Consolidated Financial Statements

Years ended March 31, 2024 and 2023

SUMITOMO CHEMICAL

Consolidated Statement of Financial Position

Millions of yen	Note	As of March 31, 2024	As of March 31, 2023
Assets			
Current assets:			
Cash and cash equivalents	8	¥ **217,449**	¥ **305,844**
Trade and other receivables	9	**620,022**	**603,161**
Other financial assets	10	**31,338**	**31,237**
Inventories	11	**709,637**	**744,474**
Other current assets	12	**79,077**	**70,670**
Subtotal		**1,657,523**	**1,755,386**
Assets held for sale	13	**18,359**	**7,498**
Total current assets		**1,675,882**	**1,762,884**
Non-current assets:			
Property, plant and equipment	14	**796,526**	**829,355**
Goodwill	15	**263,757**	**266,868**
Intangible assets	15	**272,921**	**403,996**
Investments accounted for using the equity method	17	**319,988**	**402,980**
Other financial assets	10	**412,747**	**313,115**
Retirement benefit assets	24	**110,390**	**99,253**
Deferred tax assets	18	**37,070**	**39,492**
Other non-current assets	12	**45,537**	**47,560**
Total non-current assets		**2,258,936**	**2,402,619**
Total assets		¥ **3,934,818**	¥ **4,165,503**

Millions of yen	Note	As of March 31, 2024	As of March 31, 2023
Liabilities and equity			
Liabilities			
Current liabilities:			
Bonds and borrowings	19,21	¥ **585,905**	¥ **396,903**
Trade and other payables	23	**543,384**	**515,865**
Other financial liabilities	20,21,22	**77,610**	**74,931**
Income taxes payable		**8,545**	**31,772**
Provisions	25	**90,919**	**129,030**
Other current liabilities	26	**129,087**	**128,060**
Subtotal		**1,435,450**	**1,276,561**
Liabilities directly associated with assets held for sale	13	**8,037**	**1,806**
Total current liabilities		**1,443,487**	**1,278,367**
Non-current liabilities:			
Bonds and borrowings	19,21	**977,581**	**1,064,463**
Other financial liabilities	20,21,22	**100,144**	**98,594**
Retirement benefit liabilities	24	**30,589**	**26,427**
Provisions	25	**46,059**	**38,443**
Deferred tax liabilities	18	**121,146**	**101,164**
Other non-current liabilities	26	**51,446**	**68,856**
Total non-current liabilities		**1,326,965**	**1,397,947**
Total liabilities		**2,770,452**	**2,676,314**
Equity			
Share capital	27	**89,938**	**89,810**
Capital surplus	27	**237**	—
Retained earnings	27	**578,175**	**891,552**
Treasury shares	27	**(8,355)**	**(8,349)**
Other components of equity	27	**304,033**	**197,830**
Other comprehensive income associated with assets held for sale		**1,725**	**349**
Equity attributable to owners of the parent		**965,753**	**1,171,192**
Non-controlling interests		**198,613**	**317,997**
Total equity		**1,164,366**	**1,489,189**
Total liabilities and equity		¥ **3,934,818**	¥ **4,165,503**

Consolidated Statement of Income

Fiscal years ended March 31, 2024 and 2023

Millions of yen	Note		FY2023		FY2022
Sales revenue	6,29	¥	2,446,893	¥	2,895,283
Cost of sales			(1,947,198)		(2,074,357)
Gross profit			499,695		820,926
Selling, general and administrative expenses	30		(887,124)		(878,261)
Other operating income	31		27,935		69,227
Other operating expenses	31		(71,934)		(36,079)
Share of profit (loss) of investments accounted for using the equity method	17		(57,398)		(6,797)
Operating income (loss)			(488,826)		(30,984)
Finance income	32		72,997		70,836
Finance expenses	32		(46,963)		(39,621)
Income (loss) before taxes			(462,792)		231
Income tax expenses	18		(2,657)		(47,096)
Net income (loss)			(465,449)		(46,865)
Net income (loss) attributable to:					
Owners of the parent			(311,838)		6,987
Non-controlling interests			(153,611)		(53,852)
Net income (loss)		¥	(465,449)	¥	(46,865)

Yen	Note	FY2023	FY2022
Earnings per share:	34		
Basic earnings (loss) per share		(190.69)	4.27
Diluted earnings per share		—	4.27

Consolidated Statement of Comprehensive Income

Fiscal years ended March 31, 2024 and 2023

Millions of yen	Note	FY2023	FY2022
Net income (loss)		¥ **(465,449)**	¥ **(46,865)**
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	33	**42,622**	**14,958**
Remeasurements of defined benefit plans	24,33	**(3,387)**	**8,670**
Share of other comprehensive income of investments accounted for using the equity method	17,33	**3,644**	**1,126**
Total items that will not be reclassified to profit or loss		**42,879**	**24,754**
Items that may be subsequently reclassified to profit or loss			
Cash flow hedge	33,36	**925**	**8,163**
Exchange differences on conversion of foreign operations	33	**104,619**	**62,572**
Share of other comprehensive income of investments accounted for using the equity method	17,33	**15,023**	**17,003**
Total items that may be subsequently reclassified to profit or loss		**120,567**	**87,738**
Other comprehensive income, net of taxes		**163,446**	**112,492**
Total comprehensive income		**(302,003)**	**65,627**
Total comprehensive income attributable to :			
Owners of the parent		**(187,380)**	**84,077**
Non-controlling interests		**(114,623)**	**(18,450)**
Total comprehensive income		¥ **(302,003)**	¥ **65,627**

Consolidated Statement of Changes in Equity

Fiscal year ended March 31, 2024

Millions of yen	Note	Equity attributable to owners of the parent					
						Other components of equity	
		Share capital	Capital surplus	Retained earnings	Treasury shares	Remeasurements of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance as of April 1, 2023		¥ 89,810	¥ —	¥ 891,552	¥ (8,349)	¥ 81,869	¥ —
Net income (loss)		—	—	(311,838)	—	—	—
Other comprehensive income	33	—	—	—	—	24,972	(4,940)
Total comprehensive income		—	—	(311,838)	—	24,972	(4,940)
Issuance of new shares	27	128	128	—	—	—	—
Purchase of treasury shares	27	—	—	—	(5)	—	—
Disposal of treasury shares	27	—	0	—	0	—	—
Dividends	28	—	—	(19,628)	—	—	—
Changes resulting from additions to consolidation		—	—	—	—	—	—
Changes resulting from loss of control of subsidiaries		—	—	(290)	—	—	—
Change in interest due to transactions with non-controlling interests	37	—	109	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	18,453	—	(23,393)	4,940
Others, net		—	—	(74)	—	—	—
Transfer to other comprehensive income associated with assets held for sale		—	—	—	—	—	—
Transfer of negative balance of other capital surplus		—	—	—	—	—	—
Total transactions with owners		128	237	(1,539)	(5)	(23,393)	4,940
Balance as of March 31, 2024		¥ 89,938	¥ 237	¥ 578,175	¥ (8,355)	¥ 83,448	¥ —

	Note	Equity attributable to owners of the parent						
		Other components of equity						
		Cash flow hedges	Exchange differences on conversion of foreign operations	Total	Other comprehensive income associated with assets held for sale	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of April 1, 2023		¥ (539)	¥ 116,500	¥ 197,830	¥ 349	¥1,171,192	¥ 317,997	¥ 1,489,189
Net income (loss)		—	—	—	—	(311,838)	(153,611)	(465,449)
Other comprehensive income	33	858	103,568	124,458	—	124,458	38,988	163,446
Total comprehensive income		858	103,568	124,458	—	(187,380)	(114,623)	(302,003)
Issuance of new shares	27	—	—	—	—	256	—	256
Purchase of treasury shares	27	—	—	—	—	(5)	—	(5)
Disposal of treasury shares	27	—	—	—	—	0	—	0
Dividends	28	—	—	—	—	(19,628)	(5,954)	(25,582)
Changes resulting from additions to consolidation		—	—	—	—	—	54	54
Changes resulting from loss of control of subsidiaries		—	1,923	1,923	(349)	1,284	—	1,284
Change in interest due to transactions with non-controlling interests	37	—	—	—	—	109	1,139	1,248
Transfer from other components of equity to retained earnings		—	—	(18,453)	—	—	—	—
Others, net		—	—	—	—	(74)	—	(74)
Transfer to other comprehensive income associated with assets held for sale		—	(1,725)	(1,725)	1,725	—	—	—
Transfer of negative balance of other capital surplus		—	—	—	—	—	—	—
Total transactions with owners		—	198	(18,255)	1,376	(18,058)	(4,761)	(22,819)
Balance as of March 31, 2024		¥ 319	¥ 220,266	¥ 304,033	¥ 1,725	¥ 965,753	¥ 198,613	¥ 1,164,366

Fiscal year ended March 31, 2023

		Equity attributable to owners of the parent					
						Other components of equity	
Millions of yen	Note	Share capital	Capital surplus	Retained earnings	Treasury shares	Remeasurements of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance as of April 1, 2022		¥ **89,699**	¥ **27,089**	¥ **974,382**	¥ **(8,343)**	¥ **82,682**	¥ —
Net income (loss)		—	—	**6,987**	—	—	—
Other comprehensive income	33	—	—	—	—	**4,550**	**9,163**
Total comprehensive income		—	—	**6,987**	—	**4,550**	**9,163**
Issuance of new shares	27	**111**	**111**	—	—	—	—
Purchase of treasury shares	27	—	—	—	**(6)**	—	—
Disposal of treasury shares	27	—	**0**	—	**0**	—	—
Dividends	28	—	—	**(42,514)**	—	—	—
Changes resulting from additions to consolidation		—	—	—	—	—	—
Changes resulting from loss of control of subsidiaries		—	—	**513**	—	**(505)**	—
Change in interest due to transactions with non-controlling interests	37	—	**(88,037)**	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	**13,672**	—	**(4,509)**	**(9,163)**
Others, net		—	**(603)**	**(48)**	—	—	—
Transfer to other comprehensive income associated with assets held for sale		—	—	—	—	**(349)**	—
Transfer of negative balance of other capital surplus		—	**61,440**	**(61,440)**	—	—	—
Total transactions with owners		**111**	**(27,089)**	**(89,817)**	**(6)**	**(5,363)**	**(9,163)**
Balance as of March 31, 2023		¥ **89,810**	¥ —	¥ **891,552**	¥ **(8,349)**	¥ **81,869**	¥ —

		Equity attributable to owners of the parent						
		Other components of equity						
	Note	Cash flow hedges	Exchange differences on conversion of foreign operations	Total	Other comprehensive income associated with assets held for sale	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance as of April 1, 2022		¥ **(8,735)**	¥ **61,327**	¥ **135,274**	¥ —	**¥1,218,101**	¥ **483,876**	**¥1,701,977**
Net income (loss)		—	—	—	—	**6,987**	**(53,852)**	**(46,865)**
Other comprehensive income	33	**8,204**	**55,173**	**77,090**	—	**77,090**	**35,402**	**112,492**
Total comprehensive income		**8,204**	**55,173**	**77,090**	—	**84,077**	**(18,450)**	**65,627**
Issuance of new shares	27	—	—	—	—	**222**	—	**222**
Purchase of treasury shares	27	—	—	—	—	**(6)**	—	**(6)**
Disposal of treasury shares	27	—	—	—	—	**0**	—	**0**
Dividends	28	—	—	—	—	**(42,514)**	**(13,962)**	**(56,476)**
Changes resulting from additions to consolidation		—	—	—	—	—	—	—
Changes resulting from loss of control of subsidiaries		**(8)**	—	**(513)**	—	—	—	—
Change in interest due to transactions with non-controlling interests	37	—	—	—	—	**(88,037)**	**(133,467)**	**(221,504)**
Transfer from other components of equity to retained earnings		—	—	**(13,672)**	—	—	—	—
Others, net		—	—	—	—	**(651)**	—	**(651)**
Transfer to other comprehensive income associated with assets held for sale		—	—	**(349)**	**349**	—	—	—
Transfer of negative balance of other capital surplus		—	—	—	—	—	—	—
Total transactions with owners		**(8)**	—	**(14,534)**	**349**	**(130,986)**	**(147,429)**	**(278,415)**
Balance as of March 31, 2023		¥ **(539)**	¥ **116,500**	¥ **197,830**	¥ **349**	**¥1,171,192**	¥ **317,997**	**¥1,489,189**

Consolidated Statement of Cash Flows

Fiscal years ended March 31, 2024 and 2023

Millions of yen	Note	FY2023	FY2022
Cash flows from operating activities:			
Income (loss) before taxes		¥ (462,792)	¥ 231
Depreciation and amortization		157,522	167,957
Impairment losses	16	269,389	109,417
Share of (profit) loss of investments accounted for using the equity method		57,398	6,797
Interest and dividend income		(22,139)	(18,730)
Interest expenses		29,234	22,468
Restructuring costs		48,397	22,021
Changes in fair value of contingent consideration		1,562	(3,388)
(Gain) loss on sale of property, plant and equipment, and intangible assets		(1,215)	(5,226)
(Increase) decrease in trade receivables		34,798	134,499
(Increase) decrease in inventories		78,554	(79,887)
Increase (decrease) in trade payables		(32,251)	(63,628)
Increase (decrease) in unearned revenue		(11,543)	(13,717)
Increase (decrease) in provisions		(50,143)	(13,373)
Others, net		(67,240)	(88,340)
Subtotal		29,531	177,101
Interest and dividends received		26,812	25,265
Interest paid		(28,060)	(21,768)
Income taxes paid		(48,333)	(65,529)
Restructuring costs paid		(31,267)	(3,448)
Net cash provided by (used in) operating activities		(51,317)	111,621
Cash flows from investing activities:			
Net (increase) decrease in securities		(3,953)	6,546
Purchase of property, plant and equipment, and intangible assets		(152,873)	(143,581)
Proceeds from sales of property, plant and equipment, and intangible assets		1,959	18,231
Purchase of investments in subsidiaries		(1,019)	(17,174)
Purchase of other financial assets		(5,273)	(7,692)
Proceeds from sales and redemption of other financial assets		97,963	42,974
Proceeds from collection of loan receivables	38	95	63,199
Increase in loan receivables	38	(67,825)	(1,728)
Proceeds from sale of subsidiaries		20,701	30,092
Others, net		(2,015)	(10,278)
Net cash provided by (used in) investing activities		(112,240)	(19,411)
Cash flows from financing activities:			
Net increase (decrease) in short-term borrowings	21	26,405	100,959
Net increase (decrease) in commercial paper	21	29,000	35,000
Proceeds from long-term borrowings	21	67,113	66,141
Repayments of long-term borrowings	21	(39,083)	(109,130)
Proceeds from issuance of bonds	21	39,836	—
Redemption of bonds	21	(30,000)	—
Repayments of finance lease liabilities	21,22	(18,619)	(16,668)
Cash dividends paid	28	(19,639)	(42,484)
Cash dividends paid to non-controlling interests		(5,965)	(13,982)
Payments for acquisition of subsidiaries' interests from non-controlling interests		—	(199,073)
Others, net		198	735
Net cash provided by (used in) financing activities		49,246	(178,502)
Effect of exchange rate changes on cash and cash equivalents		28,736	27,842
Increase (decrease) in cash and cash equivalents		(85,575)	(58,450)
Cash and cash equivalents at the beginning of the year	8	305,844	365,429
Net increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	13	(2,820)	(1,135)
Cash and cash equivalents at the end of the period	8	¥ 217,449	¥ 305,844

Notes to Consolidated Financial Statements

Sumitomo Chemical Company, Limited and Consolidated Subsidiaries

For the Years ended March 31, 2024 and 2023 (Fiscal year 2023 and Fiscal year 2022)

1. Reporting Entity

Sumitomo Chemical Company, Limited (hereinafter, the "Company") is a company domiciled in Japan. The address of the Company's registered head office and main places of business are presented on the Company's website (URL https://www.sumitomo-chem.co.jp/english/).

