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(Commencement Date of the Measures for Electronic Provision) May 30, 2024

## Other Matters Subject to Measures for Electronic Provision for the 204<sup>th</sup> Annual Shareholders' Meeting (Matters Omitted from the Delivered Documents)

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Sumitomo Pharma Co., Ltd.

## **System to Ensure the Appropriateness of Business Operations and its Implementation**

### **(System to Ensure the Appropriateness of Business Operations)**

At a meeting held by the Board of Directors, the Company passed a resolution on the following basic policy for the establishment of a system to ensure the appropriateness of business operations.

#### **(1) System to Ensure Compliance by the Directors and Employees of the Company with Laws and Regulations and the Articles of Incorporation in the Execution of Their Duties**

- ① The Company shall establish the Compliance Standard and shall take measures to fully disseminate its corporate ethics in order to further ensure daily compliance pursuant to the Declaration of Conduct.
- ② As a system to promote compliance, the Company shall establish the Compliance Committee, in which the Executive Officer for Compliance will serve as the chairperson, and the Compliance Committee Secretariat, and shall appoint department heads as compliance promotion leaders.
- ③ The Company shall periodically hold meetings of the Compliance Committee, and shall keep track of the status of promoting compliance. The Compliance Committee shall appropriately provide a summary of the status to the Board of Directors.
- ④ The Compliance Committee shall formulate and carry out the annual policy of education and training for the Directors and employees.
- ⑤ The Company shall establish a compliance hotline inside and outside the Company that will serve as a window for reporting and consulting matters related to compliance. The Company shall not adversely treat persons who have reported or consulted such matters on the basis that they made such reports or consultation.
- ⑥ The Company shall establish a department that is in charge of internal audit. The department shall audit the status of compliance, and shall appropriately report to the President and CEO and the Executive Officer for Compliance.

#### **(2) System for the Maintenance and Management of Information Concerning the Execution of Duties by the Directors of the Company**

The Company shall establish internal regulations with respect to the handling of records and information, and shall appropriately maintain and manage information in connection with the execution of duties by the Directors.

#### **(3) Rules and Other Systems Regarding the Management of the Risk of Loss of the Company**

- ① The Company shall establish the SMP Group Risk Management Policy that provides for basic thoughts as the Group with respect to risk management and shall conduct appropriate risk management.
- ② The Company shall establish the Risk Management Rules under which it is clarified that the President and CEO oversees risk management and shall develop systems to promote risk management for respective risks classified on the basis of risk characteristics. The status of operations in each system to promote risk management is

periodically reported to the Board of Directors.

- ③ In order to minimize any effects of an emergency, which is likely to materially affect the management or business activities of the Company, the Company shall establish the Rules for Emergency Response and secure the continuity of management and business.

**(4) System to Ensure Efficient Execution of Duties by the Directors of the Company**

- ① The Company shall establish internal regulations such as the Regulations of the Board of Directors, the Regulations of Duties and Authority, the Regulations on Organization and the Rules for Division of Duties, and shall clarify the rules regarding duties and authority, division of duties and decision making.
- ② The Company shall aim to realize speedy and efficient management by introducing an executive officer system.
- ③ The Company shall aim to promote speedy and efficient decision making by introducing an electronic approval system.

**(5) System to Ensure the Appropriateness of the Operations of the Corporate Group (consisting of the Company, its Parent Company and Subsidiaries)**

- ① System to Ensure the Efficient Execution of Duties by Directors, etc. of Subsidiaries  
The subsidiaries shall clarify the rules regarding duties and authority, division of duties and decision making.
- ② System Regarding the Report to the Company of Matters Related to the Execution of Duties by Directors, etc. of Subsidiaries  
The Company shall establish internal regulations that provide for basic matters to promote appropriate group operations, and through commitment by the subsidiaries to comply with such regulations, shall receive from the subsidiaries, reports regarding material matters on management.
- ③ Rules and Other Systems Regarding the Management of the Risk of Loss of Subsidiaries
  - i. The subsidiaries shall develop systems to promote risk management in accordance with the types of their business and the characteristics of risks and shall conduct appropriate risk management.
  - ii. The Company shall govern risk management of the subsidiaries in general, and shall take necessary measures such as giving advice and instructions.
  - iii. The Company shall develop necessary systems to promote risk management for risks the Group should cross-functionally address and shall enhance the Group's risk management.
- ④ System to Ensure Compliance by Directors, etc. and Employees of Subsidiaries with Laws and Regulations and the Articles of Incorporation in the Execution of Their Duties
  - i. The subsidiaries shall develop an appropriate system to promote compliance.
  - ii. The Company shall enhance compliance by the subsidiaries by periodically

holding meetings, such as committee meetings, related to compliance, which the subsidiaries participate in.

- iii. The department that is in charge of the internal audit of the Company shall audit the status of compliance by the subsidiaries, and shall appropriately report to the President and CEO and the Executive Officer for Compliance of the Company.

⑤ Other Systems to Ensure the Appropriateness of the Operations of the Corporate Group (consisting of the Company, its Parent Company and Subsidiaries)

- i. The Company shall ensure its independence and shall develop an autonomous internal control system, while respecting the group operation policy of Sumitomo Chemical Co., Ltd., the parent company.
- ii. The Company shall appropriately conduct transactions with the parent company by ensuring the fairness and rationality of transactions.

**(6) System to Ensure Effective Implementation of Audits by the Audit & Supervisory Board Members**

① Matters Concerning Employees Assigned to Assist the Audit & Supervisory Board Members in the Execution of Their Duties, Matters Concerning the Independence of Such Employees from the Directors of the Company and Matters for Ensuring the Effectiveness of Instructions Given to Such Employees

The Company shall assign one or more employees, who are not under the line of command of the department that executes operations of the Company, to assist the duties of the Audit & Supervisory Board Members and serve in the secretariat of the Audit & Supervisory Board. Decisions on transfer and evaluation of such employees will be made upon consultation with the Audit & Supervisory Board Members and by respecting their opinions.

