales of goods	174,887	300,506	43,040	518,433	518,433	—
Revenue arising from intellectual property rights	6,634	8,497	—	15,131	15,131	—
Other	2,103	19,464	413	21,980	2,557	19,423
Total	183,624	328,467	43,453	555,544	536,121	19,423

(Note) 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 described in Note 35 Joint Development and Joint Sales.

Year ended March 31, 2024

(Millions of yen)

	Reportable segments			Total	Of which revenue from contracts with customers	Of which revenue from other sources (Note)
	Japan	North America	Asia			
Sales of goods	112,439	139,800	40,432	292,671	292,671	—
Revenue arising from intellectual property rights	497	2,249	—	2,746	2,746	—
Other	1,721	16,988	432	19,141	2,175	16,966
Total	114,657	159,037	40,864	314,558	297,592	16,966

(Note) 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 described 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, 2023	As of March 31, 2024
Receivables from contracts with customers		
Accounts receivable	86,405	68,818
Contract liabilities	657	1,277

Receivables from contracts with customers and contract assets are included in "Trade and other receivable" and contract liabilities are included in "Other non-current liabilities".

Contract liabilities are the considerations of lump sum payments received arising from agreements related to some technology licensing-out agreements for which the performance obligation has not yet been satisfied. Those 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, 2024, none is included in contract liability balance at the beginning of the fiscal year ended March 31, 2024. 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. Also, there are no material amounts of revenue recognized during the year ended March 31, 2023 and 2024 from performance obligations satisfied (or partially satisfied) in the previous 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 is not disclosed. Also, there are no material 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, 2023	Year ended March 31, 2024
Salaries and bonuses	108,616	83,357
Retirement benefit expenses	5,966	4,858
Advertising and promotion expenses	59,857	42,372
Depreciation and amortization	34,104	31,833
Impairment losses (Note 1)	59,126	170,261
Change in fair value of contingent consideration (Note 2)	(3,388)	1,562
Others	109,035	95,295
Total	373,316	429,538

(Note) 1. Impairment losses are described in Note 14 Goodwill and Note 15 Intangible assets.

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

7. Other Income

The details of other operating income are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Gain on sales of intangible assets (Note 1)	11,979	—
Gain on business transfers (Note 2)	12,656	501
Gain on sales of shares of subsidiaries (Note 3)	24,735	5,890
Others	3,886	1,076
Total	53,256	7,467

(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 subsidiaries were recorded due to the transfer of all the shares of Sumitomo Pharma Food & Chemical Co., Ltd., the Company's consolidated subsidiary, to MEDIPAL HOLDINGS CORPORATION during the year ended March 31, 2023.

Gains on sales of shares of subsidiaries were recorded due to the transfer of all the shares of Sumitomo Pharma Animal Health Co., Ltd., the Company's consolidated subsidiary, to Mitsui & Co., Ltd. during the year ended March 31, 2024.

8. Other Expenses

The details of other operating expenses are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Donations	629	642
Losses on transfers of shares of subsidiary (Note)	—	6,114
Others	1,057	1,376
Total	1,686	8,132

(Note) Losses on transfer of shares of subsidiary were recorded due to the transfer of all the shares of Spirovant Sciences LLC, the Company's consolidated subsidiary, to Ruagen Bio, Inc. during the year ended March 31, 2024.

9. Finance Income and Finance Costs

(1) Finance income

The details of finance income are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Interest income		
Financial assets measured at amortized cost	4,512	2,019
Dividend income		
Financial asset measured at fair value through other comprehensive income	974	820
Exchange gain (net)	26,308	32,829
Others	424	354
Total	32,218	36,022

(2) Finance costs

The details of finance costs are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Interest expenses		
Financial liabilities measured at amortized cost	2,640	3,893
Others	519	384
Total	3,159	4,277

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, 2023	As of March 31, 2024
Deferred tax assets	10,845	2,239
Deferred tax liabilities	36,505	38,211
Net deferred tax assets (liabilities)	(25,660)	(35,972)

2. Details and changes in deferred tax assets and liabilities

The details and changes of deferred tax assets and liabilities by originations are as follows:

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	3,775	(1,592)	—	190	2,373
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 profits of foreign subsidiaries	(1,396)	(270)	—	—	(1,666)
Others	(394)	1,129	—	381	1,116
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.

Year ended March 31, 2024

(Millions of yen)

	As of April 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	As of March 31, 2024
Outsourced research expenses	6,301	(4,037)	—	—	2,264
Inventories	12,519	(9,232)	—	(14)	3,273
Property, plant and equipment	2,373	(948)	—	74	1,499
Intangible assets	(46,176)	28,008	—	(4,978)	(23,146)
Other financial assets	(19,029)	—	(11,379)	—(30)	(30,438)
Accrued expenses and provisions	4,343	(2,508)	—	54	1,889
Retirement benefits	(1,186)	(688)	(1,151)	62	(2,963)
Tax loss carryforwards	14,997	(2,295)	—	1,826	14,528
Tax credits	748	(810)	—	62	—
Undistributed earnings of foreign subsidiaries	(1,666)	287	—	—	(1,379)
Others	1,116	(2,996)	—	381	(1,499)
Total	(25,660)	4,781	(12,530)	(2,563)	(35,972)

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

As described in Note 2. Basis of Preparation (5) Changes in Material Accounting Policies, the Group has applied retrospectively the amendments to IAS 12 and restated the relevant balances for the year ended March 31, 2023.

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, 2023	As of March 31, 2024
Tax loss carryforwards	63,615	103,589
Tax credit carryforwards	22,631	31,187
Deductible temporary differences	63,895	78,976

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, 2023	As of March 31, 2024
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	—	7,785
Later than 4 years	63,615	95,804
Total	63,615	103,589

(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, 2023	As of March 31, 2024
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	22,631	31,187
Total	22,631	31,187

5. Recoverability of deferred tax assets

Deferred tax assets as of March 31, 2024 is ¥ 24,867 million. Recoverability of the deferred tax assets depends upon the future taxable income and the 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 deferred tax liabilities are not recognized as of March 31, 2023 and 2024.

(2) Income Tax Expenses

1. Income tax expenses

The details of income tax expenses are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Current tax expenses	39,215	(3,404)
Deferred tax expense		
Recognition and reversal of temporary differences	3,360	(5,520)
Assessment of recoverability of deferred tax assets	6,219	739
Subtotal	9,579	(4,781)
Total	48,794	(8,185)

Income tax expenses recognized for sales and significant declines of the fair value of financial assets measured at fair value through other comprehensive income are ¥491 million (loss) for the year ended March 31, 2023 and ¥4,784 million (loss) for the year ended March 31, 2024.

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, 2023 and 2024. The normal statutory tax rate based on these taxes is 30.6% for the years ended March 31, 2023 and 2024. However, foreign subsidiaries are subject to income taxes in their respective countries of domicile.