The consolidated financial statements of the Company and its subsidiaries (hereinafter, the "Group") have a closing date as of March 31 and comprise the financial statements of the Group and the interests in associates and jointly controlled entities of the Group.

The Group is primarily involved in the manufacturing and sale of "Essential Chemicals & Plastics," "Energy & Functional Materials," "IT-related Chemicals," "Health & Crop Sciences" and "Pharmaceuticals." Details of these businesses are presented in Note 6 Segment Information.

2. Basis of Preparation

(1) Compliance with IFRS

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

The Group's consolidated financial statements were approved on June 21, 2024 by Keiichi Iwata, Representative Director & President.

(2) Basis of measurement

The Group's consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments measured at fair value presented 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.

3. Material Accounting Policies

(1) Basis of consolidation

① Subsidiaries

Subsidiaries are entities controlled by the Group. The Group has control over an entity if it has exposure or rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Accordingly, even in cases where the Group does not own the majority of voting rights of an entity, if the Group is deemed to effectively control its decision-making body, the entity is treated as a subsidiary.
The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which it is lost.
Subsidiaries' financial statements are adjusted, if necessary, when their accounting policies differ from those of the Group.
All intergroup balances, transactions and unrealized gains and losses arising from intergroup transactions are eliminated in preparing the consolidated financial statements.
A change in ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Differences between adjusted non-controlling interest amounts and fair value of the considerations are recognized directly as equity attributed to owners of the parent. In the event of a loss of control, any gain or loss arising from a loss of control is recognized in profit or loss.
In the case when the closing date of a subsidiary is different from that of the Group, financial statements that are prepared provisionally as of the consolidated closing date are used for such subsidiaries.

② Associates and joint control arrangements

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. The Group is presumed to have significant influence over another when it holds at least 20% of the voting rights of that entity.
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. Investments in joint control arrangements are classified as joint operations or joint ventures depending on 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.
Investments in associates and equity interests in joint ventures are initially recognized at acquisition cost, and subsequently accounted for using the equity method. Investments in associates and joint ventures include goodwill identified on acquisition.
If the Group holds an interest in a joint operation, the Group recognizes its share of the assets, liabilities, income and expenses generated from the joint operation.
Financial statements of associates, joint ventures and joint operations are adjusted, if necessary, when their accounting policies differ from those of the Group.
When it is impracticable to unify the closing date of associates, joint ventures and joint operations due to certain reasons, such as relationships with other shareholders, significant transactions or events between the closing date of the Group and that of the said entities' financial statements are reflected in the consolidated financial statements.
The Company assesses whether there is any indication that investments in associates and joint ventures may be impaired, and if there is an indication of impairment, the Company performs an impairment test. The recoverable amount is calculated using fair value, for which market price is used.

(2) Business combinations

The Group uses the acquisition method to account for business combinations. The consideration of acquisition is measured as the aggregate of the acquisition-date fair value of the assets transferred, liabilities assumed and equity securities issued by the Group in exchange for control of the acquiree.
Identifiable assets and liabilities of the acquiree, excluding the following items, are measured at their acquisition-date fair values.

- Deferred tax assets/liabilities, and assets/liabilities related to employee benefits;

・Share-based payment contracts of the acquiree; and

・Non-current assets and disposal groups classified as held for sale in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Goodwill is recognized as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree; over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. Conversely, any shortfall is immediately recognized as gain in profit or loss.

Non-controlling interests are initially measured either at fair value or at a proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis.

Acquisition-related costs associated with business combinations, such as advisory fees, attorney fees and due diligence costs, are expensed as incurred.

If the initial accounting for business combination has not been completed by the reporting date in which the business combination occurs, the Company reports provisional amounts for the incomplete items. Those provisional amounts recognized at the acquisition date are retrospectively adjusted if new information obtained within one year from the acquisition date (hereinafter, "measurement period") would have affected the measurement of the amounts recognized on the acquisition date.

If a business combination is achieved in stages, the Group remeasures its previously held equity interest in the acquiree at its acquisition-date fair value, and recognizes the resulting gain or loss, if any, in profit or loss or other comprehensive income.

Some changes in the fair value of contingent consideration after the acquisition are adjusted against the recognized consideration if it is regarded as the above-mentioned measurement period adjustment; otherwise, it is recognized as a change in fair value in profit or loss.

Additional acquisition of non-controlling interests is accounted for as an equity transaction, and therefore goodwill is not recognized with respect to such a transaction.

(3) Foreign currency conversions

① Foreign currency transactions

Foreign currency transactions are converted into the respective functional currencies at the spot exchange rate at the date of transaction.

Foreign currency monetary assets and liabilities at the reporting date are converted into the functional currency using the exchange rate at the reporting date.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are converted into the functional currency using the spot exchange rate at the date of transaction.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are converted into the functional currency using the exchange rate at the date when the fair value is determined.

Exchange differences arising from conversions and settlements are recognized in profit or loss. However, exchange differences arising from equity instruments measured at fair value through other comprehensive income and cash flow hedges to the extent that the hedge is effective are recognized in other comprehensive income.

② Financial statements of foreign operations

Assets and liabilities of foreign operations are converted into Japanese yen at the spot exchange rate at the reporting date. Income and expenses are converted into Japanese yen at the average exchange rate, except when the exchange rate fluctuates significantly. Exchange differences arising from conversion of financial statements of the foreign operations are recognized in other comprehensive income.

In the case of disposal of foreign operations, the cumulative amount of the exchange differences related to that foreign operation, which is recognized in other comprehensive income and accumulated in equity, is reclassified from equity to profit or loss when the gains or losses on disposal are recognized.

(4) Financial instruments

① Non-derivative financial assets

(i) Initial recognition and measurement

The Group initially recognizes trade receivables and other receivables at the date of occurrence. All other financial assets are recognized initially on the transaction date on which the Group becomes a party to the contractual provisions of the instrument.

The Group classifies its financial assets as follows upon initial recognition:

(a) Financial assets measured at amortized cost

A financial asset is classified as a financial asset measured at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model whose objective is to hold 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 principal and interest on the principal amount outstanding.

(b) Financial assets measured at fair value through other comprehensive income (financial assets measured at FVTOCI)

- Debt instruments measured at fair value through other comprehensive income

  A debt instrument meeting both of the following conditions is classified as a financial asset measured at fair value through other comprehensive income.

  a. The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets

  b. The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

- Equity instruments measured at fair value through other comprehensive income

  For certain equity instruments held primarily for the purpose of maintaining or strengthening the business relationships with investees, the Group elects these instruments as fair value through other comprehensive income at initial recognition.

(c) Financial assets measured at fair value through profit or loss (financial assets measured at FVTPL)

Financial assets designated as measured at fair value through profit or loss and other than financial assets mentioned in (a) and (b), are classified as financial assets measured at fair value through profit or loss.

Except for financial assets measured at fair value through profit or loss, financial assets are initially measured at fair value plus transaction costs.

(ii) Subsequent measurement

After initial recognition, financial assets are measured based on the following classifications:

(a) Financial assets measured at amortized cost

These financial assets are measured at amortized cost using the effective interest method. Interest income from these financial assets measured at amortized cost is included in finance income in the consolidated statement of income.

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

Financial assets measured at fair value through other comprehensive income are measured at fair value, and subsequent changes in fair value are recognized in other comprehensive income.

However, dividends from the equity instruments that are designated as measured at fair value through other comprehensive income are recognized in finance income when the Group's right to receive payment of the dividends is established. Also, accumulated other comprehensive income in "Other components of equity" is transferred to retained earnings when the fair value of financial assets declines significantly or when financial assets are derecognized.

Interests accrued on debt instruments are recognized in finance income in the consolidated statement of income. Also, accumulated other comprehensive income in “Other components of equity” is transferred to profit or loss as reclassification adjustments when such instruments are derecognized.

(c) 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.

(iii) Derecognition of financial assets

The Group derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when the Group transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

(iv) Impairment

At each reporting date, the Group assesses whether the credit risk on a financial asset measured at amortized cost, a debt instrument measured at fair value through other comprehensive income or a financial guarantee contract has increased significantly since the initial recognition.

The Group measures an allowance for doubtful accounts for financial assets at an amount equal to the lifetime expected credit losses if the credit risk on those financial assets has increased significantly since initial recognition. If the credit risk on the financial assets has not significantly increased since the initial recognition, the Group measures an allowance for doubtful accounts for financial assets at an amount equal to 12-month expected credit losses. However, the Group always measures an allowance for doubtful accounts at an amount equal to lifetime expected credit losses for trade and other receivables without a significant financial component. When determining whether the credit risk of the financial asset has significantly increased since initial recognition, the Group evaluates by comparing the risk of a default occurring on the financial assets at each reporting date with the risk of a default occurring on the financial assets at the date of initial recognition. The Group considers reasonable and supportable information about past events, current conditions and forecasts of future economic conditions as far as it is available without excessive cost or effort. The following is this information.

(a) Internal credit rating
(b) External credit rating (if available)
(c) Actual or expected significant change in the results of the borrower's performance
(d) Actual or expected significant adverse change in the regulatory environment, economic environment or technological environment that causes a significant change in the borrower’s ability to fulfill its obligation
(e) Significant increase in credit risk of the other financial instruments of the same borrower
(f) Significant change in the value of collateral underlying debt, third-party guarantee or credit enhancement

The Group measures a credit loss using the difference between the discounted present value of the contractual amount receivable and the estimated amount receivable, and recognizes it in profit or loss.

② Non-derivative financial liabilities

(i) Initial recognition and measurement

The Group initially recognizes financial liabilities when the Group becomes a contractual party. Financial liabilities, excluding the following items, are classified as financial liabilities measured at amortized cost at the initial recognition.

(a) Financial liabilities measured at fair value through profit or loss (financial liabilities measured at FVTPL)
(b) Financial guarantee contracts
(c) Contingent consideration associated with business combination

All financial liabilities are initially measured at fair value. 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 initial recognition, financial liabilities are measured based on the following classifications:

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

These financial liabilities are measured at fair value and its changes are recognized in profit or loss.

(b) Financial guarantee contracts

Financial guarantee contracts are measured at the higher of the following.

・The amount of allowance for doubtful accounts calculated based on the above (iv) Impairment

・The amount initially recognized less accumulated amortization

(c) Contingent consideration associated with business combination

Contingent consideration associated with business combination is measured at fair value and its changes are recognized in profit or loss.

(d) Financial liabilities measured at amortized cost

These financial liabilities are measured at amortized cost using the effective interest method. Interest expenses from these financial liabilities measured at amortized cost are included in finance expenses in the consolidated statement of income.

(iii) Derecognition

The Group derecognizes financial liabilities when they are extinguished; i.e. when the obligation specified in the contract is discharged, canceled, or expires.

③ Derivative financial instruments and hedge accounting

The Group uses derivatives such as foreign exchange forward contracts, interest rate swaps contracts and commodity futures contracts to hedge foreign exchange fluctuation risk, interest rate fluctuation risk and commodity price fluctuation risk, respectively. For certain forward sales transactions, the Group makes an irrevocable designation as financial instruments to be measured at fair value through profit or loss at the inception of contracts only when it removes or significantly reduces accounting mismatch; they are included in financial instruments as derivatives. These derivatives are initially measured at fair value when contracts are entered into and are subsequently remeasured at fair value.

Changes in fair value of derivatives are recognized in profit or loss. However, gains or losses on cash flow hedges to the extent that the hedges are effective are recognized in other comprehensive income.

At the inception of the hedge, the Group formally designates and documents hedging relationships to which hedge accounting applies and the risk management objectives and strategies for undertaking the hedges. The documentation includes identifying hedging instruments, the hedged items or transaction, the nature of the risk being hedged, and how the effectiveness of hedging instruments is assessed in offsetting the exposures to the changes in fair value or cash flows of hedged items attributable to hedged risks. The Group evaluates whether a derivative used to hedge a transaction is effective to offset the change in fair value or cash flows of a hedged item at the inception of the hedge and on an ongoing basis.

(i) Fair value hedges

Changes in fair value of hedging instruments are recognized in profit or loss. Changes in fair value of hedged items attributable to the hedged risks adjust carrying amounts of hedged items and are recognized in profit or loss.

(ii) Cash flow hedges

The effective portion of gains or losses on hedging instruments is recognized in other comprehensive income as cash flow hedges and the ineffective portion is recognized in profit or loss.

After that, accumulated gains and losses recognized in other comprehensive income are reclassified to profit or loss as reclassification adjustments in the same period when cash flows arising from the hedged items affect profit or loss. When

the hedged items result in recognition of a non-financial asset, the accumulated gains and losses through other comprehensive income are reclassified and included directly in the initial cost of the non-financial asset.
Hedge accounting is discontinued when a forecast transaction is not highly probable to occur. Furthermore, if a forecast transaction is no longer expected to occur, the accumulated amount recognized in other comprehensive income is transferred immediately to profit or loss.

(5) 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.

(6) Inventories
Inventories are measured at the lower of acquisition cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated cost necessary to make a sale. Acquisition cost is mainly calculated by the periodic average method and comprises purchase costs, processing costs, and all other costs incurred in bringing the inventories to their present location and condition.

(7) Property, plant and equipment (except for right-of-use assets)
Property, plant and equipment are measured at acquisition cost less accumulated depreciation and accumulated impairment losses.
The acquisition cost includes direct costs of acquisition, estimated costs of dismantlement, land removal and restoration, and borrowing costs to be capitalized.
Depreciation of assets other than land and construction in progress is calculated on a straight-line basis over the estimated useful lives of the assets.
The estimated useful lives of major categories of assets are as follows:
・Buildings and structures 5-60 years
・Machinery, equipment and vehicles 4-12 years
Estimated useful lives, residual values and depreciation method are reviewed at each fiscal year-end, and any revisions are applied prospectively as changes in accounting estimate.