② System for the Directors and Employees to Report to the Audit & Supervisory Board Members

The Company shall establish procedures or the like with respect to reports by the Directors and employees of the Company to the Audit & Supervisory Board Members, and shall provide information needed by the Audit & Supervisory Board Members in a timely and appropriate manner.

③ System for the Directors, Audit & Supervisory Board Members, Members Who Execute Operations and Employees of Subsidiaries, or Persons Who Receive Report from the Same, to Report to the Audit & Supervisory Board Members of the Company

The Company shall establish procedures or the like with respect to reports by the directors or the like of its subsidiaries to the Audit & Supervisory Board Members, and shall provide information needed by the Audit & Supervisory Board Members in a timely and appropriate manner.

④ System to Ensure That Persons Who Have Made Reports As Provided in the Immediately Preceding Two Paragraphs Will Not Receive Any Adverse Treatment for Having Made Such Reports

The Company shall not adversely treat persons who have made reports as

provided in the immediately preceding two paragraphs on the basis that they made such reports.

- ⑤ Matters Concerning the Procedures for Advance Payment or the Reimbursement of Expenses Incurred in Relation to the Execution of the Duties by the Audit & Supervisory Board Members and Any Other Policy for Processing of Costs and Obligations Incurred in Relation to the Execution of Their Duties

The Company shall process the costs and obligations incurred in relation to the execution of duties by the Audit & Supervisory Board Members in a timely and appropriate manner by respecting their opinions.

- ⑥ Other Systems to Ensure Effective Implementation of Audits by the Audit & Supervisory Board Members

- i. The Company shall periodically hold meetings between the Audit & Supervisory Board Members and the Representative Directors, between the Audit & Supervisory Board Members and the department which is in charge of the internal audit, and among the three parties of the Audit & Supervisory Board Members, the department which is in charge of the internal audit and the Accounting Auditor.
- ii. If there is any request from the Audit & Supervisory Board Members regarding their duties, the Company shall respect such request and shall respond to such request in a timely and appropriate manner.

#### **(7) Elimination of Anti-Social Forces**

The Company shall keep its Directors and employees thoroughly informed to take decisive actions against anti-social forces, and shall promote efforts aimed at cutting off any and all relationships with such forces.

#### **(Overview of the Implementation of the System to Ensure the Appropriateness of Business Operations)**

The overview of the status of the implementation of the system to ensure the appropriateness of business operations is as follows:

##### **(1) Implementation Relating to the Improvement of the Efficiency of the Execution of Duties**

- ① The Company established a department of Corporate Governance for further enhancing corporate governance within the Group, and strives for the effective operation of the Basic Policy on Corporate Governance.
- ② Pursuant to the Regulations of the Board of Directors, sixteen (16) meetings of the Board of Directors were held during the fiscal year under review.
- ③ The Company conducted a questionnaire to all the Directors and Audit & Supervisory Board Members about the effectiveness of the Board of Directors as a whole. Based on the analyzed results of the questionnaire, opinions were exchanged at the meeting of the Board of Directors. The Company has taken action for improvement with respect to matters to be addressed that were identified as a result of such measures.

## **(2) Implementation Relating to the Compliance System**

- ① In order to ensure compliance throughout the Group, the Company developed a system to promote compliance and appointed the Executive Officer for Compliance who oversees compliance matters of the Company and the group companies in Japan and abroad.
- ② The President and CEO and the Executive Officer for Compliance delivered compliance-related messages within the Company and to the group companies in Japan and abroad, and thoroughly emphasized the importance of making further efforts to enhance compliance.
- ③ The Company held meetings of the Company's Compliance Committee, the Compliance Committee for Group Companies in Japan, and the Compliance Committee for Overseas Group Companies, respectively. At such meetings, the status of compliance promotion within the Group was discussed.
- ④ The status of compliance promotion within the Group, the activities of each Compliance Committee and other related matters were reported to the Board of Directors.
- ⑤ The compliance hotline established inside and outside the Company has been appropriately operated, including the necessary response to the Whistleblower Protection Act, and the status of its operations was reported to the Company's Compliance Committee.
- ⑥ For the further enhancement of compliance, the Company examined compliance risks at each workplace, and reviewed, formulated and implemented measures to prevent the occurrence of major risks.
- ⑦ The Company held educational seminars about compliance with topics such as the "Anti-monopoly Act," "Information Management," "Business and Human Rights," and "System for Compliance with the Act on Securing Quality, Efficacy and Safety of Products Including Pharmaceuticals and Medical Devices."

## **(3) Implementation Relating to the Risk Management System**

- ① The Company established the SMP Group Risk Management Policy which sets forth basic policies on the Group's risk management.
- ② For the further promotion of the Group's risk management, the Company classified risks depending on risk characteristics for risks to be addressed by the Group cross-functionally and risks to be addressed by each company at its own responsibility, and developed systems to promote risk management for each classified risk.
- ③ The Company established the systems to keep track of the promotion system for risk management of group companies in Japan and abroad as well as the status of their operations, and to provide guidance, advice and the like to group companies as necessary.
- ④ The status of operations in each system to promote risk management was periodically reported to the Board of Directors.
- ⑤ Pursuant to the Regulations on Information Management, the meeting of the Information Management Committee was held, wherein the status of progress in information

management of the Group, the status of progress in IT security and the status of evaluation of IT security of business partners were reported, and the details of such meeting were reported to the Board of Directors.