	Year ended March 31, 2023	Year ended March 31, 2024
Normal statutory tax rate	30.6%	30.6%
Permanent non-deductible expenses such as entertainment expenses	(2.1%)	(0.2%)
Permanent non-taxable income such as dividend received	0.8%	0.1%
Tax credit for research and development expenses	6.6%	0.2%
Changes in unrecognized deferred tax assets	(58.0%)	(19.7%)
Difference of subsidiaries’ applicable income tax rates	(80.4%)	(4.8%)
Changes in tax effect of undistributed earnings of subsidiaries	(0.6%)	0.1%
Effect of change in fair value of contingent consideration	1.6%	(0.1%)
Impairment of goodwill	(1.7%)	(3.4%)
Others	1.4%	(0.3%)
Effective tax rate	(101.8%)	2.5%

3. Global minimum tax rules

On March 28, 2023, Japanese parliament enacted the Tax Reform Act introducing global minimum tax rules based on Pillar Two Model Rules. This Tax Reform Act will be applied from the fiscal year beginning on or after April 1, 2024. In certain countries where the Group operates business, income taxes might be incurred due to the application of these rules. However, the Group considers the impact immaterial.

11. Earnings per Share

Basic earnings per share and their basis for calculation are as follows:

	Year ended March 31, 2023	Year ended March 31, 2024
Basis for calculation of basic earnings per share		
Net profit (loss) attributable to owners of the parent (Millions of yen)	(74,512)	(314,969)
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)	(74,512)	(314,969)
Weighted average number of ordinary shares (Thousands of shares)	397,292	397,291
Earnings per share		
Basic earnings (loss) per share (Yen)	(187.55)	(792.79)

(Note) Diluted earnings per share are not disclosed for the year ended March 31, 2023 as there are potential shares that have an antidilutive effect. These potential shares are stock options issued by certain subsidiaries. The details are described in Note 28, Share-based payments. And diluted earnings per share are not disclosed for the year ended March 31, 2024 as there are no potential shares.

12. Other Comprehensive Income

The changes of other comprehensive income are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Items that will not be reclassified to profit or loss		
Remeasurements of financial assets measured at fair value through other comprehensive income		
Amounts arising during the year	26,197	47,867
Tax effect	(7,863)	(11,379)
Remeasurements of financial assets measured at fair value through other comprehensive income	18,334	36,488
Remeasurements of defined benefit liability (asset)		
Amounts arising during the year	5,404	4,575
Tax effect	(1,851)	(1,151)
Remeasurements of defined benefit liability (asset)	3,553	3,424
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Amounts arising during the year	39,850	24,672
Reclassification adjustments	—	—
Before tax effect	39,850	24,672
Tax effect	—	—
Exchange differences on translation of foreign operations	39,850	24,672
Changes of fair value of financial assets measured at fair value through other comprehensive income		
Amounts arising during the year	—	(13)
Reclassification adjustments	—	13
Before tax effect	—	—
Tax effect	—	—
Changes of fair value of financial assets measured at fair value through other comprehensive income	—	—
Cash flow hedges		
Amounts arising during the year	(156)	—
Reclassification adjustments	—	—
Before tax effect	(156)	—
Tax effect	48	—
Cash flow hedges	(108)	—
Total	61,629	64,584

13. Property, Plant and Equipment

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

Changes 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, 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
Additions	2,120	351	309	—	8,535	1,060	12,375
Transfer from construction in progress	649	1,507	1,332	—	(3,488)	—	—
Sales and disposals	(806)	(3,763)	(1,415)	—	(3)	(5,199)	(11,186)
Foreign currency translation differences	1,382	671	747	67	281	680	3,828
Transfer to assets held for sale	(1,811)	(3,026)	(135)	—	—	—	(4,972)
Others	(3,179)	(842)	104	—	2,596	(488)	(1,809)
Balance as of March 31, 2024	75,953	52,979	31,792	4,991	8,808	13,096	187,619

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, 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)
Depreciation	(2,435)	(1,899)	(2,053)	—	—	(3,279)	(9,666)
Impairment losses	(882)	(49)	—	—	—	—	(931)
Sales and disposals	543	3,574	1,134	—	—	3,286	8,537
Foreign currency translation differences	(684)	(492)	(659)	—	—	(283)	(2,118)
Transfer to assets held for sale	1,628	2,538	98	—	—	—	4,264
Others	209	286	(81)	—	31	201	646
Balance as of March 31, 2024	(48,153)	(45,346)	(27,426)	(64)	—	(8,735)	(129,724)

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, 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
Balance as of March 31, 2024	27,800	7,633	4,366	4,927	8,808	4,361	57,895

(Note)1. There is no capitalized borrowing cost for property, plant and equipment for the years ended March 31, 2023 and 2024.

2. Details of commitment in respect of acquisitions of property, plant and equipment are described 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, 2023 and 2024 are ¥425 million and ¥931 million, respectively. Impairment losses recorded for the year ended March 31,2023 amounting to ¥425 million is recognized in cost of sales in the Consolidated Statement of Profit or Loss, and those for the year ended March 31,2024 amounting to ¥931 million recognized in cost of sales and selling, general and administrative expenses in the Consolidated Statement of Profit or Loss are ¥49 million and ¥882 million, respectively.

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.

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 ¥931 million recognized for the year ended March 31, 2024 mainly represented impairment losses of buildings and structures in North America segment, and machinery and vehicles in Japan segment. As the profitability of the assets is no longer expected, the total carrying amount is reduced to zero.

14. Goodwill

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

Changes 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, 2023	Year ended March 31, 2024
Beginning balance	195,144	212,887
Foreign currency translation differences	17,743	28,361
Ending balance	212,887	241,248

2. Accumulated impairment losses

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Beginning balance	—	(3,472)
Impairment losses	(3,523)	(35,858)
Foreign currency translation differences	51	(2,135)
Ending balance	(3,472)	(41,465)

3. Carrying amount

(Millions of yen)

Balance as of April 1, 2022	195,144
Balance as of March 31, 2023	209,415
Balance as of March 31, 2024	199,783

(2) Impairment test of goodwill

Until the year ended March 31, 2023, the Group had identified two independent CGUs in the North America segment of the Pharmaceutical Business: "North America (excluding oncology area)" and "North America (oncology area)". The carrying amounts of goodwill attributable to the North America segment of the pharmaceutical business for the year ended March 31, 2023 that were allocated to the two individual CGUs are as follows:

(Millions of yen)

	As of March 31, 2023
North America (excluding oncology area)	183,653
North America (oncology area)	25,763
Total	209,415

During the year ended March 31, 2024, the Group reorganized the North American group companies and integrated them into one operating company, which resulted in monitoring the results of the "North America (excluding oncology area)" product group and the "North America (oncology area)" product group together, and therefore decided to integrate the above two independent CGUs that were recognized until the previous consolidated fiscal year into "North America." As a result, from the year ended March 31, 2024, impairment tests for goodwill attributable to the North American segment are being conducted in the integrated CGU "North America," as follows.