(8) Goodwill and intangible assets
① Goodwill
Goodwill arising on the acquisition of business is recognized and initially measured as stated in (2) Business combinations.
Goodwill is not amortized and is tested for impairment at every reporting period and whenever there is an indication that it may be impaired.
An impairment loss on goodwill is recognized in the consolidated statement of income and is not reversed in subsequent periods.
Goodwill is presented in the consolidated statement of financial position at the amount calculated by deducting accumulated impairment losses from acquisition cost.
As for investee accounted for by using the equity method, goodwill is included in the carrying amount of the investment.

② Intangible assets

Intangible assets are measured at acquisition cost less accumulated amortization and accumulated impairment losses.

Individually acquired intangible assets are initially recognized at acquisition cost. Intangible assets acquired in a business combination are measured at fair value at the acquisition date. Research expenses of an internal project are recognized as cost when they are incurred. Development expenses of an internal project are recognized as intangible assets only when they satisfy all the recognition criteria.

Intangible assets are amortized on a straight-line basis over their useful lives. Intangible assets recorded as in-process research and development that are not yet available for use are not amortized, and are tested for impairment at every reporting period or whenever there is an indication of impairment. They are reclassified to patent, marketing rights, or other related accounts when marketing approval from regulatory authorities is obtained and are amortized when they become available for use. Estimated useful lives of major categories of assets are as follows;

・Patents 3-20 years

・Software 3-10 years

Estimated useful lives, residual values and amortization method are reviewed at each fiscal year-end, and any revisions are applied prospectively as changes in accounting estimate.

(9) Leases

The Group determines 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.

The Group recognizes a right-of-use asset and a corresponding lease liability at the commencement date of the lease, when it has determined whether a contract is, or contains, a lease.

① Right-of-use assets

Right-of-use assets are measured at acquisition cost, less accumulated depreciation and accumulated impairment losses. The acquisition cost comprises the amount of the initial measurement of the lease liabilities adjusted for initial direct costs, plus any costs including restoration obligations of the underlying assets. Right-of-use assets are depreciated over the shorter of their useful lives and lease terms. Right-of-use assets are included in “Property, plant and equipment” in the consolidated statement of financial position.

② Lease liabilities

Lease liabilities are measured at the present value of the lease payments that are not paid as of the lease commencement date. The lease payments are discounted using the interest rate implicit in the lease. If interest rate implicit in the lease cannot be readily determined, the Group’s incremental borrowing rate is used. After the commencement date, lease liabilities are measured by increasing the carrying amounts to reflect interests on the lease liabilities and by reducing the carrying amounts to reflect lease payment made. The lease liabilities are included in “Other financial liabilities” in the consolidated statement of financial position.

In addition, the Group has applied IFRS 16 paragraph 6 for short-term leases and leases of low-value assets, and recognized these lease payments as expenses using the straight-line basis over the lease terms.

(10) Impairment of non-financial assets

The Group assesses whether there is any indication that a non-financial asset may be impaired at the end of each reporting date. If there is an indication of impairment, the recoverable amount of the asset is estimated. For goodwill, intangible assets with indefinite useful lives, and intangible assets not yet available for use, the recoverable amount is estimated annually at a consistent time in each year, irrespective of whether there is any indication of impairment.

The recoverable amount of an asset or its cash-generating unit (hereinafter, “CGU”) is the higher of its value in use or its fair value less disposal costs. In determining value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the time value of money and the risks specific to the asset. If it is not possible to

estimate the recoverable amount of each asset individually for the impairment test, such assets are integrated into the smallest CGU that generates cash inflows from continuing use that are largely independent of cash inflows from other assets or groups of assets. For the purposes of goodwill impairment testing, CGUs to which goodwill would be allocated are aggregated when necessary so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored. Goodwill acquired in a business combination is allocated to the (group of) CGU(s) that is expected to benefit from the synergies of the business combination.
Group corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, the recoverable amount of the (group of) CGU(s) to which the corporate assets belong is measured.
If the carrying amount of assets or the (group of) CGU(s) exceeds the recoverable amount, an impairment loss is recognized in profit or loss for the period. The impairment loss recognized for the (group of) CGU(s) is first allocated to reduce the carrying amount of any 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.
An impairment loss recognized for goodwill cannot be reversed. In respect of assets other than goodwill, impairment losses recognized in prior periods are assessed at the end of each reporting date as to whether there is any indication that the losses may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or the (group of) CGU(s) is estimated. In cases in which the recoverable amount exceeds the carrying amount of the asset or the (group of) CGU(s), the impairment loss is reversed up to the carrying amount less depreciation or amortization that would have been determined if no impairment losses had been recognized in prior periods.

(11) Employee benefits

① Post-retirement benefits

The Group sponsors defined benefit plans and defined contribution plans as post-retirement benefits.
The Group uses the projected unit credit method to determine the present value of its defined benefit obligation and the related current and past service costs.
The discount rates are determined by referring to the market yield at the fiscal year-end on high-quality corporate bonds for the corresponding periods in which the retirement benefits are to be paid.
The amount of the net defined benefit liability/asset is calculated by deducting the fair value of plan assets from the present value of defined benefit obligation. However, if the defined benefit plans are overfunded, net defined benefit assets are capped at the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.
Remeasurements of defined benefit plans are recognized in other comprehensive income and immediately reclassified to retained earnings in the periods in which they occur.
Past service costs are recognized in profit or loss for the periods in which they are incurred.
Payments to defined contribution plans are recognized as expenses in the periods that employees render services.

② Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis, and are recognized as expenses when the related service is rendered.
For bonuses and paid absence expenses, when there is a legal or constructive obligation to make payments of these, and a reliable estimate of the obligation can be made, the estimated amount to be paid based on these plans is accounted for as a liability.

③ Other long-term employee benefits

Long-term benefit obligations other than post-retirement benefit plans include special paid leaves and bonuses granted conditional on a certain period of employment. Liabilities recognized in respect of other long-term employee benefits are measured at the present value of the estimated future benefits that are expected to be paid by the Group in exchange for the services rendered by employees up to the reporting date.

(12) Provisions

Provisions are recognized when the Group has a present legal obligation or constructive obligation arising as a result of a past event; it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made. Provisions are stated at the present value of the estimated future cash flows that are discounted using a pre-tax discount rate reflecting the time value of money and the specific risks of the liability. Where discounting is used, the increase in the provision to reflect the passage of time is recognized as finance expenses.

① Provisions for sales rebates

Provisions for sales rebates mainly related to public programs and contracts with wholesalers are provided based on the amounts expected to be paid subsequent to the fiscal year-end date.

② Provisions for asset retirement obligations

Provisions for asset retirement obligations are provided based on estimated future expenditures when the Group has a legal, contractual or similar obligation associated with the retirement of property, plant and equipment.

③ Provisions for sales returns

Provisions for sales returns are provided based on estimated amounts of sales returns of merchandise and finished goods.

④ Provisions for removal cost of property, plant and equipment

Provisions for removal cost of property, plant and equipment for which removal policy has been determined are provided based on the estimated amount of removal expenditures.

(13) Revenue

① Revenue from contracts with customers

The Group recognizes revenue when the Group transfers promised goods or services to a customer and the customer obtains control of those goods or services 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 the entity satisfies a performance obligation

The Group mainly engages in manufacturing and sales of Essential Chemicals & Plastics, Energy & Functional Materials, IT-related Chemicals, Health & Crop Sciences, and Pharmaceuticals. For sales of such 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, rebates and other items to the extent that it is highly probable that a significant reversal will not occur.

As for certain parts of the performance obligation related to providing services for the design, engineering, and construction management of chemical plants, the Group transfers control of products and services over time, and therefore recognizes revenue over time according to the percentage of completion of the performance obligation. The Group measures the percentage of completion based on the percentage of actual cost to the total amount of estimated cost (input method).

② Interest income

Interest income is recognized using the effective interest method.

③ Dividends

Dividends are recognized when a right to receive dividend payments is established.

(14) Income taxes

Income taxes consist of current taxes and deferred taxes. They are recognized as income or expenses and included 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 in the amount of the expected tax payable to or receivable from the tax authorities. Calculation of the tax amount is based on the tax rates and tax laws enacted or substantively enacted by the reporting date in countries where the Group conducts business and earns taxable income.

Deferred taxes are recognized for temporary differences between the carrying amount of assets or liabilities and their tax bases, tax loss carryforwards and tax credits at the reporting date.

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 from transactions other than business combinations that affect neither accounting income nor taxable income, and do not give rise to equal taxable and deductible temporary differences at the time of the transaction.
- Taxable temporary differences on investments in subsidiaries and associates, and interests in joint control arrangements, when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax liabilities are recognized, in principle, for all taxable temporary differences. Deferred tax assets are recognized for deductible temporary differences, the carryforwards of unused net operating losses and the carryforwards of unused tax credits to the extent that it is probable that they will be utilized against future taxable income.

The carrying amount of deferred tax assets is reviewed each period and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to realize benefits from all or part of the assets. Unrecognized deferred tax assets are reassessed at each reporting period and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

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

The Company and certain consolidated subsidiaries have adopted the group tax sharing system.

The Group has applied the temporary relief of the “International Tax Reform-Pillar Two Model Rules (Amendments to IAS12)” announced in May 2023, and does not recognize or disclose deferred tax assets and deferred tax liabilities related to income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two model rules announced by the Organization for Economic Co-operation and Development (OECD).

(15) Earnings per share

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

(16) Capital

Ordinary shares are classified as capital.

Treasury shares are recognized at acquisition cost and deducted from equity. No gains or losses are recognized on the purchase, sale or retirement of the Company’s treasury shares. Any differences between the carrying amount and consideration received on the sale of treasury shares are recognized in capital surplus.

(17) Share-based payment

The Company has introduced a restricted stock compensation plan as a system of incentives for the Company's Board of Directors (excluding Outside Directors) and executive officers not concurrently serving as members of the Board of Directors (excluding non-residents of Japan). Compensation under the restricted stock compensation plan is measured with reference to the fair value of the Company's common shares granted as of the grant date, and is expensed from the day when the shares are granted through the vesting period, with the same amount recognized as an increase in equity.

(18) Assets held for sale

The Group classifies a non-current asset or disposal group that will be recovered principally through a sales transaction rather than through continuing use as assets held for sale only when it is highly probable that the sale will occur and the asset or asset group is available for immediate sale in its present condition.
Non-current assets or asset group classified as assets held for sale are measured at the lower of its carrying amount and the fair value less costs to sell.
Fixed assets and intangible assets classified assets held for sale are not depreciated or amortized. Assets and liabilities held for sale are presented separately from other assets and liabilities as current items in the consolidated statement of financial position.

(19) Changes in accounting policies

"Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)" issued in May 2021 has been applied to the Group from FY2023. The application of Amendments to IAS 12 does not have a material impact on the consolidated financial statements. The Group has applied Amendments to IAS 12 retrospectively and the amount presented in comparative information in "18. Income Taxes (1) Deferred tax assets and liabilities ① Details and changes in deferred tax assets and liabilities" has reflected the retrospective application.

4. Significant Accounting Estimates and Judgments

Management has made a number of judgments, estimates and assumptions relating to the application of accounting policies, and reporting of income, expenses, assets and liabilities in the preparation of these consolidated financial statements in accordance with IFRS. Actual results may materially affect the Company's consolidated financial statements for FY2024 due to the uncertainties in these estimates and judgments.
Estimates and underlying assumptions are continually evaluated. The effect of changes to accounting estimates is recognized in the reporting period in which the changes are made and in future periods.
Judgments, estimates and assumptions made by the management that could materially affect the Company's consolidated financial statements are included in the following notes:

- Impairment of non-financial assets (Note 16 Impairment of Non-financial Assets);
- Assessment of investments and loans in joint ventures (Note 17 Investments Accounted for Using the Equity Method and Note 36 Financial Instruments);
- Recoverability of deferred tax assets (Note 18 Income Taxes);
- Measurement of provisions (Note 25 Provisions); and
- Fair value of financial instruments (Note 36 Financial Instruments).

5. New Standards and Interpretations Not Yet Applied

Major new and amended accounting standards and interpretations that the Group had not yet applied in FY2023, which were issued by the approval date of the consolidated financial statements, are as follows. The impact of applying the new IFRS standards on the Group is currently being assessed and cannot be estimated at this time.

Standards	Name of standards	Effective date (Fiscal year starting on or after)	Timing of application 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	FY2026	・ Clarifying the classification of financial assets (clarifying elements for assessing whether the contractual cash flows meet the solely payments of principal and interest (SPPI) criterion) ・ Clarifying the date of derecognition of financial liabilities settled through electronic cash transfer systems ・ Amendments to the disclosures for investments in equity instruments designated to be measured at fair value through other comprehensive income (FVTOCI) and financial instruments with contingent features that can change cash flows
IFRS 18	Presentation and Disclosure in Financial Statements	January 1, 2027	FY2027	・ 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

6. Segment Information

(1) Summary (or outline / overview) of reportable segments

The reportable segments of the Group refer to business units for which separate financial information is available and that are reviewed regularly at the Board of Directors meeting in order to determine allocation of management resources and evaluate business performances by each business unit.

The Group divides its operations into business sectors identified by products and services, which manage manufacturing, sales, and research in an integrated manner. Each business sector is responsible for developing comprehensive domestic and overseas strategies with respect to its products and services, and operates its business activities.

Accordingly, the Group has five reportable segments based on its products and services in accordance with its business sectors, including “Essential Chemicals & Plastics,” “Energy & Functional Materials,” “IT-related Chemicals,” “Health & Crop Sciences,” and “Pharmaceuticals.”

The major products and services of each reportable segment are as follows:

Reportable Segment	Major Products and Services
Essential Chemicals & Plastics	Synthetic resins, raw materials for synthetic fibers, various industrial chemicals, methyl methacrylate products, synthetic resin processed products, etc.
Energy & Functional Materials	Alumina, aluminum, specialty chemicals, additives, synthetic rubber, engineering plastics, battery materials, etc.
IT-related Chemicals	Optical products, semiconductor processing materials, compound semiconductor materials, touch screen sensor panels, etc.
Health & Crop Sciences	Crop protection chemicals, fertilizers, agricultural materials, household insecticides, products for control of infectious diseases, feed additives, active pharmaceutical ingredients and intermediates, etc.
Pharmaceuticals	Pharmaceuticals for medical treatment, radiopharmaceuticals, etc.

(2) Reportable segments information

The accounting methods for each reportable segment are, in principle, identical to those set forth in Note 3 Material Accounting Policies. The segment profit or loss is core operating income, which is calculated from operating income after excluding effects from non-recurring factors.

Inter-segment sales revenue is based on market prices.