- ⑥ The Company established the Computer Security Incident Response Team (CSIRT) as an expert group to respond to cyberattacks, and conducted training, simulating the occurrence of incidents, and other relevant measures.
- ⑦ The Company conducted e-learning training regarding “Information Management” and “IT Security.”
- ⑧ A Crisis Management Team (CMT) was established in order to promptly gather useful information for decision-making by the Disaster Response Headquarters and to enhance initial response capacity upon the occurrence of disasters, and training was carried out aiming to improve initial response capacity.
- ⑨ The Company proactively reviewed and improved business continuity plans based on the results of risk assessment by using the service of an outside consultant. Disaster drills were also conducted at respective business sites such as plants and research laboratories.

**(4) Implementation Relating to the Audit by the Audit & Supervisory Board Members**

- ① In order to enable the Audit & Supervisory Board Members to carry out their duties effectively, the Company has secured an appropriate system in accordance with the Basic Policy for Developing the Internal Control System by, for example, assigning a full-time staff member, who is not under the line of command of the department that executes operations of the Company, to assist the Audit & Supervisory Board Members.
- ② The Company established procedures or the like with respect to reports by the Directors and employees (including the department in charge of the internal audit) of the Company to the Audit & Supervisory Board Members, and has appropriately operated the same.
- ③ The Audit & Supervisory Board Members regularly conducted meetings with the Representative Directors, the department that is in charge of internal auditing and the Accounting Auditor, respectively, to exchange opinions and for other purposes. In addition, the Audit & Supervisory Board Members have made efforts to keep track of the status relating to internal control by attending important meetings such as the meetings of the Global Management Committee and the Compliance Committee.
- ④ Pursuant to the Regulations of the Audit & Supervisory Board, thirteen (13) meetings of the Audit & Supervisory Board were held during the fiscal year under review.

**(5) Transactions with the Parent Company, etc.**

Pursuant to the Regulations of the Board of Directors, at the meeting of the Board of Directors at which Independent Outside Directors are present, the relevant deliberation is conducted on significant transactions with related parties as matters to be resolved, and transactions that do not fall thereunder are reported as matters to be reported. The Company established the Supervisory Committee for Conflict of Interests in

Transactions between Group Companies, which is composed of the Independent Outside Directors only, as a consultative body to the Board of Directors, where the deliberation is conducted on significant transactions, etc. with its parent company's group in light of protecting the interest of minority shareholders. Pursuant to the Regulations of the Supervisory Committee for Conflict of Interests in Transactions between Group Companies, four (4) meetings of the Supervisory Committee for Conflict of Interests in Transactions between Group Companies were held during the fiscal year under review.



### **Overview of the Agreement Limiting the Liability of the Directors and Audit & Supervisory Board Members**

Pursuant to Paragraph 1 of Article 427 of the Companies Act, with respect to liability for damages, the Company executed an agreement (hereinafter referred to as the “Limited Liability Agreement”) with Outside Directors Saeko Arai, Nobuhiro Endo, Minoru Usui and Koji Fujimoto and Outside Audit & Supervisory Board Members Yoshio Iteya, Mayumi Mochizuki and Daishiro Michimori to limit their liability for damages under circumstances where they acted in good faith and were not grossly negligent in performing their respective duties. The Limited Liability Agreement provides for a total maximum liability of ten (10) million yen or any amount stipulated by the relevant laws and regulations, whichever is higher.

### **Overview of the Agreement of Directors and Officers Liability Insurance**

The Company entered into an agreement of directors and officers liability insurance with an insurance company which is provided in Paragraph 1, Article 430-3 of the Companies Act. All the officers and major employees such as executive officers (hereinafter, “Officers, etc.”) of the Company and its domestic subsidiaries (hereinafter, the “Company and its Domestic Subsidiaries”) are insured by the insurance. The Company pays the premium of the insurance in full, and the insurance covers any loss or damage of compensation for damage and litigation costs for which the insured may be liable because of any claim for compensation for damage made against the insured during the term of the insurance arising from any act (including omission of an act) performed by the insured with respect to any duties as Officers, etc. of the Company and its Domestic Subsidiaries. However, the insurance includes certain exceptions to liability such as damage arising from an act conducted by the insured knowing such act is in violation of laws and regulations.

**Consolidated Statement of Changes in Equity**

**(April 1, 2023 to March 31, 2024)**

(millions of yen)

	Equity attributable to owners of the parent				
	Share capital	Treasury shares	Retained earnings	Other components of equity	
				Remeasurements of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit liability/asset
Balance at April 1, 2023	22,400	(682)	280,999	39,260	—
Net profit (loss)			(314,969)		
Other comprehensive income				36,488	3,424
Total comprehensive income			(314,969)	36,488	3,424
Purchase of treasury shares		(0)			
Dividends			(2,781)		
Changes associated with losing control of subsidiaries			(560)		
Reclassification from other components of equity to retained earnings			14,646	(11,222)	(3,424)
Total transactions with owners	—	(0)	11,305	(11,222)	(3,424)
Balance at March 31, 2024	22,400	(682)	(22,665)	64,526	—

	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	Total				
Balance at April 1, 2023	64,097	103,357	675	406,749	33	406,782
Net profit (loss)				(314,969)	40	(314,929)
Other comprehensive income	24,672	64,584		64,584	–	64,584
Total comprehensive income	24,672	64,584		(250,385)	40	(250,345)
Purchase of treasury shares				(0)	–	(0)
Dividends				(2,781)	–	(2,781)
Changes associated with losing control of subsidiaries	3,715	3,715	(675)	2,480	–	2,480
Reclassification from other components of equity to retained earnings		(14,646)		–	–	–
Total transactions with owners	3,715	(10,931)	(675)	(301)	–	(301)
Balance at March 31, 2024	92,484	157,010	–	156,063	73	156,136

(Note) All amounts are rounded to the nearest million yen

## **Notes to Consolidated Financial Statements**

### **1. Summary of material accounting policies for consolidated financial statements**

#### **(1) Accounting standards of consolidated financial statements**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) pursuant to Article 120, paragraph (1) of the Regulations on Corporate Accounting. Part of the disclosures required by IFRS have been omitted pursuant to Article 120, the later part of paragraph (1) of the Regulations on Corporate Accounting.