The carrying amount of goodwill attributable to the North America segment for the year ended March 31, 2024 is as follows:

(Millions of yen)

	As of March 31, 2024
North America	199,783
Total	199,783

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 of the CGU including relevant goodwill that is measured based on the approved business plan.

The measurement of fair value less cost of disposal includes forecasts of revenue and fixed costs for marketed products based on the selling prices of those products, the market size of the disease area to which the products relate and the market share of the products, and forecasts of revenue and fixed costs for major products under development taking into account factors such as the probability of success of research and development activities, etc. 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.

For the year ended March 31, 2023, the fair value less cost of disposal in the impairment test for goodwill recognized by the Group is calculated by discounting the estimated amount, based on a 15-year future forecast of cash flows with the consideration of permanent growth rate of 2.2%, for the goodwill belonging to "North America (excluding oncology area)", and based on an 18-year future forecast of cash flows for the goodwill belonging to "North America (oncology area)". For the year ended March 31, 2024, the fair value less cost of disposal for the CGU “North America” that was integrated in the year ended March 31,2024 is calculated by deducting the estimated disposal cost from the present value of the estimated cash flows based on 15-year future forecasts with the consideration of permanent growth rate of 2.1% after discounting.

Because this valuation technique uses inputs that are not observable market data, this fair value less costs of disposal is classified as 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.. The pre-tax discount rates used in the impairment test of goodwill are 14.8%-20.5% by each CGU allocated goodwill as of March 31, 2023 and 14.5% as of March 31, 2024, respectively.

As a result of impairment test, the recoverable amount of the CGU of North America segment is ¥307,627 million which is less than the carrying amount of the CGU including goodwill. Therefore, impairment loss on goodwill amounting to ¥35,858 million is recorded in selling, general and administrative expenses of the Consolidated Statement of Profit or Loss.

15. Intangible Assets

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

Changes 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, 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)
Balance as of March 31, 2023	598,715	24,467	551	623,733
Individual acquisition	3,023	1,478	180	4,681
Sales and disposals	1	(335)	—	(334)
Foreign currency translation differences	77,490	1,670	2	79,162
Transfer to assets held for sale	—	(97)	—	(97)
Others	(289)	133	—	(156)
Balance as of March 31, 2024	678,940	27,316	733	706,989

2. Accumulated amortization and accumulated impairment losses

(Millions of yen)

	Intangible assets related to products	Software	Others	Total
Balance as of April 1, 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)
Amortization	(25,375)	(2,708)	(13)	(28,096)
Impairment losses	(144,034)	(73)	—	(144,107)
Sales and disposals	(1)	155	—	154
Foreign currency translation differences	(43,745)	(1,374)	(1)	(45,120)
Transfer to assets held for sale	—	97	—	97
Others	—	154	—	154
Balance as of March 31, 2024	(489,255)	(21,901)	(181)	(511,337)

3. Carrying amount

(Millions of yen)

	Intangible assets related to products	Software	Others	Total
Balance as of April 1, 2022	391,350	6,827	515	398,692
Balance as of March 31, 2023	322,615	6,315	384	329,314
Balance as of March 31, 2024	189,685	5,415	552	195,652

(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. Because intangible assets related to products in the research and development phase, of which the approval for sales by regulatory authorities has not been obtained, 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, those assets are classified as intangible assets of which amortization has not started. The carrying amounts of those intangible assets as of March 31, 2023 and 2024 are ¥11,743 million, and ¥3,249 million, respectively.

(2) Material intangible assets

Material 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, 2023	As of March 31, 2024	As of March 31, 2024
Sumitomo Pharma UK Holdings, Ltd.	MYFEMBREE®	Patent rights	142,471	10,640	14 years
	ORGOVYX®	Patent rights	66,075	69,714	14 years
	GEMTESA®	Patent rights	94,691	98,535	12 years

The above table mainly represent the intangible assets related to products arising from the acquisition of Myovant Sciences Ltd. (currently known as Sumitomo Pharma UK Holdings, Ltd. hereinafter, "Myovant"), and Urovant Sciences Ltd. (currently known as Sumitomo Pharma UK Holdings, Ltd.) 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 which amortization has not started. 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 marketed products and products under development 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 fair value less costs of disposal. Fair value less costs of disposal is determined by the present value of estimated future cash flows based on the past experience and external information. Because this valuation technique uses inputs that are not observable market data, this fair value less costs of disposal is classified as Level 3 of the fair value hierarchy.

The discount rate used in the impairment test for intangible assets is based on the weighted average cost of capital, etc. set by each individual assets. The pre-tax discount rate used in the impairment test of intangible assets are 7.0% - 13.8% and 13.0% - 15.8% as of March 31, 2023 and 2024, 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 are ¥58,926 million and ¥21,140 million, respectively.

They are 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.

Impairment losses for the year ended March 31, 2024 amounting to ¥144,107 million recognized in selling, general and administrative expenses, and research and development expenses in the Consolidated Statement of Profit or Loss are ¥133,530 million and ¥10,577 million, respectively.

They are mainly impairment losses of North America segment, including patent rights associated with MYFEMBREE® (therapeutic agent for Uterine fibroids, Endometriosis) amounting to ¥133,457 million and in-process research and development related to rodatristat ethyl, which was being developed targeting Pulmonary arterial hypertension (PAH), amounting to ¥5,205 million.

As the profitability of patent rights associated with MYFEMBREE® was no longer expected as result of reviewing business forecasts, the carrying amount of these assets was reduced to the extent of the recoverable amount of ¥10,640 million yen. As in-process research and development of rodatristat ethyl has been discontinued and its profitability was no longer expected, the carrying amount of these assets was reduced to zero.

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 no 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, 2023	Year ended March 31, 2024
Depreciation	4,223	3,279
Interest expenses on lease liabilities	225	35
Expenses related to short-term leases	205	121
Expenses related to leases of low-value assets	771	625
Variable lease payments not included in the measurement of lease liabilities	41	—
Income from sublease of right-of-use assets	673	659

(2) Right-of-use assets

The changes 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, 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
Additions	688	372	—	1,060
Sales and disposals	(4,665)	(534)	—	(5,199)
Foreign currency translation differences	551	129	—	680
Changes associated with losing control of subsidiaries	(500)	—	—	(500)
Others	9	3	—	12
Balance as of March 31, 2024	9,053	4,043	—	13,096

(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, 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)
Depreciation	(2,653)	(626)	—	(3,279)
Sales and disposals	2,941	345	—	3,286
Foreign currency translation differences	(235)	(48)	—	(283)
Changes associated with losing control of subsidiaries	192	—	—	192
Others	21	—	—	21
Balance as of March 31, 2024	(6,373)	(2,362)	—	(8,735)

3. Carrying amount

(Millions of yen)

	Buildings and structures	Machinery and vehicles	Land	Total
Balance as of April 1, 2022	9,672	2,696	4	12,372
Balance as of March 31, 2023	6,331	2,040	—	8,371
Balance as of March 31, 2024	2,680	1,681	—	4,361