Fiscal year 2023

	Millions of yen								
	Reportable segments								
	Essential Chemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharma-ceuticals	Total	Others (Note 1)	Adjustments (Note 2)	Consolidated
Sales revenue:									
Sales revenues from external customers	**¥ 773,979**	**¥ 300,264**	**¥ 414,150**	**¥ 545,965**	**¥ 342,736**	**¥ 2,377,094**	**¥ 69,799**	**¥ —**	**¥ 2,446,893**
Inter-segment sales revenues	**5,460**	**17,143**	**454**	**6,045**	**3**	**29,105**	**83,314**	**(112,419)**	**—**
Total sales revenue	**779,439**	**317,407**	**414,604**	**552,010**	**342,739**	**2,406,199**	**153,113**	**(112,419)**	**2,446,893**
Segment profit (loss) : core operating income (loss)	**¥ (90,682)**	**¥ 7,832**	**¥ 43,959**	**¥ 30,892**	**¥ (133,016)**	**¥ (141,015)**	**¥ 8,076**	**¥ (16,110)**	**¥ (149,049)**
Segment assets	**850,425**	**347,251**	**465,163**	**903,812**	**961,870**	**3,528,521**	**340,377**	**65,920**	**3,934,818**
Other items:									
Depreciation and amortization	**30,400**	**19,584**	**22,799**	**24,934**	**40,369**	**138,086**	**8,627**	**10,809**	**157,522**
Share of profit (loss) of investments accounted for using the equity method	**(69,679)**	**177**	**4**	**360**	**(23)**	**(69,161)**	**11,314**	**449**	**(57,398)**
Impairment losses	**45,724**	**18,118**	**4,814**	**19,847**	**180,878**	**269,381**	**—**	**8**	**269,389**
Investments accounted for using the equity method	**205,364**	**601**	**504**	**8,662**	**360**	**215,491**	**106,328**	**(1,831)**	**319,988**
Capital expenditures	**26,911**	**23,839**	**42,870**	**31,011**	**20,913**	**145,544**	**5,188**	**7,673**	**158,405**

Note 1: “Others” represents businesses such as supplying electrical power and steam, providing services for the design, engineering, and construction management of chemical plants, providing transport and warehousing, and conducting materials and environmental analysis, which are not included in reportable segments.

Note 2: Amounts in “Adjustments” are as follows:

(1) ¥ (16,110) million for segment profit (loss) in “Adjustments” includes inter-segment elimination of ¥ 1,030 million and corporate expenses of ¥ (17,140) million unallocated to each reportable segment. Corporate expenses are mainly research & development expenses for company-wide research, which are not attributed to reportable segments.

(2) Segment assets in “Adjustments” are ¥65,920 million, which includes ¥ (137,241) million in eliminations of inter-segment receivables and other assets, and ¥203,161 million of corporate assets unallocated to each reportable segment. Corporate assets mainly consist of cash and cash equivalents, investment securities, and the assets related to research & development activities for company-wide research.

(3) Depreciation and amortization in “Adjustments” is ¥10,809 million, mainly related to the assets arising from research & development activities for company-wide research unallocated to each reportable segment.

(4) Investments accounted for using the equity method in “Adjustments” is ¥ (1,831) million, which is eliminations of inter-segment transactions.

(5) Capital expenditures in “Adjustments” amounting to ¥7,673 million is mainly contributed by company-wide research activities that are not allocated to each reportable segment.

Fiscal year 2022

	Millions of yen								
	Reportable segments								
	Essential Chemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharma-ceuticals	Total	Others (Note 1)	Adjustments (Note 2)	Consolidated
Sales revenue:									
Sales revenues from external customers	¥ 852,916	¥ 342,460	¥ 431,219	¥ 598,390	¥ 584,873	¥ 2,809,858	¥ 85,425	¥ —	¥ 2,895,283
Inter-segment sales revenues	5,694	17,473	465	5,654	15	29,301	87,323	(116,624)	—
Total sales revenue	858,610	359,933	431,684	604,044	584,888	2,839,159	172,748	(116,624)	2,895,283
Segment profit (loss) : core operating income (loss)	¥ (34,197)	¥ 15,239	¥ 47,601	¥ 57,277	¥ 16,168	¥ 102,088	¥ 10,405	¥ (19,741)	¥ 92,752
Segment assets	872,612	380,186	464,615	874,037	1,189,289	3,780,739	371,749	13,015	4,165,503
Other items:									
Depreciation and amortization	30,075	19,324	26,578	28,724	43,989	148,690	8,219	11,048	167,957
Share of profit (loss) of investments accounted for using the equity method	(18,384)	151	4	213	39	(17,977)	10,890	290	(6,797)
Impairment losses	1,805	261	1,728	19,610	86,013	109,417	—	—	109,417
Investments accounted for using the equity method	257,219	424	501	8,579	383	267,106	138,175	(2,301)	402,980
Capital expenditures	30,179	26,600	32,799	24,321	14,135	128,034	6,622	6,425	141,081

Note 1: “Others” represents businesses such as supplying electrical power and steam, providing services for the design, engineering, and construction management of chemical plants, providing transport and warehousing, and conducting materials and environmental analysis, which are not included in reportable segments.

Note 2: Amounts in “Adjustments” are as follows:

(1) ¥ (19,741) million for segment profit (loss) in “Adjustments” includes inter-segment elimination of ¥ (231) million and corporate expenses of ¥ (19,510) million unallocated to each reportable segment. Corporate expenses are mainly research & development expenses for company-wide research, which are not attributed to reportable segments.

(2) Segment assets in “Adjustments” are ¥13,015 million, which includes ¥ (149,681) million in eliminations of inter-segment receivables and other assets, and ¥162,696 million of corporate assets unallocated to each reportable segment. Corporate assets mainly consist of cash and cash equivalents, investment securities, and the assets related to research & development activities for company-wide research.

(3) Depreciation and amortization in “Adjustments” is ¥11,048 million, mainly related to the assets arising from research & development activities for company-wide research unallocated to each reportable segment.

(4) Investments accounted for using the equity method in “Adjustments” is ¥ (2,301) million, which is eliminations of inter-segment transactions.

(5) Capital expenditures in “Adjustments” amounting to ¥6,425 million is mainly contributed by company-wide research activities that are not allocated to each reportable segment.

Adjustments from segment profit (loss) to income (loss) before taxes are as follows:

	Millions of yen	
	FY2023	FY2022
Segment profit (loss)	**¥ (149,049)**	**¥ 92,752**
Impairment losses	**(269,389)**	**(109,417)**
Restructuring costs	**(48,397)**	**(22,021)**
Share of profit (loss) of investments accounted for using the equity method (non-recurring factors)	**(4,830)**	―
Changes in fair value of contingent consideration	**(1,562)**	**3,388**
Gains on sale of property, plant and equipment, and intangible assets	**1,215**	**5,226**
Others, net	**(16,814)**	**(912)**
Operating income (loss)	**(488,826)**	**(30,984)**
Finance income	**72,997**	**70,836**
Finance expenses	**(46,963)**	**(39,621)**
Income (loss) before taxes	**¥ (462,792)**	**¥ 231**

Note: The breakdown of share of profit (loss) of investments accounted for using the equity method included in operating income (loss) is as follows:

	Millions of yen	
	FY2023	FY2022
Share of profit (loss) of investments accounted for using the equity method	**¥ (57,398)**	**¥ (6,797)**
Of which resulting from recurring factors	**(52,568)**	**(6,797)**
Of which resulting from non-recurring factors	**(4,830)**	―

(3) Geographic information

The breakdown of sales revenues and non-current assets is as follows:

Sales revenues from external customers

Fiscal year 2023

Millions of yen					
Japan	China	North America Of which: the U.S.	Southeast Asia	Others	Total
¥ 782,048	**¥ 384,247**	**¥ 326,530** **309,644**	**¥ 245,563**	**¥ 708,505**	**¥ 2,446,893**

Note: Sales revenues are classified by country and region based on the location of customers.

Fiscal year 2022

Millions of yen					
Japan	China	North America Of which: the U.S.	Southeast Asia	Others	Total
¥ 928,344	**¥ 454,480**	**¥ 491,757** **475,301**	**¥ 264,029**	**¥ 756,673**	**¥ 2,895,283**

Note: Sales revenues are classified by country and region based on the location of customers.

(Change in presentation)

“Southeast Asia,” which was included in “Others” in FY2022 is presented separately in FY2023 due to increased quantitative materiality. As a result, “Others” of ¥1,020,702 million has been reclassified as “Southeast Asia” of ¥264,029 million and “Others” of ¥756,673 million.

Non-current assets

As of March 31, 2024

Millions of yen			
Japan	North America Of which: the U.S.	Others	Total
¥ 558,400	**¥ 500,612** **500,511**	**¥ 319,729**	**¥ 1,378,741**

Note: Classification of non-current assets is based on the location of the assets. Financial instruments, deferred tax assets and retirement benefit assets are not included in non-current assets.

As of March 31, 2023

Millions of yen			
Japan	North America Of which: the U.S.	Others	Total
¥ 624,954	**¥ 616,638** **614,913**	**¥ 306,187**	**¥ 1,547,779**

Note: Classification of non-current assets is based on the location of the assets. Financial instruments, deferred tax assets and retirement benefit assets are not included in non-current assets.

(4) Information about major customers

No information is shown because no customer accounts for over 10% of the amount of consolidated sales revenues from external customers.

7. Business Combinations

(1) Significant business combinations

Fiscal year 2023

There are no significant business combinations in FY2023.

Fiscal year 2022

There are no significant business combinations in FY2022.

(2) Contingent consideration

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

As for the acquisition of Tolero, consideration for the acquisition amounting to $205 million (¥23,272 million) has been paid through FY2023, and a maximum amount of $210 million (¥31,779 million) may possibly be paid before considering the time value of the money upon the achievement of the development milestones for chemical compounds under development by Tolero. In addition, a maximum amount of $150 million (¥22,700 million) may possibly be paid, before considering time value of money, upon the achievement of commercial milestones determined based on sales revenue earned after commencement of sales.

The Group recognizes 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 hierarchy of contingent consideration and its sensitivity analysis are disclosed in Note 36 Financial Instruments.

The total amounts of future payments that the Group may be required to make are ¥54,479 million (undiscounted) and ¥48,074 million (undiscounted) as of March 31, 2024 and 2023, respectively. The amounts payable by the due dates of the contingent consideration are not presented because of the uncertainty.

8. Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Cash and deposits	**¥ 217,017**	**¥ 258,778**
Short-term investments	**432**	**47,066**
Total	**¥ 217,449**	**¥ 305,844**

9. Trade and Other Receivables

The breakdown of trade and other receivables is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Trade notes and accounts receivable	**¥ 537,707**	**¥ 534,987**
Other receivables	**72,091**	**64,300**
Others	**10,224**	**3,874**
Total	**¥ 620,022**	**¥ 603,161**

Trade and other receivables are classified as financial assets measured at amortized cost.

Also, contract assets are included in “Others.”

10. Other Financial Assets

The breakdown of other financial assets is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Financial assets measured at fair value through OCI:		
Shares and investments	**¥ 293,250**	**¥ 269,690**
Others	**—**	**3,040**
Financial assets measured at fair value through profit or loss:		
Loan receivables	**114,968**	**39,501**
Long-term accrued interests	**910**	**803**
Derivative assets	**756**	**1,965**
Others	**16,475**	**7,812**
Financial assets measured at amortized cost:		
Loan receivables	**1,172**	**1,756**
Others	**16,554**	**19,785**
Total	**¥ 444,085**	**¥ 344,352**
Current assets	**31,338**	**31,237**
Non-current assets	**412,747**	**313,115**
Total	**¥ 444,085**	**¥ 344,352**

The fair value of the investment in equity instruments measured at fair value through other comprehensive income is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Marketable	**¥ 212,529**	**¥ 191,625**
Non-marketable	**80,721**	**81,105**
Total	**¥ 293,250**	**¥ 272,730**

The fair value of the major issues included in the above are as follows:

Issue	March 31, 2024	March 31, 2023
	Millions of yen	
Roivant Sciences Ltd.	**¥ 113,647**	**¥ 85,117**
Inabata & Co., Ltd.	**17,753**	**—**
Nippon Shokubai Co., Ltd.	**14,368**	**14,403**

Note: As for Royvant Sciences Ltd, all shares were sold on April 2, 2024. For details, please refer to Note 41 Subsequent Events.

Investments held for the purpose of expanding its revenue base by maintaining and strengthening business relationships with the investees are designated as financial assets measured at fair value through other comprehensive income.

The Group disposed and derecognized some investments in equity instruments measured at fair value through other comprehensive income to improve the efficiency of assets and reassess the business relationships.
Their fair value and accumulated gains or losses (before tax) at the time of disposal in FY2023 and FY2022 are as follows:

Millions of yen			
FY2023		FY2022	
Fair Value	Cumulative gains (losses)	Fair Value	Cumulative gains (losses)
¥ 70,091	**¥ 46,521**	**¥ 39,082**	**¥ 13,266**

Accumulated gains or losses recorded as other components of equity are reclassified to retained earnings when the fair value is significantly declined or derecognized. Accumulated gains or losses (after tax) reclassified to retained earnings are ¥23,393 million and ¥4,509 million for FY2023 and FY2022, respectively.

11. Inventories

The breakdown of Inventories is as follows:

	March 31, 2024	March 31, 2023
	Millions of yen	
Merchandise and finished goods	**¥ 437,953**	**¥ 465,772**
Raw materials and supplies	**238,956**	**252,387**
Work in process	**32,728**	**26,315**
Total	**¥ 709,637**	**¥ 744,474**

Write-downs of inventories recognized as expenses are ¥29,224 million and ¥35,727 million for FY2023 and FY2022, respectively.

12. Other Assets

The breakdown of other assets is as follows:

	March 31, 2024	March 31, 2023
	Millions of yen	
Prepaid expenses	**¥ 37,471**	**¥ 36,888**
Income taxes receivable	**28,290**	**19,129**
Advance payment	**3,408**	**6,820**
Others	**55,445**	**55,393**
Total	**¥ 124,614**	**¥ 118,230**
Current assets	**79,077**	**70,670**
Non-current assets	**45,537**	**47,560**
Total	**¥ 124,614**	**¥ 118,230**

13. Assets Held for Sale

The breakdown of assets held for sale and liabilities directly associated with assets held for sale is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Assets held for sale:		
Cash and cash equivalents	¥ 3,958	¥ 1,135
Trade and other receivables	6,311	2,043
Other financial assets	760	1,195
Inventories	1,633	2,736
Property, plant and equipment	4,960	266
Others	737	123
Total	¥ 18,359	¥ 7,498
Liabilities directly associated with assets held for sale:		
Trade and other payables	¥ 3,549	¥ 622
Bonds and borrowings	1,437	—
Other current liabilities	579	412
Retirement benefit liabilities	1,267	407
Others	1,205	365
Total	¥ 8,037	¥ 1,806

(Change in presentation)

“Cash and cash equivalents” and “Property, plant and equipment” which were included in “Others” under “Assets held for sale” in FY2022, are presented separately in FY2023 due to increased quantitative materiality.

As a result, “Others” under “Assets held for sale” of ¥1,524 million has been reclassified as “Cash and cash equivalents” of ¥1,135 million, “Property, plant and equipment” of ¥266 million, and “Others” of ¥123 million.

The major assets held for sale and liabilities directly associated with assets held for sale as of March 31,2024 are as follows.