#### **(2) Scope of consolidation**

Number of consolidated subsidiaries: 23 companies

Names of major consolidated subsidiaries

- (i) Overseas consolidated subsidiaries  
Sumitomo Pharma UK Holdings, Ltd., Sumitomo Pharma America, Inc.,  
Sumitomo Pharma Switzerland GmbH,  
Sumitomo Pharma (China) Co., Ltd., Sumitomo Pharma (Suzhou) Co., Ltd.
- (ii) Domestic consolidated subsidiaries  
Sumitomo Pharma Promo Co., Ltd., S-RACMO Co., Ltd.

Increase/Decrease in consolidated subsidiaries

Decrease: 17 companies

Sumitomo Pharma Animal Health Co., Ltd. and Spirovent Sciences LLC have been excluded from the scope of consolidation as a result of the Company’s transfer of all the shares during the year ended March 31, 2024. Additionally, as a result of the reorganization of North American group companies, Sunovion CNS Development Canada ULC, Myovant Sciences Ltd., Myovant Treasury Holdings, Inc., Myovant Treasury, Inc., Sumitomo Pharma Oncology, Inc., Sumitomo Pharma America Holdings, Inc., Sumitovant Biopharma, Inc., Myovant Sciences, Inc., Urovant Sciences, Inc., Enzyvant Therapeutics, Inc., Enzyvant Therapeutics GmbH, Altavant Sciences GmbH, Enzyvant Therapeutics LLC, Myovant Sciences LLC, and Urovant Sciences LLC have been extinguished.

#### **(3) Application of the equity method**

Number of affiliated companies applied by the equity method: 2 companies

Names of affiliated companies applied by the equity method

Sighregen Co., Ltd. and Aikomi Ltd.

#### **(4) Fiscal year end of consolidated subsidiaries**

Among the consolidated subsidiaries, the account closing date of Sumitomo Pharma (Suzhou) Co., Ltd. and Sumitomo Pharma (China) Co., Ltd. is December 31. Consolidated financial statements are prepared based on the financial statements on which a provisional financial closing has been performed according to the year-end closing requirements as of the consolidated fiscal year end.

#### **(5) Material accounting policies**

##### **① Valuation standards and methods of significant assets (except for financial instruments)**

##### **(a) 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.

Acquisition costs include direct costs of acquisition, estimated costs of dismantlement, removal and restoration, and borrowing costs eligible for capitalization requirements.

##### **(b) Goodwill**

Goodwill is presented at initially recognized cost less 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 of that may be impaired. Impairment loss on goodwill is recognized in profit or loss and is not reversed in subsequent periods.

**(c) 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.

**(d) Right-of-use asset**

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.

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.

**(e) 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 discounted to present value by applying the discount rate that is a pre-tax rate reflecting the time value of money and the risk specific to the asset. Only if the recoverable amount of an asset or a CGU is less than its carrying amount, the carrying amount is reduced to its recoverable amount and the reduction is recognized in profit or loss.

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

Impairment loss recognized for a CGU is first allocated to reduce carrying amount of goodwill allocated to the unit, and subsequently to 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 losses recognized in previous periods for assets other than goodwill are 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.

**(f) 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 or 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.

**② Depreciation and amortization of significant depreciable assets**

**(a) Property, plant and equipment**

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, equipment and vehicle | 2 - 17 years   |
| · Tools, furniture and fixtures    | 2 - 20 years   |
| · Right-of-use assets              | The shorter of the estimated useful lives or lease terms |

Depreciation method, residual value and estimated useful life are reviewed at each fiscal year-end and are subject to revise when necessary.

**(b) Intangible assets**

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 fiscal year-end and are subject to revise when necessary.

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

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

**③ Valuation standards and methods of financial instruments**

**(a) 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 gives 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 measured at amortized cost are measured using the effective interest

method.

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

Financial assets measured at fair value through profit or loss 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 amounts 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 instruments 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.

**(b) 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 are 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.

**(c) 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.

**(d) 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 relationships between hedging instruments and hedged items, including risk management objective, strategy for undertaking the hedge and method for assessing whether the hedging relationships 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 affects 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.

**④ Accounting for significant 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 the time value of money and the risks specific to the liability.

**(a) Reserve for sales returns**

Reserve for sales returns is provided based on the estimated amount of sales return of all the products and goods. The future outflow of economic benefits is expected to be incurred within the normal operating cycle from the end of each reporting period.

**(b) 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. The future outflow of economic benefits is expected to be incurred within the normal operating cycle from the end of each reporting period.

**⑤ Post-employment benefits**

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

**(a) Defined benefit plan**

Present value of defined benefit obligations arising from defined benefit plan and 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. Service cost and net interest on the net defined benefit liability (asset) are recognized as post-retirement benefit expense in profit or loss. Remeasurement of the net defined benefit liability (asset) is recognized in other comprehensive income and immediately reclassified to retained earnings in the period in which they occur.

**(b) 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.

**⑥ Revenue recognition**

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.

**(a) Sales of products**

For sales of products, a 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.

**(b) Revenue arising from intellectual property rights**

Lump sum payments received arising from agreements are recognized as revenue, after signing 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.