(3) Lease liabilities

The contractual maturities of the lease liabilities are as follows:

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Contractual undiscounted cash flows		
Within 1 year	4,871	4,207
Over 1 year, within 5 years	6,358	4,933
Over 5 years	1,302	939
Balance of undiscounted lease liabilities	12,531	10,079
Balance of lease liabilities	11,656	8,980
Lease liabilities (non-current)	6,996	5,199
Lease liabilities (current)	4,660	3,781

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

The total cash outflows for the leases are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Repayments of lease liabilities	3,755	4,016
Interest expenses on lease liabilities paid	225	35
Others	1,017	746
Total	4,997	4,797

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, 2023	As of March 31, 2024
Financial assets at amortized cost		
Loan receivables	10,012	11
Others	9,148	8,648
Financial assets measured at fair value through profit or loss		
Equity securities, etc.	820	1,828
Financial assets measured at fair value through other comprehensive income		
Equity securities, etc.	131,161	158,309
Debt securities	3,040	—
Total	154,181	168,796
Other financial assets（non-current）	134,007	161,711
Other financial assets（current）	20,174	7,085
Total	154,181	168,796

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

1. Details of fair value

The fair values by major investees are as follows:

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Roivant Sciences Ltd.	85,117	113,647
MEDIPAL HOLDINGS CORPORATION	5,864	5,030
Ono Pharmaceutical Co., Ltd.	4,602	4,087
JCR Pharmaceuticals Co., Ltd.	4,804	2,921
Shikoku Yakugyo Co., Ltd.	1,317	2,810
Forest Holdings, Inc.	1,059	2,225
Mochida Pharmaceutical Co., Ltd.	1,809	1,744
VITAL KSK HOLDINGS, INC.	1,072	1,004
Others	25,517	24,841
Total	131,161	158,309

(Note) The Group sold all of the shares of Roivant Sciences Ltd. on April 2, 2024. For details, refer to Note 36. Subsequent Events. The Group is continuously selling shares held, and as of the end of May 2024, all of the shares of Ono Pharmaceutical Co., Ltd. have been sold.

2. Others

The dividend income derived from the financial assets measured at fair value through other comprehensive income held by the Group are ¥750 million and ¥682 million for the years ended March 31, 2023 and 2024, respectively.

The details of “Other financial assets” measured at fair value through other comprehensive income which were disposed in the years ended March 31, 2023 and 2024 are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Fair value at the time of disposal	5,961	27,629
Accumulated gains (losses)	3,425	16,430
Dividend income	224	138

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 ¥2,378 million and ¥11,410 million for the years ended March 31, 2023 and 2024, 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 (¥1,049 million) and (¥172 million) for the years ended March 31, 2023 and 2024, 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, 2023	As of March 31, 2024
Merchandise and finished goods	65,813	64,267
Work-in-process	3,491	3,683
Raw materials and supplies	25,101	47,400
Total	94,405	115,350

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 ¥1,317 million and ¥3,962 million for the years ended March 31, 2023 and 2024, 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, 2023	As of March 31, 2024
Financial assets measured at amortized cost		
Accounts receivable	86,405	68,818
Other receivables	9,503	12,205
Total	95,908	81,023
Trade and other receivables (non-current)	—	—
Trade and other receivables (current)	95,908	81,023
Total	95,908	81,023

(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 described 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, 2023	As of March 31, 2024
Financial assets measured at amortized cost		
Cash and deposits	96,412	28,615
Short-term investments (cash equivalents)	47,066	432
Total	143,478	29,047

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 or fair value less cost to sell.

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

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Other financial assets	1,195	—
Inventories	2,736	1,098
Trade and other receivables	2,043	—
Others	1,524	753
Total assets	7,498	1,851
Retirement benefit liabilities	407	—
Trade and other payables	622	—
Other current liabilities	412	—
Others	365	—
Total liabilities	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. to Mitsui & Co., Ltd. Accordingly, it is highly probable that Sumitomo Pharma Animal Health, Co., Ltd. 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, Co., Ltd. as a disposal group held for sale for the year ended March 31, 2023.

The Company completed the transfer of the shares of Sumitomo Pharma Animal Health, Co., Ltd. on May 31, 2023. The Company transferred a part of Oita Plant to its parent company, Sumitomo Chemical Company, Limited on April 1, 2024. Therefore, the Company classified the relevant assets as assets held for sale for the year ended March 31, 2024.

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, 2023	As of March 31, 2024	Average interest rate (Note 1)	Redemption date / Repayment date
Bonds (other than current portion)	119,240	119,366	1.47%	September 2050
Long-term borrowings (other than current portion) (Note 2)	124,888	64,929	0.41%	December 2025
Current portion of long-term borrowings	—	60,000	0.23%	—
Short-term borrowings	90,588	174,588	0.78%	—
Total	334,716	418,883	—	—
Bonds and Borrowings (non-current)	244,128	133,366	—	—
Borrowings(current)	90,588	285,517	—	—
Total	334,716	418,883	—	—

(Note) 1. The average interest rate is the weighted average interest rate calculated based on the balance as of March 31, 2024.

2. Long-term borrowings that were in conflict with the financial covenants as of March 31, 2024 are presented as current liabilities in the Consolidated Statement of Financial Position.

(2) Issuance conditions of bonds

Summary of issuance conditions of bonds is as follows:

(Millions of yen)

Issuer	Bond name	Issue date	As of March 31,2023	As of March 31,2024	Interest rate (%)	Collateral	Redemption 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 be applied until September 10, 2027, and a variable interest rate will be applied 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 be applied until September 10, 2030, and a variable interest rate will be applied 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 subordinated 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 subordinate 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) Financial covenants

A syndicated loan agreement of which the Company is the borrower has provision of financial covenants. The outline of the loan agreement and the main financial covenants of the agreement are as follows:

Syndicated loan

Principal amount: ¥51,000 million, Repayment date: December 26, 2025

・Core operating profit in the Summary of consolidated financial results at end of each fiscal year should not be in the red for two consecutive years.

・Amount of total equity in the Consolidated Statement of Financial Position in securities reports, etc. at end of each fiscal year should be maintained at ¥200 billion or more.

Although there is a conflict with the financial covenants at the end of fiscal year ended March 31, 2024, a consent has been obtained from key creditor bank that it won’t exercise its right to accelerate payment.

(4) 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, 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
Cash flows from financing activities	84,000	—	—	(4,016)	79,984
Other changes					
Additions due to acquisition of right-of-use assets	—	—	—	1,057	1,057
Interest expenses	995	364	1,890	205	3,454
Payment of interests	(991)	(321)	(1,763)	(206)	(3,281)
Effect of foreign currency translation differences	—	—	—	601	601
Others	5	—	—	(316)	(311)
Balance as of March 31, 2024	174,597	124,931	119,461	8,981	427,970

(Note) Interest payables are included in the above balances.