In March 2024, the Company decided to transfer its shares in Sumika Color Co., Ltd. to Nippon Pigment Company Limited, and concluded a share transfer agreement. It is extremely likely that Sumika Color Co., Ltd. will cease to be a subsidiary of the Company as a result of this transfer. Therefore, the assets associated with Sumika Color Co., Ltd. and the liabilities directly associated with these assets have been classified as a disposal group held for sale as of March 31, 2024. It is planned to complete the transfer of shares during the first quarter of FY2024. The disposal group held for sale belongs to the Essential Chemicals & Plastics segment.

In addition, in March 2024, the Company decided to transfer all of the shares that the Group holds in Sumika Electronic Materials (Hefei) Co., Ltd. (hereinafter, “SEMH”) and Sumika Electronic Materials (Chongqing) Co., Ltd. (hereinafter, “SEMC”) to Zhenjiang Runjing High Purity Chemical Technology Co., Ltd., and concluded a share transfer agreement. It is extremely likely that SEMH and SEMC will cease to be the Company’s group companies as a result of this transfer. Therefore, the assets associated with SEMH and SEMC and the liabilities directly associated with these assets have been classified as a disposal group held for sale as of March 31, 2024. It is planned to complete the transfer of shares during the first quarter of FY2024. The disposal group held for sale belongs to the IT-related Chemicals segment.

Assets held for sale and liabilities directly associated with assets held for sale as of March 31,2023 are as follows.

In December 2022, Sumitomo Pharma Co., Ltd. (hereinafter, “Sumitomo Pharma”), a subsidiary of the Company, concluded a contract to transfer its entire shareholding in Sumitomo Pharma Animal Health Co., Ltd. to Mitsui & Co., Ltd. It became extremely likely that Sumitomo Pharma Animal Health Co., Ltd. would cease to be a subsidiary of the Company as a result of this transfer. Therefore, the assets associated with Sumitomo Pharma Animal Health Co., Ltd. and the liabilities directly associated with these assets were classified as a disposal group held for sale as of March 31, 2023. The disposal group held for sale belonged to the Pharmaceuticals segment.

The transfer of shares was completed in May 2023.

14. Property, Plant and Equipment

(1) Changes in property, plant and equipment

Changes in the carrying amounts, balances of acquisition cost, accumulated depreciation and impairment losses of property, plant and equipment are as follows:

Carrying amount

	Millions of yen						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Construction in progress	Total
April 1, 2022	¥ 89,389	¥ 256,810	¥ 262,119	¥ 28,970	¥ 101,633	¥ 84,101	¥ 823,022
Additions	—	—	—	—	28,100	138,780	166,880
Acquisitions through business combinations	36	17	—	—	25	—	78
Sales and disposals	(367)	(502)	(925)	(215)	(1,111)	(366)	(3,486)
Transfer to assets held for sale	—	(105)	(4)	(53)	(104)	—	(266)
Changes resulting from loss of control of subsidiaries	(145)	(892)	(428)	(201)	(194)	(1)	(1,861)
Reclassification	2,320	17,354	86,832	10,144	—	(116,650)	—
Depreciation	—	(20,402)	(75,542)	(11,323)	(17,976)	—	(125,243)
Impairment losses	(78)	(2,121)	(18,705)	(137)	(235)	(245)	(21,521)
Exchange differences on conversion of foreign operations	366	3,989	4,266	388	3,998	409	13,416
Others	2	1,936	308	1,650	(8,485)	(17,075)	(21,664)
March 31, 2023	¥ 91,523	¥ 256,084	¥ 257,921	¥ 29,223	¥ 105,651	¥ 88,953	¥ 829,355
Additions	—	—	—	—	14,112	147,819	161,931
Acquisitions through business combinations	25	2	49	16	82	—	174
Sales and disposals	(116)	(794)	(1,766)	(497)	(2,253)	(661)	(6,087)
Transfer to assets held for sale	(1,401)	(1,778)	(1,323)	(216)	(241)	(1)	(4,960)
Changes resulting from loss of control of subsidiaries	(23)	(3)	(32)	(71)	(738)	(171)	(1,038)
Reclassification	126	20,889	92,780	10,632	—	(124,427)	—
Depreciation	—	(20,362)	(67,658)	(11,314)	(17,906)	—	(117,240)
Impairment losses	(518)	(18,107)	(48,087)	(457)	(4,383)	(14,640)	(86,192)
Exchange differences on conversion of foreign operations	2,157	9,540	8,020	790	6,134	4,408	31,049
Others	69	(3,359)	(2,886)	1,317	(144)	(5,463)	(10,466)
March 31, 2024	¥ 91,842	¥ 242,112	¥ 237,018	¥ 29,423	¥ 100,314	¥ 95,817	¥ 796,526

Note: The depreciation of property, plant and equipment is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

Acquisition Cost

	Millions of yen						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Construction in progress	Total
April 1, 2022	¥ 90,334	¥ 731,760	¥ 1,893,214	¥ 203,045	¥ 149,403	¥ 90,953	¥ 3,158,709
March 31, 2023	92,546	748,996	1,976,772	206,617	158,898	95,290	3,279,119
March 31, 2024	¥ 93,178	¥ 775,468	¥ 2,022,185	¥ 211,416	¥ 156,922	¥ 116,308	¥ 3,375,477

Accumulated Depreciation and impairment losses

	Millions of yen						
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Right-of-use assets	Construction in progress	Total
April 1, 2022	¥ 945	¥ 474,950	¥ 1,631,095	¥ 174,075	¥ 47,770	¥ 6,852	¥ 2,335,687
March 31, 2023	1,023	492,912	1,718,851	177,394	53,247	6,337	2,449,764
March 31, 2024	¥ 1,336	¥ 533,356	¥ 1,785,167	¥ 181,993	¥ 56,608	¥ 20,491	¥ 2,578,951

(2) Right-of-use Assets

The carrying amounts of right-of-use assets included in property, plant and equipment are as follows:

	Millions of yen				
	Land	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
April 1, 2022	¥ 33,975	¥ 54,330	¥ 12,514	¥ 814	¥ 101,633
March 31, 2023	30,627	62,051	12,863	110	105,651
March 31, 2024	¥ 31,733	¥ 52,191	¥ 16,226	¥ 164	¥ 100,314

15. Goodwill and Intangible Assets

(1) Changes in goodwill and intangible assets

Changes in the carrying amounts, balances of acquisition cost, accumulated amortization and impairment losses of goodwill and intangible assets are as follows:

Carrying amount

	Millions of yen					
		Intangible assets				
	Goodwill	Research and development costs	Patents	Software	Others	Total
April 1, 2022	¥ 244,517	¥ 31,189	¥ 361,459	¥ 27,259	¥ 51,202	¥ 471,109
Additions	—	737	2,320	7,430	1,336	11,823
Acquisitions through business combinations	8,258	—	—	—	6,369	6,369
Sales and disposals	—	—	(61)	(22)	(164)	(247)
Transfer to assets held for sale	—	—	(15)	(47)	—	(62)
Changes resulting from loss of control of subsidiaries	—	—	—	(136)	(5)	(141)
Amortization	—	(31)	(27,933)	(7,666)	(5,334)	(40,964)
Impairment losses	(4,323)	(21,140)	(58,885)	(143)	(1,394)	(81,562)
Exchange differences on conversion of foreign operations	18,416	2,602	33,458	365	1,236	37,661
Others	—	169	(170)	62	(51)	10
March 31, 2023	¥ 266,868	¥ 13,526	¥ 310,173	¥ 27,102	¥ 53,195	¥ 403,996
Additions	—	2,258	810	6,721	2,060	11,849
Acquisitions through business combinations	1,210	—	—	—	39	39
Sales and disposals	—	—	(6)	(195)	(189)	(390)
Transfer to assets held for sale	—	—	—	(2)	(439)	(441)
Changes resulting from loss of control of subsidiaries	—	—	—	(16)	(400)	(416)
Amortization	—	(96)	(24,924)	(7,932)	(5,732)	(38,684)
Impairment losses	(38,319)	(10,577)	(133,584)	(212)	(223)	(144,596)
Exchange differences on conversion of foreign operations	32,864	904	33,185	571	6,198	40,858
Others	1,134	(288)	1	364	629	706
March 31, 2024	¥ 263,757	¥ 5,727	¥ 185,655	¥ 26,401	¥ 55,138	¥ 272,921

Note 1: The amortization of intangible assets is included in “Cost of sales” and “Selling, general and administrative expenses” in the consolidated statement of income.

Note 2: The assets that are at the research and development stage and have yet to obtain marketing approval from regulatory authorities are not able to be used and the period in which they could deliver economic benefit is unforeseeable, therefore, the assets are classified as intangible assets with indefinite useful lives. Due to the uncertainties in the research and development processes, in-process research and development assets are at risk of impairment if the projects are not expected to result in commercialized products. The carrying amounts of the intangible assets with indefinite useful lives are ¥3,249 million and ¥11,743 million as of March 31, 2024 and 2023, respectively.

Note 3: “Others” includes customer-related assets for Health & Crop Sciences, marketing rights for Pharmaceuticals and others.

Acquisition cost

	Millions of yen					
		Intangible assets				
	Goodwill	Research and development costs	Patents	Software	Others	Total
April 1, 2022	**¥ 256,308**	**¥ 100,434**	**¥ 474,648**	**¥ 96,444**	**¥ 116,850**	**¥ 788,376**
March 31, 2023	**280,628**	**100,096**	**508,648**	**100,073**	**127,510**	**836,327**
March 31, 2024	**¥ 319,249**	**¥ 115,619**	**¥ 572,109**	**¥ 107,735**	**¥ 136,198**	**¥ 931,661**

Accumulated amortization and impairment losses

	Millions of yen					
		Intangible assets				
	Goodwill	Research and development costs	Patents	Software	Others	Total
April 1, 2022	**¥ 11,791**	**¥ 69,245**	**¥ 113,189**	**¥ 69,185**	**¥ 65,648**	**¥ 317,267**
March 31, 2023	**13,760**	**86,570**	**198,475**	**72,971**	**74,315**	**432,331**
March 31, 2024	**¥ 55,492**	**¥ 109,892**	**¥ 386,454**	**¥ 81,334**	**¥ 81,060**	**¥ 658,740**

(2) Significant intangible assets

Significant intangible assets recorded in the consolidated statement of financial position are in-process research and development and patents. They are acquired through the acquisition of Myovant Sciences Ltd. (currently: Sumitomo Pharma UK Holdings, Ltd.), Urovant Sciences Ltd. (currently: Sumitomo Pharma UK Holdings, Ltd.), and Tolero (currently: Sumitomo Pharma America, Inc.) etc., by Sumitomo Pharma and its subsidiaries.

The carrying amounts and remaining periods of amortization of significant intangible assets are as follows:

			Millions of yen		Year
			Carrying amount		Remaining period of amortization
			March 31, 2024	March 31, 2023	March 31, 2024
Sumitomo Pharma UK Holdings, Ltd.	MYFEMBREE®	Patents	**¥ 10,640**	**¥ 142,471**	**14**
	ORGOVYX®	Patents	**69,714**	**66,075**	**14**
	GEMTESA®	Patents	**98,535**	**94,691**	**12**

(3) Research and development costs

Research and development costs recognized in the consolidated statement of income are ¥184,030 million and ¥195,635 million for FY2023 and FY2022, respectively.

16. Impairment of Non-financial Assets

(1) Impairment losses

Fiscal year 2023

Impairment losses recognized for FY2023 are ¥269,389 million. Impairment losses are recognized in "Cost of sales," "Selling, general and administrative expenses" and "Other operating expenses" in the consolidated statement of income. Details of the impairment losses by reportable segments are presented in Note 6 Segment Information.

The major CGUs for which impairment losses are recognized are as follows:

				Millions of yen
Location	Usage	Class of assets	Reportable segment	Impairment losses
U.S.	Patent of pharmaceuticals (MYFEMBREE®)	Patent	Pharmaceuticals	**¥ 133,457**
U.S.	Goodwill of pharmaceuticals	Goodwill	Pharmaceuticals	**35,858**
Chiba, Japan	Essential Chemicals & Plastics production facilities and common facilities at Chiba Works	Machinery and vehicles, etc.	Essential Chemicals & Plastics, etc.	**25,381**
Ehime, Japan	Methionine production facilities	Machinery and vehicles, etc.	Health & Crop Sciences	**16,776**
Singapore	Methacrylate production facilities	Machinery and vehicles, etc.	Essential Chemicals & Plastics	**14,891**
Ehime, Japan	Calcination demonstration facilities for cathode material	Construction in progress, etc.	Energy & Functional Materials	**11,566**

Details of the impairment losses

・Patent of pharmaceuticals (MYFEMBREE®) ¥133,457 million
(Patent ¥133,457 million)

・Goodwill of pharmaceuticals ¥35,858 million
(Goodwill ¥35,858 million)

・Essential Chemicals & Plastics production facilities and common facilities at Chiba Works ¥25,381 million
(Buildings and structures ¥7,509 million; Machinery and vehicles ¥17,872 million)

・Methionine production facilities ¥16,776 million
(Buildings and structures ¥1,875 million; Machinery and vehicles ¥14,603 million; Others ¥299 million)

・Methacrylate production facilities ¥14,891 million
(Buildings and structures ¥2,913 million; Machinery and vehicles ¥8,666 million; Right-of-use assets ¥3,313 million)

・Calcination demonstration facilities for cathode material ¥11,566 million
(Construction in progress ¥11,518 million; Others ¥48 million)

In the Pharmaceuticals segment, due to the revision of the business forecast in North America, the anticipated revenue of patent rights associated with MYFEMBREE® (therapeutic agent for Uterine fibroids and Endometriosis) was no longer expected. As a result, the carrying amount was reduced to the recoverable amount of ¥10,640 million. The recoverable amount was measured based on the fair value less costs of disposal and the fair value less costs of disposal was measured using estimates of the future cash flows, based on historical experience and external information, discounted to present value. Because this valuation technique uses inputs that are not observable market data, the fair value less costs of disposal is classified as Level 3 in the fair value hierarchy. The discount rate used in the impairment test of patent rights was 15.8% (before taxes). In addition, regarding goodwill related to the North America business, the recoverable amount of CGUs, including goodwill, of ¥307,627 million, fell below the carrying amount, and therefore the carrying amount of the goodwill was written down to a recoverable amount.

In the Essential Chemicals & Plastics segment, etc., the carrying amount of Essential Chemicals & Plastics production facilities and the common facilities in Chiba Works, and the methacrylate production facilities in Singapore were impaired to the recoverable amounts of ¥9,036 million, ¥5,152 million, and ¥15,822 million respectively. It was because the profitability of the business declined due to weak demand caused by the deteriorating business environment and lower selling price. The recoverable amount of each asset was measured by its value in use, which was calculated by discounting future cashflows at a discount rate of 9.4% to 15.6% (before taxes).