**⑦ Standards applicable to the translation of significant foreign currency-denominated assets and liabilities into Japanese Yen**

**(a) 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 translation.

Monetary assets and liabilities denominated in foreign currencies at each reporting date are translated into the functional currency using the exchange rates at each 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 are 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.

**(b) 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 each 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 statements of financial position.

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

**2. Notes to changes in accounting policies**

The Group has adopted the amendment to IAS 12 "Income Taxes" (Deferred tax related to assets and liabilities arising from a single transaction) from the beginning of this fiscal year. The adoption of the amendments to IAS 12 does not have a material impact on the Group's consolidated financial statements.

### 3. Notes to the accounting estimates

The accounts recognized in the consolidated financial statements based on the accounting estimates that could significantly affect the consolidated financial statements for the year ending March 31, 2025 are as follows:

#### (1) Goodwill and Intangible assets

- ① The amounts recognized in consolidated financial statements for the year ended March 31, 2024 of goodwill and intangible assets are 199,783 million yen and 195,652 million yen, respectively.
- ② Other information that supports the users of the consolidated financial statements to understand the accounting estimates

Fair value less costs of disposal used to impairment test of goodwill and intangible assets is calculated based on discounted estimated future cash flows to which weighted average cost of capital set by each CGU is applied as discount rate.

Estimates of future cash flows from intangible assets after launch include many assumptions, such as revenue forecasts and fixed cost forecasts for the product based on the drug price of the target product, the number of patients in the relevant disease area and the market share of the product, etc. Estimates of future cash flows from CGU, including goodwill, include, in addition to the above assumptions, assumptions such as revenue forecasts for products under development that take into account the probability of success of research and development activities for them. These assumptions and discount rates may be affected by uncertain future events and could have a material impact on the amounts of goodwill and intangible assets in the consolidated financial statements for the year ending March 31, 2025.

#### (2) Provisions

- ① The amount of provisions recognized in the consolidated financial statements for the year ended March 31, 2024 is 79,546 million yen.
- ② Other information that supports the users of the consolidated financial statements to understand the accounting estimates

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 the obligations at end of each reporting period. Especially, future sales volume and rebate rate used in the estimation of reserve for sales rebates for products which are sold in the United States may be affected by uncertain future events, and could have a material impact on the amounts of provisions in the consolidated financial statements for the year ending March 31, 2025.

#### (3) Recoverability of deferred tax assets

- ① The amounts of deferred tax assets and deferred tax liabilities recognized in the consolidated financial statements for the year ended March 31, 2024 are 2,239 and 38,211 million yen, respectively.
- ② Other information that supports the users of the consolidated financial statements to understand the accounting estimates

Deferred tax assets are recognized to the extent that it is probable that future taxable profits will be available against deductible temporary differences, etc. The assessment of recoverability of deferred tax assets is under the assumptions of estimated taxable profits of each year in the future based on the Group's business plan. Those estimated future taxable profits may be affected by uncertain future events and could have a material impact on the amounts of deferred tax assets in the consolidated financial statements for the year ending March 31, 2025.

#### 4. Notes to consolidated statement of financial position

##### (1) Accumulated depreciation and accumulated impairment losses of property, plant and equipment

129,724 million yen

##### (2) Guarantee obligations

15 million yen

The amounts of housing funds borrowed by employees from financial institutions have been guaranteed by the Company.

##### (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 yen, 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 yen 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.

#### 5. Consolidated statement of changes in equity

##### (1) Type and total number of issued shares as of the current year end

Ordinary share 397,900,154 shares

##### (2) Dividends

###### ① Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Record date	Effective date of distribution
June 27, 2023 Annual shareholders meeting	Ordinary share	2,781 million yen	7.00 yen	March 31, 2023	June 28, 2023

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

Not applicable.

## **6. Financial instruments**

### **(1) Matters pertaining to financial instruments**

#### **① Overview of financial risk management**

In order to reduce the financial risks (such as credit risk, liquidity risk, market risk and 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.

#### **② Credit risk**

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.

#### **③ Liquidity risk**

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, etc.

#### **④ Market risk**

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 financial instruments. The Group implements certain measures to mitigate each kind of risks.

## (2) Fair value of financial instruments

The carrying amounts and fair values of financial assets and liabilities as of March 31, 2024 are as follows:

(Millions of yen)

	Carrying amount on the consolidated statement of financial position	Fair value	Difference
Financial liabilities			
Financial liabilities measured at amortized cost			
Bonds	119,366	68,382	(50,984)
Borrowings	299,517	299,291	(226)
Total	418,883	367,673	(51,210)

(Note)

1. The financial assets and financial liabilities of which carrying amounts approximate their fair values are not included.
2. Fair value of the bonds is evaluated based on market prices.
3. Fair value of the borrowings is calculated at the present values of the total amount of principle and interests discounted by interest rate that would presumably apply if similar borrowings were newly made.

## (3) Breakdown of financial instruments by fair value hierarchy

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.

① **Financial instruments measured at fair value**

The fair value hierarchy of financial instruments measured at fair value is as follows:

(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
Other	1,776	—	—	1,776
Total	1,776	—	3,314	5,090

The financial assets classified as Level 1 of fair value hierarchy mainly consist of listed equity securities. Level 1 inputs are defined as observable inputs including quoted prices in active markets for identical assets or liabilities.

The financial assets classified as Level 3 of fair value hierarchy mainly consist of unlisted equity securities and their fair values are 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.

② **Financial instruments measured at amortized cost**

The fair value hierarchy of main financial instruments measured at amortized cost is as follows:

(a) Bonds

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

(b) Borrowings

The fair value of the borrowings is calculated at the present value of the total amount of principle 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.

## 7. Revenue Recognition

### (1) Disaggregation of revenue

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

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

(Notes)

1. 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 fiscal year ended March 31, 2024.
2. Revenue from other sources is sales revenue from contracts with joint partners in which the counterparty is not deemed as a customer.