23. Trade and Other Payables

The details of trade and other payables are as follows:

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Financial liabilities measured at amortized cost		
Accounts payable and notes payables	13,403	20,765
Other payables	38,738	46,955
Total	52,141	67,720
Trade and other payables (non-current)	—	—
Trade and other payables (current)	52,141	67,720
Total	52,141	67,720

24. Other Financial Liabilities

The details of other financial liabilities are as follows:

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Financial liabilities at amortized cost		
Deposit received	4,370	5,285
Others	549	7,484
Financial liabilities measured at fair value through profit or loss		
Contingent considerations	1,482	3,314
Others	822	1,776
Lease liabilities	11,656	8,980
Total	18,879	26,839
Other financial liabilities (non-current)	11,869	12,738
Other financial liabilities (current)	7,010	14,101
Total	18,879	26,839

25. Provisions

(1) Changes of provisions

The changes of provisions are as follows:

Year ended March 31, 2024

(Millions of yen)

	Reserve for sales returns	Reserve for sales rebates	Total
Balances at the beginning of the year	28,484	90,599	119,083
Increases	1,403	51,369	52,772
Decreases (utilization)	(2,737)	(98,420)	(101,157)
Decreases (reversal)	(4,482)	(43)	(4,525)
Foreign currency translation differences	3,525	9,848	13,373
Balances at the end of the year	26,193	53,353	79,546
Provisions (non-current)	—	—	—
Provisions (current)	26,193	53,353	79,546
Total	26,193	53,353	79,546

(2) Details of provisions

Provisions are calculated 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 at end of each reporting period. Material adjustments to provisions are possible to be made in the consolidated financial statements for the fiscal years subsequent to each reporting date, in case a result that is different from the assumptions used for the 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 2024, ¥26,193 million is reserve for sales returns recognized for products sold by Sumitomo Pharma America, Inc. (hereinafter, “SMPA”). 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, 2024, ¥52,953 million is reserve for sales rebates recognized for products sold by SMPA. Among various insurance programs that are applied to major products sold in the United States, certain sales rebates need time to be determined . 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, 2023	As of March 31, 2024
Unearned revenue (Note)	58,749	48,533
Accrued bonuses	46,998	34,133
Accrued expenses	12,451	5,898
Others	17,571	19,108
Total	135,769	107,672
Other non-current liabilities	57,756	40,430
Other current liabilities	78,013	67,242
Total	135,769	107,672

(Note) “Unearned revenue” is upfront payment received from Pfizer, Inc. (hereinafter, “Pfizer”) based on development and commercialization agreement on relugolix in North America in oncology and women’s health. The details are described 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 grade and length of service period. Certain defined benefit corporate pension plans established 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, 2023	As of March 31, 2024
Present value of defined benefit obligations	87,357	82,570
Fair value of the plan assets (including retirement benefit trusts)	82,349	91,597
Deficit (surplus)	5,008	(9,027)
Effect of asset ceiling	—	8,855
Net defined benefit (assets) liabilities	5,008	(172)
Retirement benefit liabilities	5,008	11,150
Retirement benefit assets	—	(11,322)

2. Defined benefit obligations

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

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Balances at beginning of the year	96,144	87,357
Current service cost	2,895	2,410
Interest expenses	800	1,120
Remeasurements of net defined benefit liability (asset)		
Changes in demographic assumptions	246	1
Changes in financial assumptions	(6,087)	(3,717)
Experience adjustments	(37)	(120)
Past service cost	(95)	(357)
Benefits paid	(3,676)	(3,989)
Foreign currency translation differences	55	(522)
Reclassification to liabilities directly associated with assets held for sale	(407)	—
Changes associated with losing control of subsidiaries	(2,448)	—
Others	(33)	387
Balances at end of the year	87,357	82,570

(Note) The weighted average payment years of defined benefit obligations are 13.8 years and 13.3 years as of March 31, 2023 and 2024, respectively.

3. Plan assets

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

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Balances at beginning of the year	84,683	82,349
Interest income	717	1,097
Benefits paid	(2,917)	(3,110)
Contributions by the employer	2,390	1,668
Remeasurement of defined benefit plans		
Return on plan assets	(474)	9,593
Changes associated with losing control of subsidiaries	(1,994)	—
Others	(56)	—
Balances at end of the year	82,349	91,597

(Note) The Group is expected to pay contributions amounting to ¥1,668 million in the year ending March 31, 2025.

4. Components of plan assets

The details of plan assets by category are as follows:

(Millions of yen)

	As of March 31, 2023			As of March 31, 2024		
	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	21,816	—	21,816	28,937	—	28,937
Debt securities	27,460	—	27,460	26,739	—	26,739
General accounts of life insurance companies	—	8,956	8,956	—	8,986	8,986
Cash and cash equivalents	2,910	—	2,910	5,223	—	5,223
Others	—	21,207	21,207	—	21,712	21,712
Total	52,186	30,163	82,349	60,899	30,698	91,597

(Note) The retirement benefit trusts established for defined benefit pension plans account for 9.1% and 12.4% in the total plan assets as of March 31, 2023 and 2024 respectively. For general accounts of life insurance companies, a certain level of interest rate and principal are guaranteed by life insurance companies.

5. Effect of asset ceiling

The details of the changes of the effect of asset ceiling are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Balances at beginning of the year	—	—
Remeasurements		
Changes of the effect of asset ceiling	—	8,855
Balances at end of the year	—	8,855

(Note) In the year ended March 31, 2024, as any economic benefits are not available because future contributions are not reduced or refunded, unrecognized surpluses incur in certain pension plans of the Group.

6. Material actuarial assumptions

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

	As of March 31, 2023	As of March 31, 2024
Discount rate (%)	1.3	1.6

7. Sensitivity analysis

The effects of changes in the material actuarial assumptions on the defined benefit obligations as of March 31, 2023 and 2024 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, 2023	As of March 31, 2024
In case that the discount rate increases by 0.5%	(5,263)	(4,689)
In case that the discount rate decreases by 0.5%	5,405	5,189

8. 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.

9. 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 each fund's reporting date.

(3) Defined contribution plan

The expenses recognized for defined contribution plans are ¥4,128 million and ¥3,808 million for the years ended March 31, 2023 and 2024, respectively.

(4) Employee benefit expenses

The employee benefit expenses for the years ended March 31, 2023 and 2024 are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Salaries	105,153	91,483
Bonuses	46,577	29,309
Retirement benefit expenses	8,288	6,372
Others	17,603	17,745
Total	177,621	144,909

(Note) Business structure improvement expenses are described in Note 4. Operating Segments.

28. Share-based payments

Myovant, the Company's consolidated subsidiary, has introduced stock compensation plans for its directors and employees and has granted stock options to them.

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

1. Stock option plans

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

Information related to stock options of Myovant for the years ended March 31, 2023, and 2024 are as follows:

(i) 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 prices at the time of exercising is $17.49 USD.

The Black-Scholes model is 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, 2023 and 2024, the assumptions used for the Black-Scholes model are as follows.