Regarding the methionine production facilities in the Health & Crop Sciences segment, due to higher costs stemming from sharply higher prices for raw materials and fuel, as well as a deterioration in the demand and supply environment, which led to lower selling prices, the carrying amount was written down to the recoverable amount in FY2022. Initially, the decline in demand was expected to be temporary, but due to the economic downturn caused by global inflation, demand has remained weak for a longer period, and selling prices have not increased as much as originally anticipated. Therefore, the Company reviewed the forecast of the earnings of its methionine business, and the entire carrying amount was impaired. The recoverable amount in the impairment test uses value in use, and the disclosure of the discount rate is omitted because the future cash flows are negative.
Regarding the calcination demonstration facilities for cathode material in the Energy & Functional Materials segment, the Company carried out an impairment test since the profitability was expected to decline as a result of the revision of its business plan. As a result of the revision of forecasted revenue, the entire carrying amount was impaired.
The major items of individually immaterial impairment losses are related to tangible assets such as machinery, equipment, and vehicles, and intangible assets, such as in-process research and development, in the Company's business. Impairment losses are recorded because the recoverable amount was less than the carrying amount due to a decline in forecasted revenue.

At impairment tests for property, plant and equipment, goodwill, and intangible assets, the recoverable amount is measured as the higher of its value in use or its fair value less costs of disposal after CGUs are determined. The assumptions used to measure the fair value less costs of disposal, or the assumptions, discount rates, and other factors used to estimate future cash flows expected during the period in use and upon their disposal after use for CGUs, which are the basis for measuring the value in use, might be affected by uncertain future changes in economic conditions.

Fiscal year 2022

Impairment losses recognized for FY2022 are ¥109,417 million. Impairment losses are recognized in "Cost of sales", "Selling, general and administrative expenses" and "Other operating expenses" in the consolidated statement of income. Details of the impairment losses by reportable segments are presented in Note 6 Segment Information.
The major CGUs for which impairment losses are recognized are as follows:

				Millions of yen
Location	Usage	Class of assets	Reportable segment	Impairment losses
U.S.	Patents of pharmaceuticals (KYNMOBI®)	Patents, etc.	Pharmaceuticals	**¥ 56,538**
U.S.	Results of research and development with respect to compounds under development (dubermatinib)	In-process research and development	Pharmaceuticals	**20,598**
Ehime, Japan	Methionine production facilities	Machinery and vehicles, etc.	Health & Crop Sciences	**15,763**
U.S.	Patents of pharmaceuticals (LONHALA® MAGNAIR®)	Patents, etc.	Pharmaceuticals	**4,781**
U.S.	Goodwill of pharmaceuticals (oncology area)	Goodwill	Pharmaceuticals	**3,523**
U.S.	Property, plant and equipment and intangible assets of postharvest business	Other intangible assets, etc.	Health & Crop Sciences	**3,218**

Details of the impairment losses

・Patents of pharmaceuticals (KYNMOBI®) ¥56,538 million
(Patents ¥55,369 million; Others ¥1,169 million)

・Results of research and development with respect to compounds under development (dubermatinib) ¥20,598 million
(In-process research and development ¥20,598 million)

・Methionine production facilities ¥15,763 million
(Buildings and structures ¥1,595 million; Machinery and vehicles ¥14,077 million; Others ¥92 million)

・Patents of pharmaceuticals (LONHALA® MAGNAIR®) ¥4,781 million

(Patents ¥3,494 million; Others ¥1,287 million)
・Goodwill of pharmaceuticals (oncology area) ¥3,523 million
(Goodwill ¥3,523 million)
・Property, plant and equipment and intangible assets of postharvest business ¥3,218 million
(Other intangible assets ¥2,177 million; Others ¥1,041 million)

In the Pharmaceuticals segment, as the profitability of patent rights associated with KYNMOBI® and LONHALA® MAGNAIR® are no longer expected, and in-process research and development (dubermatinib) has been discontinued and its profitability is no longer expected as well, the carrying amount of these assets has been reduced to zero. In addition, an impairment loss was recorded on goodwill of the oncology area in North America of the pharmaceutical business because the recoverable amount of the CGU was less than the carrying amount of the CGU including goodwill.
The methionine business, which has recognized recurring operating losses for some consecutive years mainly due to the stagnant methionine market, recognized another operating loss for FY2022 owing to the increase in manufacturing costs as a result of the rise in the price of raw materials and fuel and the decline of sales prices caused by the deterioration in the supply-demand balance. Since there was an indication of impairment, an impairment test was performed. As a result of reviewing the forecast of its earnings, the carrying amount of methionine production facilities was written down to its value in use of ¥17,083 million. The recoverable amount of the assets was measured at value in use, and for the estimates of value in use, the Company made some assumptions, such as about the sales price of methionine, after mainly considering future supply and demand trends, and the purchase price of naphtha, which could have a significant effect on manufacturing costs. The value in use was calculated by discounting future cash flows at a discount rate of 11.2% (before taxes). In addition, regarding the postharvest business of a U.S. subsidiary whose profitability has declined because of a deterioration in the business environment, the subsidiary's property, plant and equipment and intangible assets have been written down to a recoverable amount of ¥407 million.

(2) Reversal of impairment losses
Fiscal year 2023
There is no reversal of impairment losses in FY2023.

Fiscal year 2022
There is no reversal of impairment losses in FY2022.

(3) Impairment test of goodwill

Goodwill arising from business combination is allocated at the acquisition to CGUs benefitting from the business combination, and the carrying amounts are ¥263,757 million and ¥266,868 million as of March 31, 2024 and 2023, respectively.

Of the above, the material item is goodwill associated with the Pharmaceuticals segment. Until FY2022, goodwill for the North America business in the Pharmaceuticals segment was classified into two independent CGUs: "North America (excluding oncology area)" and "North America (oncology area)." During FY2023, the Group companies in the North America business associated with the Pharmaceuticals segment were reorganized and integrated into one operating company. Accordingly, the results of the "North America (excluding oncology area)" product group and the "North America (oncology area)" product group are now monitored together, and the two independent CGUs that were recognized until FY2022 have been integrated into "North America." As a result, starting from FY2023, impairment tests of goodwill for the North America business in the Pharmaceuticals segment are performed for the "North America" CGU, as follows.

The carrying amounts of goodwill associated with the Pharmaceuticals segment are as follows:

	Millions of yen
	March 31, 2024
North America	**¥ 199,783**
Total	**¥ 199,783**

	Millions of yen
	March 31, 2023
North America (excluding oncology area)	**¥ 183,653**
North America (oncology area)	**25,763**
Total	**¥ 209,415**

An impairment loss of goodwill is recognized when the recoverable amount is less than its carrying amount. The carrying amount of goodwill is reduced to its recoverable amount, which is calculated based on the fair value less costs of disposal measured based on the approved business plan. The fair value less costs of disposal is measured using estimates of the future cash flows, based on historical experience and external information, discounted to present value. This measurement includes, for products that are already on the market, forecasts of profits and fixed costs based on the sales prices of the products, the market size of the disease area to which the products belong, the market share of the products, and other factors, and for major products under development, forecasts of profits and fixed costs, etc. for the products taking into account the probability of success of research and development activities, and other factors.

For impairment tests of goodwill for North America (excluding oncology area) in FY2022, fair value less costs of disposal was measured by discounting estimates of the future cash flows, based on forecasts for the next 15 years considering a perpetual growth rate of 2.2%, to present value, then deducting estimated disposal costs. In addition, for impairment tests of goodwill for North America (oncology area), fair value less costs of disposal was measured by discounting estimates of the future cash flows, based on forecasts for the next 18 years, to present value, then deducting estimated disposal costs.

For impairment tests of goodwill for North America in FY2023, fair value less costs of disposal was measured by discounting estimates of the future cash flows, based on forecasts for the next 15 years considering a perpetual growth rate of 2.1%, to present value, then deducting estimated disposal costs. Because this valuation technique uses inputs that are not observable market data, the fair value less costs of disposal is classified as Level 3 in the fair value hierarchy.

Impairment tests for goodwill use a discount rate based on factors such as the weighted average cost of capital established separately for each CGU. The discount rates used for impairment tests were 14.5% and 14.8% - 20.5% for FY2023 and FY2022, respectively.

As a result of impairment tests as of March 31, 2023, an impairment loss was recognized for goodwill in the North America (oncology area) CGU as the fair value less costs of disposal had fallen below the carrying amount of this CGU, including goodwill. As a result of impairment tests as of March 31, 2024, an impairment loss was recognized for goodwill in the North America CGU as the fair value less costs of disposal had fallen below the carrying amount of this CGU, including goodwill.

17. Investments Accounted for Using the Equity Method

(1) Investments in associates

Carrying amounts of individually immaterial investments in associates accounted for using the equity method are as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Total carrying amount	**¥ 118,521**	**¥ 150,982**

The aggregate amounts of the Group's share of comprehensive income of individually immaterial investment in associates accounted for using the equity method are as follows:

	Millions of yen	
	FY2023	FY2022
The Group's share of net income	**¥ 11,263**	**¥ 10,997**
The Group's share of other comprehensive income	**5,667**	**1,963**
The Group's share of comprehensive income	**¥ 16,930**	**¥ 12,960**

(2) Investments in joint ventures

① Material joint venture

The joint venture that is material to the Group is as follows:

			Proportion of ownership interest	
Company name	Core business	Location	March 31, 2024	March 31, 2023
Rabigh Refining and Petrochemical Company	Manufacturing and sales of refined petroleum products and petrochemicals	Rabigh, Saudi Arabia	**37.50%**	**37.50%**

Summarized financial information of Rabigh Refining and Petrochemical Company (hereinafter, "Petro Rabigh") is as follows. The Company applies the equity method to financial statements of Petro Rabigh on a three-month time lag, as it is impracticable to unify the reporting period of Petro Rabigh. The summarized financial information of Petro Rabigh for the period ended three months before the Group's reporting date is disclosed in this Note.

	Millions of yen	
	March 31, 2024	March 31, 2023
Current assets	**¥ 452,248**	**¥ 433,665**
Non-current assets	**1,941,877**	**1,885,855**
Total assets	**¥ 2,394,125**	**¥ 2,319,520**
Current liabilities	**862,006**	**952,559**
Non-current liabilities	**1,132,459**	**827,396**
Total liabilities	**¥ 1,994,465**	**¥ 1,779,955**
Equity	**399,660**	**539,564**
Total equity attributable to Group's share of equity	**149,872**	**202,337**
Consolidation adjustment	**(10,208)**	**(11,573)**
Carrying amount of investments	**139,664**	**190,764**
Fair value of investments (Note)	**190,202**	**225,053**
The material items included in the above:		
Cash and cash equivalents	**¥ 51,977**	**¥ 72,324**
Current financial liabilities (except for trade and other payables, and provisions)	**367,942**	**496,512**
Non-current financial liabilities (except for trade and other payables, and provisions)	**1,101,643**	**801,939**

Note: The fair value is based on the market price of the investment and is categorized as Level 1 in the fair value hierarchy.

	Millions of yen	
	FY2023	FY2022
Sales revenue:	¥ 1,674,880	¥ 1,964,492
Net income (loss)	(176,212)	(39,143)
Other comprehensive income	(429)	5,015
Total comprehensive income	¥ (176,641)	¥ (34,129)
Interests of the Group:		
Net income (loss)	(64,716)	(10,595)
Other comprehensive income	9,398	12,050
Total comprehensive income	¥ (55,318)	¥ 1,455
The material items included in the above:		
Depreciation and amortization	¥ 120,934	¥ 106,703
Income tax expenses	(3,764)	1,684

Interest income of Petro Rabigh for FY2023 and FY2022 are ¥1,015 million and ¥9,841 million, respectively. Interest expenses of Petro Rabigh for FY2023 and FY2022 are ¥79,859 million and ¥41,255 million, respectively.

No dividends were received from Petro Rabigh for FY2023 and FY2022.

The repayment of loans provided to Petro Rabigh by the Company, payment of interest associated with the loans, and dividends by Petro Rabigh can be carried out within the terms and conditions stipulated in the project finance contracts.

The Company has agreed to provide Petro Rabigh with the amount equivalent to the Company's interest (37.50%) of capital needs associated with Rabigh Phase II Project that is not funded by borrowings under project finance contracts or other funding method through a capital increase or other methods.

The Company assesses whether there is any indication of impairment regarding its investment in Petro Rabigh, and if there is an indication of impairment, the Company performs an impairment test. The recoverable amount is calculated using fair value, for which market price is used. The recoverable amount may be affected by uncertain future changes in economic conditions.

② Individually immaterial joint ventures

Carrying amounts of individually immaterial investments in joint ventures accounted for using the equity method are as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Total carrying amount	¥ 61,803	¥ 61,234

The aggregate amount of the Group's share of comprehensive income of individually immaterial investments in joint ventures accounted for using the equity method are as follows:

	Millions of yen	
	FY2023	FY2022
The Group's share of net income (loss)	¥ (3,945)	¥ (7,199)
The Group's share of other comprehensive income	3,602	4,116
The Group's share of comprehensive income	¥ (343)	¥ (3,083)

18. Income Taxes

(1) Deferred tax assets and liabilities

① Details and changes in deferred tax assets and liabilities

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

Fiscal year 2023

	Millions of yen				
	April 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note)	March 31, 2024
Deferred tax assets:					
Property, plant and equipment and intangible assets	¥ 62,231	¥ (25,898)	¥ —	¥ 2,904	¥ 39,237
Inventories	29,256	(9,162)	—	259	20,353
Retirement benefit liabilities	9,143	(586)	(163)	346	8,740
Accrued expenses and provisions	19,318	(1,121)	—	510	18,707
Net operating loss carryforwards	33,882	(5,346)	—	2,705	31,241
Prepaid research and development expenses	10,267	(1,271)	—	421	9,417
Others	9,433	(2,131)	(388)	404	7,318
Total	¥ 173,530	¥ (45,515)	¥ (551)	¥ 7,549	¥ 135,013
Deferred tax liabilities:					
Property, plant and equipment and intangible assets	104,101	(45,465)	—	8,682	67,318
Financial assets measured at fair value through other comprehensive income	46,635	9	15,148	40	61,832
Retirement benefit assets	32,268	4,184	(2,609)	369	34,212
Investments in subsidiaries and affiliates	38,483	(4,575)	6,357	—	40,265
Others	13,715	992	(29)	784	15,462
Total	¥ 235,202	¥ (44,855)	¥ 18,867	¥ 9,875	¥ 219,089

Note: The amounts are mainly exchange differences on conversion of foreign operations and include changes resulting from loss of control of subsidiaries and changes resulting from transfer to asset groups held for sale.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that they will be utilized against future taxable income. The judgment of the recoverability of deferred tax assets is based on the estimated future taxable income of each fiscal year under the business plan of the Group. The estimates of the future taxable income may be affected by changes in uncertain future economic conditions.