### (2) Information for understanding the revenue recognized or to be recognized in current and subsequent reporting periods

Contract balances arising from contracts with customers as of March 31, 2024 are as follows:

(Millions of yen)	
Receivables from contracts with customers	
Accounts receivable and notes receivable	68,818
Contract assets	—
Contract liabilities	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 assets are rights to receive consideration based on supply agreements. When these rights become unconditional, the Group reclassifies contract assets to trade receivables.

Contract liabilities are 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. Also, there are no material amounts of revenue recognized during the year ended March 31, 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.

**8. Per share information**

(1) Equity attributable to owners of the parent per share	392.82 yen
(2) Basic earnings per share (loss)	(792.79) yen

**9. Material subsequent events**

(Sale of strategic shareholdings)

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 yen.

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.



## 10.Others

### (Impairment losses)

Impairment losses amounting to 180,857 million yen recognized for the year ended March 31, 2024 were recorded in Cost of sales, Selling, general and administrative expenses, and Research and development expenses in the Consolidated Statement of Profit or Loss amounting to 19 million yen, 170,261 million yen and 10,577 million yen, respectively.

The impairment losses mainly consist of 144,107 million yen of impairment losses on intangible assets and 35,858 million yen of impairment losses on goodwill.

Impairment losses on intangible assets were mainly impairment losses of patent right associated with MYFEMBREE® (therapeutic agent for uterine fibroids and endometriosis) amounting to 133,457 million yen and in-process research and development related to rodatristat ethyl, which was being developed targeting pulmonary arterial hypertension (PAH), amounting to 5,205 million yen in North America segment.

As the profitability of patent right associated with MYFEMBREE® was no longer expected, the carrying amount of these assets was reduced to the extent of the recoverable amount. 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.

Impairment loss on goodwill in North America segment is 35,858 million yen.

Impairment losses on goodwill are recognized when recoverable amount is less than carrying amount, and the carrying amount of goodwill is reduced to the extent of the recoverable amount. The recoverable amount is determined by fair value less costs of disposal that is measured based on approved business plan. 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, using assumptions such as the planned launch schedules, the probability of success of research and development activities, revenue forecasts and plans including selling prices of marketed products and products under development, and forecasts of fixed costs.

The discount rate used in the impairment test is based on the weighted average cost of capital, etc. set by each CGU. The pre-tax discount rate used in the impairment test of goodwill is 14.5%. The pre-tax discount rate used in the impairment test of patent rights is 15.8%.

(Other income)

The details of other income are as follows:

(Millions of yen)

	Year ended March 31, 2024
Other income	
Gains on business transfers	501
Gains on sales of shares of subsidiaries	5,890
Others	1,076
Total	7,467

(Other expenses)

The details of other expenses are as follows:

(Millions of yen)

	Year ended March 31, 2024
Other expenses	
Donations	642
Losses on transfer of shares of subsidiary	6,114
Others	1,376
Total	8,132

**Non-consolidated Statement of Changes in Equity**

(April 1, 2023 to March 31, 2024)

(millions of yen)

	Shareholders' equity								
	Share capital	Capital surplus			Legal retained earnings	Retained earnings			
		Legal capital surplus	Other capital surplus	Total capital surplus		Other retained earnings			Total retained earnings
						Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings carried forward	
Balance at April 1, 2023	22,400	15,860	1	15,861	5,288	1,109	275,510	316,434	598,341
Changes during the fiscal year									
Cash dividends								(2,782)	(2,782)
Reserve for advanced depreciation of non-current assets						(1,109)		1,109	—
Net profit (loss)								(588,120)	(588,120)
Purchase of treasury shares									
Changes in items other than shareholders' equity (net)									
Total changes during the fiscal year	—	—	—	—	—	(1,109)	—	(589,793)	(590,902)
Balance at March 31, 2024	22,400	15,860	1	15,861	5,288	—	275,510	(273,359)	7,439

	Shareholders' equity		Valuation, translation adjustments and others		Total net assets
	Treasury shares	Total shareholders' equity	Unrealized gains on available-for-sale securities, net of tax	Total valuation, translation adjustments and others	
Balance at April 1, 2023	(682)	635,920	39,400	39,400	675,320
Changes during the fiscal year					
Cash dividends		(2,782)			(2,782)
Reserve for advanced depreciation of non-current assets		—			—
Net profit (loss)		(588,120)			(588,120)
Purchase of treasury shares	(0)	(0)			(0)
Changes in items other than shareholders' equity (net)			23,957	23,957	23,957
Total changes during the fiscal year	(0)	(590,902)	23,957	23,957	(566,945)
Balance at March 31, 2024	(682)	45,018	63,357	63,357	108,375

(Note) All amounts are rounded to the nearest million yen

## Notes to Non-Consolidated Financial Statements

### 1. Summary of significant accounting policies for non-consolidated financial statements

#### (1) Valuation of securities

Investment in affiliates	Moving-average cost method
Available-for-sale securities	
Securities other than shares without market prices	Market value method (All valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated using the moving-average method.)
Shares without market prices	Moving-average cost method

#### (2) Valuation of inventories

Inventories held for general sales purpose	Weighted average cost method (Book values are calculated using the lower of cost or net realizable value.)
--	--

#### (3) Depreciation and amortization of fixed assets

- ① Property, plant and equipment  
Straight-line method  
The estimated useful life of each asset is as follows:

Buildings and structures	3 - 60 years
Machinery, equipment and vehicles	2 - 17 years
Tools, furniture and fixtures	2 - 20 years
- ② Intangible assets  
Straight-line method  
Intangible assets are amortized using the straight-line method over their estimated useful life.