	Year ended March 31, 2023	Year ended March 31, 2024
Expected weighted average share price (USD)	$19.56	—
Expected exercise price (USD)	$11.33	—
Expected volatility	71.0%	—
Expected stock option period	6.3 years	—
Expected dividends	—	—
Risk-free interest rate	2.8%	—

(Note) 1. The estimate of expected volatility is based on the historical volatility of Myovant and similar listed companies that are 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 are as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Selling, general and administrative expenses	11,120	—
Research and development expenses	4,135	—
Total	15,255	—

29. Share Capital and Other Equity Items

(1) Share capital

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

(Thousands of shares)

	Year ended March 31, 2023	Year ended March 31, 2024
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 in number of treasury shares are as follows:

(Thousands of shares)

	Year ended March 31, 2023	Year ended March 31, 2024
Balance at the beginning of the year	607	608
Changes during the year	1	1
Balance at the end of the year	608	609

(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. Remeasurements of financial assets measured at fair value through other comprehensive income

It represents the cumulative amount of net 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 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. Exchange 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) Year ended March 31, 2023

Date of resolution	Type of share	Total dividend amount (Millions of yen)	Dividend amount per share (Yen)	Record 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

(ii) Year ended March 31, 2024

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

2. Dividends with record date in the current fiscal year and effective date in the following year

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

(i) Year ended March 31, 2023

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

(ii) Year ended March 31, 2024

There are no dividends with record date in the current fiscal year and effective date in the following year.

30. Financial Instruments

(1) Capital management

In order to achieve sustainable and integrative increase of corporate value and shareholder value, the Group recognizes that to expedite repayment of interest bearing debt and to resume distribution of dividends early with introducing marketed products and products under development, making investments in domestic business, North America business, and new business, etc., as a key management priority. Under this policy, The Group uses a program to sell certain trade receivables to financial institution on a non-recourse basis. Under this program, trade receivables sold are derecognized when the risks and rewards of ownership are transferred. There are no receivables to be sold that remain unsold as of the end of the fiscal year. 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 those 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 in accordance with 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 Statement of Financial Position.

As there are no financial assets of which material credit risk has increased significantly after the initial recognition and no credit-impaired financial assets, 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 doesn’t 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 reserve rate 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 the counterparty and the 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 difficulty 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 being 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 other financial asset.

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

As of March 31, 2024, the Company is in conflict with financial covenants specified in the syndicated loan agreement and met the conditions of forfeiture of the benefit of time. Therefore, the Company presented the balance of the syndicated loan as short-term borrowings as of March 31, 2024. After March 31, 2024, the Company had discussions with creditor banks about the release of their legal claims related to the forfeiture of the benefit of time, resulted in with the key creditor bank giving its consent not to exercise its right to accelerate payment. The Group thus expects to have continued support from the creditor banks.

2. Maturity analysis

The balances of financial liabilities by contractual maturity timing are as follows:

The interests are represented by the amounts of estimated payments in future.

(i) 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 described in Note 22. Bonds and Borrowings.

(ii) As of March 31, 2024

(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	299,517	300,791	235,594	65,197	—	—	—	—
Bonds	119,366	128,964	1,764	1,764	1,764	61,347	930	61,395
Total	418,883	429,755	237,358	66,961	1,764	61,347	930	61,395

(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 three years within four 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. In addition, borrowings that are in conflict with financial covenants with due after one year within two years are presented as current liabilities in the Consolidated Statement of Financial Position. The details are described in 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 to mitigate 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 in accordance with the risk management policy is as follows.

(Thousands of USD)

	As of March 31, 2023	As of March 31, 2024
Receivables	1,665,078	50,528
Payables	44,933	289,741
Net exposures of the Consolidated Statement of Financial Position	1,620,145	(239,213)
Forward foreign exchange contracts	—	—
Net exposures	1,620,145	(239,213)

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

(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 ¥7,513 million and (¥1,257) million as of March 31, 2023 and 2024, 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 procured with variable interest rates. The impact of interest rate risk on the Group’s net profit or loss is immaterial because variable positions of its interest rates are less than 0.1% as of March 31, 2024. 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 of the inputs used to the valuation techniques for measurement are classified depending on observability into 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 prices included within Level 1 that are observable , either directly or indirectly.

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

2. Financial instruments measured at amortized cost

The carrying amount and fair value of financial instruments measured 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, 2023		As of March 31, 2024	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities measured at amortized cost				
Bonds	119,240	111,960	119,366	68,382
Borrowings	215,476	215,137	299,517	299,291
Total	334,716	327,097	418,883	367,673

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

(i) Bonds

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

(ii) Borrowings

The fair value of the borrowings is measured at the present value of the total amount of principal and interests discounted by interest rate that would presumably apply if similar borrowings were newly made. The fair value hierarchy of the borrowings is Level 3.

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

The fair value hierarchy of financial instruments measured 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 fiscal year-end. There were no transfers among levels of fair value hierarchy for material financial assets and liabilities occurred in the years ended March 31, 2023 and 2024.

(i) 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				
Equity securities, etc.	820	—	—	820
Financial assets measured at fair value through other comprehensive income				
Equity securities, etc.	108,963	—	22,198	131,161
Debt securities	—	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

(ii) As of March 31, 2024

(Millions of yen)

	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through profit or loss				
Equity securities, etc.	1,828	—	—	1,828
Financial assets measured at fair value through other comprehensive income				
Equity securities, etc.	129,452	—	28,857	158,309
Total	131,280	—	28,857	160,137
Financial liabilities measured at fair value through profit or loss				
Contingent consideration	—	—	3,314	3,314
Others	1,776	—	—	1,776
Total	1,776	—	3,314	5,090

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

(i) Financial assets

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Balance at the beginning of the year	23,950	22,198
Purchase	2,091	2,223
Changes in financial assets measured at fair value through other comprehensive income	(1,531)	4,439
Sale / settlement	(1)	(3)
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	22,198	28,857

(ii) Financial liabilities

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Balance at the beginning of the year	4,419	1,482
Changes in fair value of contingent consideration (Note)	(3,388)	1,562
Foreign currency translation differences	451	270
Balance at the end of the year	1,482	3,314

(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 equity securities. For unlisted equity 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 Tolero Pharmaceuticals, Inc. (currently known as Sumitomo Pharma America, 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 Tolero, consideration for acquisition amounting to $205 million (¥23,272 million) has been paid till March 31, 2024, and it is possible to pay a maximum amount of $210 million (¥31,779 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 (¥22,700 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 product under development and revenue to be earned since commencement of sales and time value of money. The development milestones in a specific product under development, 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 ¥48,074 million (undiscounted) and ¥54,479 million (undiscounted) as of March 31, 2023 and 2024, 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 material assumptions which affect the fair value of contingent considerations is as follows:

(Millions of yen)

		As of March 31, 2023	As of March 31, 2024
Revenue	Increase by 5%	41	58
	Decrease by 5%	(41)	(58)
Discount rate	Increase by 0.5%	(27)	(29)
	Decrease by 0.5%	27	29