Fiscal year 2022

	Millions of yen						
	April 1, 2022	Adjustments due to applying amended IAS12 (Note 1)	Beginning of the fiscal year after adjustment	Recognized in profit or loss	Recognized in other comprehensive income	Others (Note 2)	March 31, 2023
Deferred tax assets:							
Property, plant and equipment and intangible assets	¥ 32,951	¥ 20,752	¥ 53,703	¥ 5,965	¥ —	¥ 2,563	¥ 62,231
Inventories	36,108	—	36,108	(6,881)	—	29	29,256
Retirement benefit liabilities	13,213	—	13,213	(1,966)	(1,859)	(245)	9,143
Accrued expenses and provisions	19,787	1,189	20,976	(1,820)	—	162	19,318
Net operating loss carryforwards	18,850	—	18,850	13,731	—	1,301	33,882
Prepaid research and development expenses	7,427	—	7,427	2,892	—	(52)	10,267
Others	12,298	—	12,298	277	(3,157)	15	9,433
Total	¥ 140,634	21,941	162,575	¥ 12,198	¥ (5,016)	¥ 3,773	¥ 173,530
Deferred tax liabilities:							
Property, plant and equipment and intangible assets	77,986	20,752	98,738	(2,119)	—	7,482	104,101
Financial assets measured at fair value through other comprehensive income	40,641	—	40,641	30	6,638	(674)	46,635
Retirement benefit assets	30,646	—	30,646	(529)	2,180	(29)	32,268
Investments in subsidiaries and affiliates	32,614	—	32,614	2,035	3,834	—	38,483
Others	10,925	1,189	12,114	1,682	79	(160)	13,715
Total	¥ 192,812	21,941	214,753	¥ 1,099	¥ 12,731	¥ 6,619	¥ 235,202

Note 1: As stated in Note 3. Material Accounting Policies (19) Change in accounting policies, Amendments to IAS 12 have been applied retrospectively.

Note 2: The amounts are mainly exchange differences on conversion of foreign operations and include changes resulting from loss of control of subsidiaries and changes resulting from transfer to asset groups held for sale.

Deferred tax assets are recognized for deductible temporary differences to the extent that it is probable that they will be utilized against future taxable income. The judgment of the recoverability of deferred tax assets is based on the estimated future taxable income of each fiscal year under the business plan of the Group. The estimates of the future taxable income may be affected by changes in uncertain future economic conditions.

② Unrecognized deferred tax assets

Deductible temporary differences, net operating loss carryforwards and tax credit carryforwards for which no deferred tax assets are recognized are as follows (tax amount basis):

	Millions of yen	
	March 31, 2024	March 31, 2023
Deductible temporary differences	**¥ 126,229**	**¥ 84,060**
Net operating loss carryforwards	**145,938**	**103,625**
Tax credit carryforwards	**31,618**	**22,631**

③ Unrecognized deferred tax assets and expiry schedule

Net operating loss carryforwards and tax credit carryforwards for which no deferred tax assets are recognized will expire as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Net operating loss carryforwards:		
Not later than 1 year	**¥ 930**	**¥ 1,375**
Later than 1 year and not later than 2 years	**4,092**	**1,388**
Later than 2 years and not later than 3 years	**1,454**	**1,644**
Later than 3 years and not later than 4 years	**8,683**	**1,806**
Later than 4 years	**130,779**	**97,412**
Total	**¥ 145,938**	**¥ 103,625**

	Millions of yen	
	March 31, 2024	March 31, 2023
Tax credit carryforwards:		
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	**431**	**—**
Later than 3 years and not later than 4 years	**—**	**—**
Later than 4 years	**31,187**	**22,631**
Total	**¥ 31,618**	**¥ 22,631**

④ Unrecognized deferred tax liabilities (income basis)

The aggregate amounts of taxable temporary differences associated with investments in subsidiaries and associates for which deferred tax liabilities are not recognized as of March 31, 2024 and 2023 are ¥674,639 million and ¥591,174 million, respectively. The Group does not recognize deferred tax liabilities for these temporary differences because the Group is able to control the timing of the reversal of these temporary differences, and it is probable that the temporary difference will not reverse in the foreseeable future.

(2) Income tax expenses

① Income tax expenses

Income tax expenses are as follows:

	Millions of yen	
	FY2023	FY2022
Current tax expenses	**¥ 1,997**	**¥ 58,195**
Deferred tax expenses:		
Recognition and reversal of temporary differences	**(18,584)**	**900**
Evaluation of recoverability of deferred tax assets	**19,244**	**(11,999)**
Total of deferred tax expenses	**660**	**(11,099)**
Total	**¥ 2,657**	**¥ 47,096**

Income taxes recognized on sale or a significant decline in the fair value of the financial assets measured at fair value through other comprehensive income are ¥13,148 million (loss) and ¥ 2,719 million (loss) for FY2023 and 2022, respectively.

② Reconciliation of income tax rate

The details of difference between the statutory income tax rate and the average actual tax rate are as follows.

The Group is mainly subject to income taxes, inhabitant tax, and enterprise tax. The effective statutory income tax rate calculated based on these taxes is 30.6% for FY2023 and FY2022. However, overseas subsidiaries are subject to income taxes in their respective countries of domicile.

	FY2023	FY2022
Effective statutory income tax rate	**30.6%**	**30.6%**
(Reconciliation)		
Permanently non-deductible expenses	**(0.3)**	**738.1**
Permanently non-taxable income	**(0.4)**	**(150.6)**
Share of profit of investments accounted for using the equity method	**(3.8)**	**900.9**
Affiliates' undistributed earnings	**1.0**	**881.0**
Changes in unrecognized deferred tax assets	**(22.0)**	**4,625.6**
Tax credit for research and development expenses	**0.3**	**(2,922.4)**
Difference of subsidiaries' applicable income tax rates	**(3.1)**	**15,508.2**
Effect of change in fair value of contingent consideration	**(0.1)**	**(335.9)**
Others	**(2.8)**	**1,112.4**
Average actual tax rate	**(0.6)%**	**20,387.9%**

③ Global minimum tax

In Japan, a revised Corporation Tax Act was enacted on March 28, 2023, introducing a global minimum tax system based on the Pillar Two model rules. This revised Corporation Tax Act will be applied from the fiscal years starting on or after April 1, 2024. There is a possibility that income taxes will be incurred in some countries where the Group operates due to the application of this tax system, but the impact will be minor.

19. Bonds and Borrowings

(1) Breakdown of bonds and borrowings

Bonds and borrowings consist of the following:

	Millions of yen		Average interest rate	Repayment due date
	March 31, 2024	March 31, 2023		
Short-term borrowings	**¥ 319,104**	**¥ 283,781**	**2.361%**	—
Commercial paper	**74,000**	**45,000**	**0.160**	—
Long-term borrowings	**552,709**	**525,317**	**0.511**	**2024-2034**
Bonds	**617,673**	**607,268**	**0.960**	**2024-2079**
Total	**¥ 1,563,486**	**¥ 1,461,366**	**—%**	—
Current liabilities	**585,905**	**396,903**	—	—
Non-current liabilities	**977,581**	**1,064,463**	—	—
Total	**¥ 1,563,486**	**¥ 1,461,366**	**—%**	—

Bonds and borrowings are classified as financial liabilities measured at amortized cost. The average interest rate and repayment due date in the above table are as of March 31, 2024.

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) Bonds

A summary of the issuance condition of bonds is as follows:

Issuer	Bond Name	Issue date	Millions of yen March 31, 2024	Millions of yen March 31, 2023	Interest rate (%)	Collateral	Maturity date
Sumitomo Chemical Co., Ltd.	49th unsecured bonds	Apr 25, 2014	**10,000** **(10,000)**	**10,000**	**0.944**	No	Apr 25, 2024
	52nd unsecured bonds	Sep 01, 2016	**10,000**	**10,000**	**0.850**	No	Sep 01, 2036
	53rd unsecured bonds	Sep 01, 2016	**10,000**	**10,000**	**0.300**	No	Sep 01, 2026
	54th unsecured bonds	Sep 01, 2016	—	**10,000**	**0.200**	No	Sep 01, 2023
	55th unsecured bonds	Sep 13, 2017	**10,000**	**10,000**	**0.880**	No	Sep 11, 2037
	56th unsecured bonds	Sep 13, 2017	**20,000**	**20,000**	**0.380**	No	Sep 13, 2027
	57th unsecured bonds	Sep 13, 2017	**10,000** **(10,000)**	**10,000**	**0.240**	No	Sep 13, 2024
	58th unsecured bonds	Apr 17, 2018	**30,000**	**30,000**	**0.900**	No	Apr 16, 2038
	59th unsecured bonds	Apr 17, 2018	**20,000**	**20,000**	**0.355**	No	Apr 17, 2028
	60th unsecured bonds	Apr 16, 2019	**15,000**	**15,000**	**0.900**	No	Apr 15, 2039
	61st unsecured bonds	Apr 16, 2019	**20,000**	**20,000**	**0.400**	No	Apr 16, 2029
	1st unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions	Dec 13, 2019	**150,000**	**150,000**	**1.300** (Note2)	No	Dec 13, 2079 (Note4)
	2nd unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions	Dec 13, 2019	**100,000**	**100,000**	**0.840** (Note3)	No	Dec 13, 2079 (Note5)
	62nd unsecured bonds	Oct 22, 2020	**10,000**	**10,000**	**0.780**	No	Oct 22, 2040
	63rd unsecured bonds	Oct 22, 2020	**10,000**	**10,000**	**0.360**	No	Oct 22, 2030
	64th unsecured bonds	Oct 22, 2020	—	**20,000**	**0.001**	No	Oct 20, 2023
	65th unsecured bonds	Oct 13, 2021	**15,000**	**15,000**	**0.680**	No	Oct 11, 2041
	66th unsecured bonds	Oct 13, 2021	**20,000**	**20,000**	**0.280**	No	Oct 10, 2031
	67th unsecured bonds	Jul 12, 2023	**10,000**	—	**0.880**	No	Jul 12, 2033
	68th unsecured bonds	Jul 12, 2023	**30,000**	—	**0.280**	No	Jul 10, 2026
Sumitomo Pharma Co., Ltd.	1st unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions	Sep 10, 2020	**60,000**	**60,000**	**1.390** (Note6)	No	Sep 09, 2050 (Note8)
	2nd unsecured subordinated bonds with interest payment deferrable clause and optional early redemption conditions	Sep 10, 2020	**60,000**	**60,000**	**1.550** (Note7)	No	Sep 09, 2050 (Note9)
Total	—	—	**620,000** **(20,000)**	**610,000** **(30,000)**	—	—	—

Note1: Bonds to be redeemed within 1 year are stated in parentheses.

Note2: The fixed interest rate has been applied since December 13, 2019 and will have been applied until December 13, 2029, and a variable interest rate from the day after December 13, 2029 (“Step-up interest rates” will be applied from the day after December 13, 2029, and the day after December 13, 2049).

Note3: The fixed interest rate has been applied since December 13, 2019 and will have been applied until December 13, 2024, and a variable interest rate from the day after December 13, 2024 (“Step-up interest rates” will be applied from the day after December 13, 2029, and the day after December 13, 2044).

Note4: The Company may redeem the hybrid bonds at its discretion on each interest payment date from and including December 13, 2029, or in case a tax event or an equity credit change event occurs.

Note5: The Company may redeem the hybrid bonds at its discretion on each interest payment date from and including December 13, 2024, or in case a tax event or an equity credit change event occurs.

Note6: The fixed interest rate has been applied since September 10, 2020 and will have been applied until September 10, 2027, and a variable interest rate from the day after September 10, 2027 (“Step-up interest rates” will be applied from the day after September 10, 2027).

Note7: The fixed interest rate has been applied since September 10, 2020 and will have been applied until September 10, 2030, and a variable interest rate from the day after September 10, 2030 (“Step-up interest rates” will be applied from the day after September 10, 2030).

Note8: Sumitomo Pharma may redeem the hybrid bonds at its discretion on each interest payment date from and including September 10, 2027, or in case a tax event or an equity credit change event occurs.

Note9: Sumitomo Pharma may redeem the hybrid bonds at its discretion on each interest payment date from and including September 10, 2030, or in case a tax event or an equity credit change event occurs.

(3) Pledged assets

Assets pledged as collateral and collateralized obligations are as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Pledged Assets:		
Investments in joint ventures	**¥ 139,664**	**¥ 190,764**
Trade notes and accounts receivable	**7,839**	**6,053**
Property, plant and equipment	**4,346**	**4,802**
Others	**96**	**128**
Total	**¥ 151,945**	**¥ 201,747**
Collateralized obligations:		
Borrowings	**9,055**	**6,946**
Total	**¥ 9,055**	**¥ 6,946**

Investments in joint ventures pledged as collateral for joint venture’s debt amounted to ¥197,136 million and ¥193,619 million are subjected to real guarantee as of March 31, 2024 and 2023, respectively.

(4) Financial covenants

A syndicated loan agreement of which Sumitomo Pharma 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:

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

・Sumitomo Pharma’s core operating profit in its summary of consolidated financial results at end of each fiscal year should not be in the red for two consecutive years.

・Sumitomo Pharma’s total equity in the consolidated statement of financial position in its 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 FY2023 a consent has been obtained from key creditor bank that it will not exercise its right to accelerate payment.

20. Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	¥ 4,991	¥ 3,752
Contingent considerations	3,314	1,482
Others	17,764	16,757
Financial liabilities measured at amortized cost:		
Deposits received	40,166	41,159
Others	350	406
Lease liabilities	111,169	109,969
Total	¥ 177,754	¥ 173,525
Current liabilities	77,610	74,931
Non-current liabilities	¥ 100,144	98,594
Total	¥ 177,754	¥ 173,525

21. Reconciliation of Liabilities for Financing Activities

The reconciliation of liabilities for financing activities is as follows:

Fiscal year 2023

	Millions of yen					
			Non-cash transactions			
	Carrying amount as of April 1, 2023	Cash flows	Business Combination	Foreign currency conversions	Others	Carrying amount as of March 31, 2024
Bonds	¥ 607,268	¥ 9,836	¥ —	¥ —	¥ 569	¥ 617,673
Commercial paper	45,000	29,000	—	—	—	74,000
Short-term borrowings	283,781	26,405	28	9,027	(137)	319,104
Long-term borrowings	525,317	28,030	103	594	(1,335)	552,709
Lease liabilities	109,969	(18,619)	82	6,568	13,169	111,169
Total	¥ 1,571,335	¥ 74,652	¥ 213	¥ 16,189	¥ 12,266	¥ 1,674,655

Note 1: "Others" of non-cash transactions of lease liabilities includes increase of right-of-use assets by new acquisition.

Note 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.

Fiscal year 2022

	Millions of yen					
			Non-cash transactions			
	Carrying amount as of April 1, 2022	Cash flows	Business Combination	Foreign currency conversions	Others	Carrying amount as of March 31, 2023
Bonds	¥ 606,720	¥ —	¥ —	¥ —	¥ 548	¥ 607,268
Commercial paper	10,000	35,000	—	—	—	45,000
Short-term borrowings	169,311	100,959	—	13,002	509	283,781
Long-term borrowings	564,439	(42,989)	—	4,013	(146)	525,317
Lease liabilities	103,565	(16,668)	27	4,341	18,704	109,969
Total	¥ 1,454,035	¥ 76,302	¥ 27	¥ 21,356	¥ 19,615	¥ 1,571,335

Note: "Others" of non-cash transactions of lease liabilities includes increase of right-of-use assets by new acquisition.