#### (4) Accounting for allowances/reserves

- ① Allowance for doubtful receivables  
In order to provide for losses arising from uncollectable receivables and other bad debts, the Company review the loan loss ratio of general claims and collectability on an individual basis of particular loans, such as those with a higher probability of default, and accrue provisions for the estimated amounts that will be uncollectible.
- ② Reserve for bonuses  
In order to provide for the payment of employee bonuses, the estimated amounts that will be paid are accrued.
- ③ Provision for retirement benefit liabilities  
In order to provide for the retirement benefits of employees, amounts are accrued based on the projected benefit obligations and estimated value of pension assets as of end of each reporting period.
  - (i) Method of attributing expected retirement benefits to period;  
In calculating retirement benefit obligations, the benefit formula method is used for attributing expected retirement benefits to the period through March 31, 2024.
  - (ii) Method of expenses for actuarial differences and past service costs;  
Unrecognized past service costs are treated as an expense and recognized using the straight-line method, based on the average number of remaining service years of employees when incurred (thirteen years).  
Unrecognized actuarial gains and losses are treated as an expense and recognized from the following fiscal year using the straight-line method based on the average number of remaining service years of employees when incurred (thirteen years).

#### (5) Recognition of revenue and expenses

The Company'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).

- ① Sales of products  
For sales of products, a 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 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.
- ③ Other revenue  
Other revenue includes revenue from co-promotion fees under co-promotion agreements which is comprised of consideration in exchange for providing promotion services and calculated based on the revenue of counterparty. Revenue is recognized at the later of either when revenue is recognized by the counterparty or when the performance obligation is satisfied.

## **(6) Significant hedge accounting methods**

- ① Hedge accounting method  
The Company uses the deferred hedge accounting method. Foreign exchange forward contracts are accounted for by recognizing gains and losses on foreign monetary rights or obligations, preset price, when the contracts conditions are satisfied.
- ② Hedging instruments and hedged items
- |                     |   |
|---------------------|---|
| Hedging instruments | Foreign exchange forward contracts  |
| Hedged items        | Monetary assets and liabilities denominated in foreign currencies and monetary assets and liabilities specifically related to anticipated transactions, denominated in foreign currencies, which are covered by an agreement. |
- ③ Hedging policy  
Foreign exchange forward contracts are conducted pursuant to internal rules and regulations in order to hedge foreign currency risks.
- ④ Method of evaluating the effectiveness of hedges  
The effectiveness has been evaluated by comparing the accumulated changes in market value of hedged items with the accumulated changes in market value of hedging instruments. With regard to foreign exchange forward contracts, the effectiveness of such contracts has not been evaluated as important conditions for hedged items and hedging instruments are the same.

## **2. Notes to change in accounting estimates**

Regarding the accounting treatment of actuarial differences and past service costs in retirement benefit accounting, these have been previously expensed over a fixed number of years (fourteen years) within the average remaining service period of employees. However, as the average remaining service period became less than the above, the fixed number of years has been changed to thirteen years from the year ended March 31, 2024.

The impact of the change in the fixed number of years on profit and loss for the fiscal year ended March 31, 2024 is minor.

## **3. Notes to significant accounting estimates**

The recorded amount in the financial statements based on the accounting estimates that would significantly affect the financial statements for the year ending March 31, 2025 are as follows:

### **(1) Allowance for doubtful accounts of affiliates**

- ① The amount of allowance for doubtful accounts of affiliates recognized in the financial statements for the year ended March 31, 2024 was 46,556 million yen.
- ② Other information that supports the users of the financial statements to understand the accounting estimates  
The Company reviews the collectability of receivables from subsidiaries and records allowance for doubtful accounts for the estimated uncollectable amount by taking into consideration of the financial position and operating results of subsidiaries and affiliates. At March 31, 2024, Sumitomo Pharma UK Holdings, Ltd. (hereinafter referred to as “SMPUK”), a subsidiary of the Company, became net debt position. Therefore, uncollectable amount of loans receivables from SMPUK is individually estimated and allowance for doubtful

accounts of affiliates has been recorded. The estimates may have material impacts on the amounts recognized in the Non-consolidated Statement of Financial Position for the following fiscal years in an event that SMPUK's futures plans become infeasible to achieve due to unforeseen future changes in business conditions or other factors.

**(2) Recoverability of deferred tax assets**

- ① The amount of deferred tax liabilities, net recognized in the financial statements for the year ended March 31, 2024 was 21,278 million yen.
- ② Other information that supports the users of the financial statements to understand the accounting estimates  
This footnote is omitted because the same information is described in Notes to Consolidated Financial Statements.

**4. Notes to the non-consolidated statement of financial position**

**(1) Accumulated depreciation of property, plant and equipment** 109,488 million yen

Accumulated depreciation of property, plant and equipment includes accumulated impairment losses.

**(2) Guarantee obligations**

The amounts of housing funds borrowed by employees from financial institutions have been guaranteed by the Company	15 million yen
The amounts of rent payments of affiliates	2,503 million yen

Guarantee obligation denominated in foreign currencies is translated into Japanese yen at the exchange rate of the reporting period date.

**(3) Monetary claims and liabilities to affiliated companies**

Short-term monetary claims	12,295 million yen
Short-term monetary liabilities	52,810 million yen
Long-term monetary claims	366,278 million yen

**(4) Financial covenants**

One of the loan agreement has financial covenants. Although there is a conflict with the financial covenants at the end 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. Details are described in Notes to Consolidated Financial Statements 4. Notes to consolidated statement of financial position (3) Financial covenants.