31. Capital Expenditure Commitments

Capital expenditure commitments of acquisition of assets are as follows:

(Millions of yen)

	As of March 31, 2023	As of March 31, 2024
Property, plant and equipment	3,315	4,615
Intangible assets	68,569	29,500
Total	71,884	34,115

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 on 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 development 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 major subsidiaries and associates

The major subsidiaries and associates of the Group as of March 31, 2024 are as follows:

Name	Location	Amount of Stated Capital	Principal Businesses (Operating Segment)	Ratio of Voting Rights
Sumitomo Pharma UK Holdings, Ltd.	London, U.K.	\$3 thousand	Holding company Management of group companies, and formulation and promotion of business strategies, etc. (North America)	100%
Sumitomo Pharma America, Inc.	Marlborough, MA, U.S.A.	\$1 thousand	Manufacturing and sales of pharmaceuticals (North America)	100%
Sumitomo Pharma Switzerland GmbH	Basel, Switzerland	\$59 thousand	Manufacturing and sales of pharmaceuticals (North America)	100%
Sumitomo Pharma (China) Co., Ltd.	Shanghai, China	\$50,000 thousand	Holding company Management of the Company's China business, etc.	100%
Sumitomo Pharma (Suzhou) Co., Ltd.	Suzhou, Jiangsu, China	\$35,000 thousand	Manufacturing and sales of pharmaceuticals (Asia)	100%
Sumitomo Pharma Promo Co., Ltd.	Suita, Osaka	¥480 million	Manufacturing and sales of pharmaceuticals, etc. (Japan)	100%

(2) Decrease arising from the transfer 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, 2023	Year ended March 31, 2024
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, 2023	Year ended March 31, 2024
Consideration received	34,472	—
Cash and cash equivalents of subsidiaries at the date when control was lost	4,300	—
(Net) Proceeds from loss of control of subsidiaries	30,172	—

Sumitomo Pharma Animal Health 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, 2023	Year ended March 31, 2024
Assets at the date when control was lost		
Current assets	—	7,177
Non-current assets	—	1,577
Liabilities at the date when control was lost		
Current liabilities	—	1,675
Non-current liabilities	—	499

	Year ended March 31, 2023	Year ended March 31, 2024
Consideration received	—	12,470
Cash and cash equivalents of subsidiaries at the date when control was lost	—	1,774
(Net) Proceeds from loss of control of subsidiaries	—	10,696

Spirovant Sciences LLC

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, 2023	Year ended March 31, 2024
Assets at the date when control was lost		
Current assets	—	2,725
Non-current assets	—	3,493
Liabilities at the date when control was lost		
Current liabilities	—	1,078
Non-current liabilities	—	327

	Year ended March 31, 2023	Year ended March 31, 2024
Consideration received	—	(217)
Cash and cash equivalents of subsidiaries at the date when control was lost	—	2,252
(Net) Proceeds (expenditure) from loss of control of subsidiaries	—	(2,469)

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, 2023		Year ended March 31, 2024	
			Transaction amount	Outstanding balance	Transaction amount	Outstanding balance
Parent company	Sumitomo Chemical Company, Limited	Lending and collection of funds (Note 1)	(15,684)	10,000	(10,000)	—
Parent company	Sumitomo Chemical Company, Limited	Acceptance of debt guarantees (Note 2)	—	—	316,009	—

(Note) 1. 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.

2. The parent company provides guarantees for the Company’s bank loans from financial institutions and liabilities related to sales of trade receivables. The balance of loans and liabilities with debt guarantees as of March 31, 2024 is shown in the Transaction amount.

(3) Remuneration of key management personnel

Remuneration of key management personnel is as follows:

(Millions of yen)

	Year ended March 31, 2023	Year ended March 31, 2024
Basic remuneration and bonus	419	306

34. Acquisition of Non-Controlling Interests

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

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 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 development and commercialization agreements related to the Group's products under development and marketed products with its alliance partner.

(1) Joint development and joint sales with Pfizer.

On December 26, 2020, Myovant and Pfizer have entered into a joint development and joint sales agreement on relugolix in oncology and women's health in the U.S.A. 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 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 combination tablet in women's health from Pfizer Also, Myovant will receive at a maximum of $4,200 million (¥621,187 million) including aforementioned regulatory milestones and tiered sales milestones upon reaching certain thresholds up to $2,500 million in net sales of relugolix for prostate cancer and also for 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 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 (¥13,304 million) as accomplishment of milestone at the time of obtaining approvals of combination tablet for indication of endometriosis in the U.S.A. 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 together with aforementioned upfront payment.

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

On September 30, 2021, the Company, Sunovion Pharmaceuticals Inc. (currently known as Sumitomo Pharma America, Inc., hereinafter, “Sunovion”) and Otsuka Pharmaceutical Co., Ltd. (hereinafter, “Otsuka") 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. The Group received $270 million (¥30,227 million) as a lump-sum upfront payment from Otsuka Pharmaceuticals Co., Ltd.

Subsequently, on March 15, 2024, the Company and SMPA (Company name changed from "Sunovion”), entered into an agreement to amend the collaboration and license agreement with Otsuka aiming to review its priority products for development and focus on development programs in the oncology area and regenerative medicine/cell therapy business with top priority.

The main content of this amendment agreement is as follows:

- The Group has excluded SEP-4199 and SEP-378614, two of the four compounds covered by the collaboration and license agreement, by entering into this amendment agreement, and SMPA has granted Otsuka the exclusive worldwide rights to develop, manufacture, and commercialize ulotaront and SEP-380135 for all indications.
- SMPA may receive up to $30 million (¥4,540 million) from Otsuka as development milestone payments associated with the progress of development for ulotaront and SEP-380135 and royalties based on revenue.
- There has been no upfront payment for this amendment agreement. Except for certain experiments, Otsuka shall fully cover expenses of ongoing experiments conducted by the Group and Otsuka in and after January 2024.

36. Subsequent Events

(Sale of investment in securities)

To improve the efficiency of assets by reviewing strategic shareholdings, the Company entered into a contract with Roivant Sciences Ltd., on April 2, 2024 to transfer all the shares of Roivant Sciences Ltd. (71,251,083 shares) held by the Company in exchange for ¥98,146 million. This transfer of shares will have no impact on the Group’s consolidated statement of profit or loss because the changes in fair value associated with these shares have been recognized in other comprehensive income.

<u>Independent Auditor's Report</u>

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

Report on the Audit of the Consolidated Financial Statements

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, 2024, 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, 2024, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards as issued by the International Accounting Standards Board prescribed in Article 93 of "the Regulation on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements" (IFRS Accounting Standards).

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.

<table>
<tr><th colspan="2">Appropriateness of management’s judgment as to whether material uncertainties exist about the Group’s ability to continue as a going concern</th></tr>
<tr><th>The key audit matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>In preparing consolidated financial statements, management is required to make an assessment of the entity’s ability to continue as a going concern. In making its assessment, if material uncertainties still exist after implementing measures to eliminate or mitigate events or conditions that may cast significant doubt upon the entity’s ability to continue as a going concern, the entity is required to disclose material uncertainties about its ability to continue as a going concern in the notes to the consolidated financial statements as of March 31, 2024.

Sumitomo Pharma Co., Ltd. and its consolidated subsidiaries (hereinafter, collectively referred to as the “Group”) recorded significant impairment losses on intangible assets, such as patent rights, and goodwill, following the revisions to its business forecasts and related projections, due mainly to a decrease in revenue as sales of the three key products were below expectations in addition to the loss of exclusivity of LATUDA® products in the United States in February 2023. As a result, the Group reported an operating loss of ¥354,859 million, net loss attributable to owners of the parent of ¥314,969 million and cash out flows used in operating activities amounting to ¥241,893 million for the current fiscal year. In addition, the total equity of the Group amounted to ¥156,136 million, which was in conflict with financial covenants per a syndicated loan agreement, and, as such, the Group was in a situation where the maturity of those loans could be accelerated at the end of the current fiscal year.

Accordingly, events or conditions that may cast significant doubt upon the Group’s ability to continue as a going concern existed at the end of the current fiscal year.

In light of these circumstances, in order to alleviate the above events or conditions, management has been taking steps to implement measures including the following:
● accelerating to maximize the value of the three key products and carrying out Group-wide structural reforms; and
● securing necessary funds by divesting certain assets and requesting continued support from the creditor banks including their consent not to exercise the right to accelerate loan repayment, in light of debt guarantees from Sumitomo Chemical Co., Ltd., its parent company.

Management determined that with the implementation of these measures, there was no</td>
<td>The primary procedures we performed to assess the appropriateness of management’s judgment as to whether a material uncertainty existed about the Group's ability to continue as a going concern included the following:

(1) Evaluation of management’s plan
We assessed whether management’s measures would eliminate or mitigate events or conditions that may cast significant doubt upon the Group’s ability to continue as a going concern and whether those measures were feasible by analyzing management’s cash flow plan. In this analysis, to evaluate whether key assumptions underlying the cash flow plan were appropriate, we:
● performed the procedures described in our audit response section under the key audit matter, “Reasonableness of the estimate of the recoverable amount used in the impairment testing for goodwill attributable to the North America segment” to assess the assumption of increasing products’ sales volume in the North America segment; and
● performed the following procedures to assess the assumptions concerning securing necessary funds by divesting certain assets and continued support from the creditor banks:
➢ inquired of management about the progress of divesting certain assets;
➢ inquired of the responsible personnel of the key creditor bank regarding financial covenants included in the syndicated loan agreement to confirm if they had consented not to exercise its right to accelerate loan repayment, and inspected the consent letter issued by the bank; and
➢ inquired of personnel responsible for the finance department on the status of negotiations with the creditor banks, and the responsible personnel of the key creditor bank about their response to and future policy on the Group's request for continued support, to confirm the consistency of the response obtained from the responsible personnel of the key creditor bank with those of management and the personnel responsible for the finance department.

(2) Assessment of the impact of uncertainties in</td></tr>
</table>

significant concern about the cash flows of the Group for at least twelve months from the end of the current fiscal year, and did not disclose a material uncertainty about the Group’s ability to continue as a going concern in the notes to the consolidated financial statements. In determining whether material uncertainties existed about the Group’s ability to continue as a going concern, its cash flow plan for a period through March 31, 2025 (the “cash flow plan”) was considered. The cash flow plan included key assumptions concerning the effect of management’s measures to improve the profitability of the North America segment including an increase in products’ sales volume, as well as those concerning securing necessary funds by divesting certain assets and continued support from the creditor banks. Accordingly, these assumptions involved a high degree of uncertainty and had a significant effect on the judgment as to whether a material uncertainty existed about the Group’s ability to continue as a going concern. We, therefore, determined that our assessment of the appropriateness of management’s judgment as to whether a material uncertainty existed about the Group's ability to continue as a going concern was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	**the cash flow plan** We independently developed a cash flow projection of the Group for the period through March 31, 2025, by incorporating specific uncertainties into the cash flow plan developed by management, taking into consideration the results of our procedures described above. We then analyzed whether the cash balance projected at the end of each month based on our independent estimate was sufficient for the projected cash inflows and outflows in the following month considering the timing of cash receipts and payments for each item during the month.

Reasonableness of the estimate of the recoverable amount used in the impairment testing for goodwill attributable to the North America segment	
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 ¥199,783 million in the consolidated statement of financial position as of March 31, 2024, which was attributable to the North America segment. The goodwill represents 22% of total assets in the consolidated financial statements. 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, an impairment loss amounting to ¥35,858 million was recognized on the	In order to assess whether the estimate of the recoverable amount used in the impairment testing for the goodwill allocated to the North America segment was reasonable, we performed the following procedures: (1) Internal control testing Tested the design and operating effectiveness of certain internal controls relevant to measuring the fair value less costs of disposal used in the impairment testing for the goodwill attributable to the North America segment with a particular focus on controls relevant to estimating future cash flows. (2) Assessment of the reasonableness of the estimated fair value less costs of disposal Inquired of management and personnel responsible for the preparation of the business plan about the rationales for key assumptions adopted in developing the business plan of the North America segment that formed the basis for the estimated

goodwill attributed to the North America segment as a result of the impairment testing for the fiscal year ended March 31, 2024. In the current fiscal year, the Group used the fair value less costs of disposal as the recoverable amount in the impairment testing for the goodwill attributable to the North America segment. The future cash flows used in measuring the fair value less costs of disposal were estimated based on the business plan of the North America segment prepared by management, and in the preparation of the business plan, importance was placed on the revenue projection of products attributable to the North America segment. The projected revenue was based on multiple key assumptions such as the sales price of the products, the market size and the market shares of the products in the relevant disease area, which 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 our assessment of the reasonableness of the estimate of the recoverable amount used in the impairment testing for the goodwill attributed to the North America segment was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.	future cash flows. In addition, we performed the following procedures, among others: ● compared the business plan that formed the basis for estimating the future cash flows with the business plan approved by management, for consistency; ● compared the actual results and future estimates of the sales price of the products, the market size and the market shares of the products in the relevant disease area, which were underlying the business plan, with information independently obtained from external professional research organizations; ● assessed the impact of major products on the fair value less costs of disposal based on the relevant information obtained through performing the procedures described above; 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.

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 Accounting Standards, 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 Accounting Standards 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 Accounting Standards, 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, actions taken to eliminate threats or safeguards applied.

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.

Fee-related Information

Fees paid or payable to our firm and to other firms within the same network as our firm for audit and non-audit services provided to the Company and its subsidiaries for the current year are 494 million yen and 30 million yen, respectively.

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.

Hiroyuki Matano
Designated Engagement Partner
Certified Public Accountant

Masato Tateishi
Designated Engagement Partner
Certified Public Accountant

Takuya Hasegawa
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
June 21, 2024