**5. Notes pertaining to the non-consolidated statement of profit or loss**

Amounts of transactions with affiliated companies

Transaction amounts based on operating transactions	
Net sales	(6,038) million yen
Amount of goods purchased	14,814 million yen
Other operating transactions	12,764 million yen
Non-operating transactions	23,071 million yen

## 6. Notes to tax effect accounting

### (1) Breakdown of deferred tax assets and deferred tax liabilities by main causes of occurrence

Deferred tax assets	
Reserve for bonuses	1,081 million yen
Allowance for doubtful accounts	14,237 million yen
Reserve for sales rebates	15 million yen
Provision for retirement benefit liabilities	3,369 million yen
Loss on valuation of investment securities	630 million yen
Research and development expenses	4,187 million yen
Inventories	2,118 million yen
Stocks of subsidiaries and affiliates	254,530 million yen
Tax loss carry forward	1,362 million yen
Others	<u>4,761 million yen</u>
Subtotal of deferred tax assets	286,290 million yen
Valuation allowance	<u>(278,289) million yen</u>
Total deferred tax assets	8,001 million yen
Deferred tax liabilities	
Unrealized gains (losses) on available-for-sale securities	(27,952) million yen
Enterprise tax receivables	(558) million yen
Prepaid pension cost	(364) million yen
Refund of capital surplus of a subsidiaries	<u>(405) million yen</u>
Total deferred tax liabilities	<u>(29,279) million yen</u>
Net amount of deferred tax liabilities	<u>(21,278) million yen</u>

### (2) Reconciliation of effective tax rate

Effective statutory tax rate	30.6%
(Adjustments)	
Entertainment expenses and other items that are excluded from deductible expenses	(0.0%)
Dividend income and other items that are excluded from taxable income	0.2%
Residence tax on per-capita basis	(0.0%)
Changes in valuation allowance	(32.4%)
Others	<u>(0.0%)</u>
Actual effective tax rate	<u>(1.7%)</u>

## 7. Notes to transactions with related parties

### (1) Parent company and main corporate shareholders

Type	Name of company	Ratio of voting rights (or ownership)	Relationship with related party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Parent company	Sumitomo Chemical Co., Ltd.	Direct ownership: 51.78%	<ul style="list-style-type: none"> <li>• Purchasing raw materials</li> <li>• Leasing land, etc.</li> <li>• Purchasing plant utilities, etc.</li> <li>• Lending and collection of funds</li> <li>• Acceptance of debt guarantees</li> </ul>	Lending Funds (Note 1)	(10,000) million yen	Short-term loans to affiliates	—
				Acceptance of debt guarantees (Note 2)	316,009 million yen	—	—

Transaction terms and policies for determining transaction terms, etc.

Note: 1 With respect to the lending of funds, a reasonable rate of interest is determined, by considering the market rate of interest.

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 at March 31, 2024 is shown in the Amount of transaction(s).

### (2) Subsidiaries

Type	Name of company	Ratio of voting rights (or ownership)	Relationship with related party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Subsidiary	Sumitomo Pharma UK Holdings, Ltd.	Direct ownership: 100%	• Lending funds	Lending Funds (Note 1)	14,084 million yen	Long-term loans to affiliates	143,034 million yen
Subsidiary	Sumitomo Pharma America, Inc.	Indirect ownership: 100%	• Lending funds	Lending Funds (Note 1)	104,248 million yen	Long-term loans to affiliates	111,805 million yen
			<ul style="list-style-type: none"> <li>• Supplier of intermediate products</li> <li>• Commission of development</li> </ul>	Supplier of intermediate products, etc. (Note 2)	44,109 million yen	Accounts payable-other	42,080 million yen



Subsidiary	Sumitomo Pharma Switzerland GmbH	Indirect ownership: 100%	• Lending funds	Lending Funds (Note 1)	57,839 million yen	Long-term loans to affiliates	111,439 million yen
Subsidiary	Sumitomo Pharma (Suzhou) Co., Ltd.	Indirect ownership: 100%	• Supplier of intermediate products • Commission of development	Supplier of intermediate products, etc. (Note 2)	19,854 million yen	Accounts receivable	4,706 million yen

Transaction terms and policies for determining transaction terms, etc.

Notes: 1. With respect to the lending of funds, a reasonable rate of interest is determined, by considering the market rate of interest.

2. Prices of intermediate products are determined under the same conditions as regular transactions, based on the agreement between the two parties taking into account of market prices.

## 8. Notes to Non-Consolidated Statement of Changes in Equity

Type and total number of Company's shares (treasury shares) as of the end of the current fiscal year

Ordinary share 609,393 shares

## 9. Notes to revenue recognition

Basic information for understanding revenue arising from contract with customers

Basic information for understanding revenue arising from contract with customers is omitted because the same information is described in Notes to Consolidated Financial Statements, 7. Revenue recognition.

## 10. Notes to per share information

(1) Net assets per share 272.79 yen

(2) Net profit (loss) per share (1,480.32) yen

## 11. Significant subsequent events

(Sale of strategic shareholdings)

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 yen. Gains on sales of investment securities amounting to 55,060 million yen are expected to be recorded as extraordinary income in the Non-consolidated Statement of Profit or Loss in the year ending March 31, 2025.

## 12. Others

During the year ended March 31, 2024, in order to evaluate the investment in SMPUK, the Company measured the real value of SMPUK reflecting the excess earning power of the North America segment. As a result, the Company determined that there was a significant decline in the real value of shares issued by SMPUK, and recorded a valuation loss on shares of subsidiaries and affiliates of 556,823 million yen, as an extraordinary loss in the Non-consolidated Statement of Profit or Loss.

In addition, provision of allowance for doubtful accounts of subsidiaries and affiliates of 37,771 million yen was recorded as an extraordinary loss in the Non-consolidated Statement of Profit or Loss taking into account of the SMPUK's current consolidated financial condition.