22. Leases

(1) Income and expenses items and cash flow related to right-of-use assets

As a lessee, the Group leases assets such as buildings and machinery.

The breakdown of Income and expenses items and cash flow related to right-of-use assets is as follows:

	Millions of yen	
	FY2023	FY2022
Depreciation charge for right-of-use assets:		
Buildings and structures	¥ 12,204	¥ 12,524
Machinery and vehicles	4,198	3,852
Tools, furniture and fixtures	68	31
Land	1,436	1,516
Total of depreciation	¥ 17,906	¥ 17,923
Impairment losses for right-of-use assets:		
Buildings and structures	3,919	—
Machinery and vehicles	31	97
Tools, furniture and fixtures	18	—
Land	415	138
Total of impairment losses	¥ 4,383	¥ 235
Interest expenses on lease liabilities	1,986	1,740
The expenses relating to short-term leases	1,115	1,245
The expenses relating to leases of low-value assets	2,399	2,493
The expenses relating to variable lease payments not included in the measurement of lease liabilities	403	392
(Income) from subleasing right-of-use assets	(696)	(706)
Total amount recognized in profit or loss	5,206	5,164
Repayments of lease liabilities	18,619	16,668
Total cash outflow related to right-of-use assets	¥ 23,825	¥ 21,832

(2) Extension options and termination options (Lessee)

The Company and each Group subsidiary assume responsibility for lease management. Accordingly, the lease terms and conditions are negotiated on a case-by-case basis, and the resultant leases contain widely differing contractual terms. Extension options and termination options are included mainly in real estate leases pertaining to offices, warehouses and factory sites. These options are used by lessees as needed in utilizing real estate in their businesses.

(3) Restrictions or covenants imposed by leases

The Group has no lease contracts with covenants such as restrictions on additional borrowings and additional leases.

23. Trade and Other Payables

The breakdown of trade and other payables is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Trade notes and accounts payable	¥ 308,823	¥ 306,385
Other payables and accrued expenses	231,808	207,450
Others	2,753	2,030
Total	¥ 543,384	¥ 515,865

Trade and other payables are classified as financial liabilities measured at amortized cost.

24. Employee Benefits

The Company and certain consolidated subsidiaries have defined benefit plans such as funded and unfunded lump-sum retirement benefit plans and defined benefit corporate pension plans, and also have defined contribution pension plans as retirement benefits for employees.

The Company and certain consolidated subsidiaries have retirement benefit trusts.

These plans are subject to minimum funding requirements stipulated by law, which requires the plan sponsor to pay additional contributions to achieve a minimum funding level within a certain time scale if the plan does not hold sufficient assets.

The Group's main plans are exposed to actuarial risk such as investment risk, interest rate risk, inflation risk and longevity risk.

As of April 1, 2024, the Company revised the defined benefit corporate pension plans in line with the gradual extension of retirement age from the current age of 60 to 65. The Company completed various procedures in FY2023 related to changes in terms and conditions of the defined benefit corporate pension in line this revision.

Due to changes in the requirements for starting defined benefit corporate pension payments caused by this plan revision, "Past service cost" of ¥(10,488) million (reduction of retirement benefit obligations) was recorded in FY2023, and in the consolidated statement of income, "Cost of sales" decreased by ¥4,429 million, and "Selling, general and administrative expenses" decreased by ¥6,059 million. In addition, with this revision, defined benefit obligations and plan assets for defined benefit pension plans have been remeasured.

(1) Defined benefit plan

① Reconciliation of defined benefit obligations and plan assets

Net defined benefit liabilities and assets recognized in the consolidated statement of financial position, defined benefit obligations and plan assets are as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Present value of defined benefit obligations	**¥ 275,532**	**¥ 292,989**
Fair value of the plan assets	**(395,334)**	**(365,815)**
Subtotal	**¥ (119,802)**	**¥ (72,826)**
Effect of asset ceiling	**40,001**	**—**
Net defined benefit (assets) liabilities	**(79,801)**	**(72,826)**
Retirement benefit liabilities	**30,589**	**26,427**
Retirement benefit assets	**(110,390)**	**(99,253)**
Net defined benefit (assets) liabilities	**¥ (79,801)**	**¥ (72,826)**

② Reconciliation of present value of defined benefit obligations

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

	Millions of yen	
	FY2023	FY2022
Present value of defined benefit obligations at the beginning of fiscal year	**¥ 292,989**	**¥ 314,770**
Current service cost	**11,764**	**13,316**
Interest expenses	**4,466**	**3,336**
Remeasurements:		
Actuarial (gains) losses arising from changes in demographic assumptions	**(155)**	**259**
Actuarial (gains) losses arising from changes in financial assumptions	**(2,714)**	**(20,293)**
Actuarial (gains) losses arising from experience adjustments	**(3,686)**	**264**
Past service cost	**(10,845)**	**(95)**
Benefits paid	**(16,797)**	**(16,118)**
Transfer to liabilities directly associated with assets held for sale	**(1,267)**	**(407)**
Others	**1,777**	**(2,043)**
Present value of defined benefit obligations at the end of fiscal year	**¥ 275,532**	**¥ 292,989**

The weighted average duration of the defined benefit obligations of the Company and major consolidated subsidiaries are 13.7 years and 13.5 years as of March 31, 2024, and 2023, respectively.

③ Reconciliation of fair value of plan assets

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

	Millions of yen	
	FY2023	FY2022
Fair value of plan assets at the beginning of fiscal year	**¥ 365,815**	**¥ 371,217**
Interest income	**6,043**	**4,636**
Remeasurements:		
Return on plan assets	**27,613**	**(7,061)**
Contributions to the plan by the employer	**10,027**	**11,368**
Payments from the plan	**(13,224)**	**(12,697)**
Return on plan assets (Note)	**(3,673)**	**(125)**
Others	**2,733**	**(1,523)**
Fair value of plan assets at the end of fiscal year	**¥ 395,334**	**¥ 365,815**

Note: As the Company's plan assets are in excess of the defined benefit obligation and this situation is expected to continue, the cash portion of the retirement benefit trusts of the plan assets was refunded in FY2023 and FY2022.

The Group’s basic policy regarding investment of plan assets has a target to increase the fair value basis plan assets by specifying target investment yields and acceptable risks in order to safely and efficiently ensure plan assets required for current and future pension and lump-sum payments.

A risk diversification on investments is carried out without imbalance to achieve this target.

In addition, the asset allocation ratio will be reassessed as necessary.

The Group plans to contribute ¥10,238 million for FY2024.

④ Changes in adjustments due to asset ceiling

Changes in adjustments due to asset ceiling are as follows:

	Millions of yen	
	FY2023	FY2022
Balance at the beginning of fiscal year	**¥ —**	**¥ —**
Remeasurements:		
Effect of limiting the amount of net plan assets to the amount of the asset ceiling	**40,001**	**—**
Balance at the end of fiscal year	**¥ 40,001**	**¥ —**

Note: For FY2023, the Company and its Group have unrecognized surpluses for its pension plans because the Company and its Group could not gain any economic benefits in the form of reductions in future contributions to the plans or refunds from the plans.

⑤ Details of plan assets

Plan assets consist of the following:

	Millions of yen					
	March 31, 2024			March 31, 2023		
	Fair value with quoted prices in active markets	Fair value without quoted prices in active markets	Total	Fair value with quoted prices in active markets	Fair value without quoted prices in active markets	Total
Cash and cash equivalents	**¥ 38,605**	**¥ —**	**¥ 38,605**	**¥ 27,087**	**¥ —**	**¥ 27,087**
Equity instruments	**96,939**	**—**	**96,939**	**93,002**	**—**	**93,002**
Debt instruments	**182,750**	**—**	**182,750**	**169,703**	**—**	**169,703**
General accounts of life insurance companies	**—**	**52,289**	**52,289**	**—**	**52,157**	**52,157**
Others	**1,747**	**23,004**	**24,751**	**1,460**	**22,406**	**23,866**
Total	**¥ 320,041**	**¥ 75,293**	**¥ 395,334**	**¥ 291,252**	**¥ 74,563**	**¥ 365,815**

⑥ **Significant actuarial assumptions**

Significant actuarial assumptions are as follows:

	March 31, 2024	March 31, 2023
Discount rate	**1.4%**	**1.2%**

⑦ **Sensitivity analysis**

The effect in the present value of the defined benefit obligations of a 0.5% change in discount rate used for actuarial calculations is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
0.5% increase in discount rate	**¥ (16,241)**	**¥ (18,275)**
0.5% decrease in discount rate	**17,976**	**17,336**

Note: To calculate the sensitivity of the defined benefit obligations, the same method is applied as that for calculation of the defined benefit obligations recognized in the consolidated statement of financial position. A sensitivity is analyzed based on the reasonably estimable movement of assumptions as at the fiscal year-end. The sensitivity analysis assumes that all actuarial assumptions other than that subject to the analysis are constant, but in reality, the movement of other actuarial assumptions may affect the result.

(2) Defined contribution plan

Payments to defined contribution plans are recognized as expenses in the periods that employees render services. Amounts recognized as expenses under defined contribution plans (including corporate pension plan under a multi-employer plan that is accounted for the same as defined contribution plans) for FY2023 and FY2022 are ¥7,312 million and ¥6,903 million, respectively.

(3) Employee benefit expenses

Employee benefit expenses recognized in “Cost of sales,” “Selling, general and administrative expenses,” and “Other operating expenses” in the consolidated statement of income for FY2023 and FY2022 are ¥442,000 million and ¥480,378 million, respectively.

(4) Multi-employer defined benefit plans

Certain consolidated subsidiaries participate in a corporate pension fund under a multi-employer plan. Because the amount of plan assets corresponding to the contribution by the companies cannot be reasonably calculated, the amount of contribution required is accounted for in the same manner as defined contribution plans.

The contributions for a corporate pension fund are calculated as a fixed percentage of the average salary or the like of participating employees. In addition, each fund ensures future solvency by revising the contribution in accordance with relevant regulations.

If the funds are dissolved and liquidated, they will charge participants to cover deficits or distribute residual assets to participants based on minimum funding standards calculated in accordance with regulations or the like. In addition, employers that elect to withdraw from the funds are subject to a charge to cover any liabilities and deficits projected to result from their withdrawal.

① Recent financial position of multi-employer defined benefit plans

	Millions of yen	
	As of March 31, 2023	As of March 31, 2022
Plan assets	**¥ 36,788**	**¥ 38,961**
Aggregate of actuarial liability based on pension finance calculation and minimum liability reserve	**62,707**	**64,555**
Net	**¥ (25,919)**	**¥ (25,594)**

The net amount presented in the above table is the total of ¥ (30,175) million in the present value of special contributions and ¥4,256 million in the plan assets surplus carried forward as of March 31, 2023, and the total of ¥ (30,947) million in the present value of special contributions and ¥5,353 million in the plan assets surplus carried forward as of March 31, 2022.

The present value of special contributions represents the amortized amount to be compensated over future periods to make up the past shortfall of plan assets in pension finance, calculated with a predetermined rate (special contributions) under an agreement regarding the corporate pension plan.

Under this plan, the present value of special contributions is amortized using the equal payment method. The remaining years of amortization are 20 years and 8 months and 21 years and 8 months for as of March 31, 2023 and March 31, 2022, respectively. Special contributions of ¥32 million and ¥32 million have been accounted for as pension expenses on the consolidated financial statements of income for FY2022 and FY2021, respectively.

② Ratio of Group contribution to multi-employer plans

FY2023: 1.71% (as of March 31, 2023)

FY2022: 1.76% (as of March 31, 2022)

The amount of the special contribution is calculated by multiplying the pre-determined rate by the amount of average salary at the time of the contribution. Therefore, the ratio of Group contribution to multi-employer plans above does not match the Group's actual proportional contribution.

③ Contributions to multi-employer plans in Fiscal year 2024

The Group expects to contribute ¥187 million to multi-employer plans for FY2024.

25. Provisions

Details of and changes in provisions are as follows:

	Millions of yen					
	Provisions for sales rebates	Provisions for asset retirement obligations	Provisions for sales returns	Provisions for removal cost of property, plant and equipment	Other provisions	Total
As of April 1, 2023	**¥ 90,599**	**¥ 25,692**	**¥ 32,244**	**¥ 10,446**	**¥ 8,492**	**¥ 167,473**
Increase	**51,369**	**154**	**19,013**	**7,700**	**4,533**	**82,769**
Decrease (provision used)	**(98,420)**	**(280)**	**(19,210)**	**(1,375)**	**(4,364)**	**(123,649)**
Decrease (provision reversed)	**(43)**	**—**	**(4,508)**	**(344)**	**(338)**	**(5,233)**
Interest expenses resulting from unwinding	**—**	**405**	**—**	**—**	**—**	**405**
Others	**9,848**	**542**	**4,063**	**—**	**760**	**15,213**
As of March 31, 2024	**¥ 53,353**	**¥ 26,513**	**¥ 31,602**	**¥ 16,427**	**¥ 9,083**	**¥ 136,978**
Current	**53,353**	**—**	**31,602**	**1,040**	**4,924**	**90,919**
Non-current	**—**	**26,513**	**—**	**15,387**	**4,159**	**46,059**
Total	**¥ 53,353**	**¥ 26,513**	**¥ 31,602**	**¥ 16,427**	**¥ 9,083**	**¥ 136,978**

Provisions are measured based on the best estimate made at the end of the reporting period on cash flows expected to settle obligations in the future. Provisions for sales rebates mainly related to public programs and contracts with wholesalers are provided based on the amounts expected to be paid subsequent to the fiscal year-end date. The balance of provision for sales rebates applied to products sold by Sumitomo Pharma America, Inc., the Company's consolidated subsidiary, is ¥52,953 million at the end of FY2023. Some sales rebates related to various insurance programs that are applied to major products sold in the U.S. need time to be determined. As for estimate 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 affect estimation of reserves for sales rebates. For other provisions, the cash flows expected to settle obligations in the future are measured, comprehensively considering future possible outcomes. These assumptions used in the measurement of provisions may be affected by changes in uncertain future economic conditions.

26. Other Liabilities

The breakdown of other liabilities is as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Accrued bonuses	**¥ 47,633**	**¥ 57,610**
Obligations for unused paid absences	**13,580**	**14,068**
Contract liabilities	**22,593**	**16,736**
Unearned revenue (Note)	**48,533**	**58,749**
Others	**48,194**	**49,753**
Total	**¥ 180,533**	**¥ 196,916**
Current liabilities	**129,087**	**128,060**
Non-current liabilities	**51,446**	**68,856**
Total	**¥ 180,533**	**¥ 196,916**

Note: Unearned revenue is a lump-sum payment from Pfizer under an agreement for joint development and commercialization of relugolix in oncology and women's health in North America.

27. Equity and Other Equity Items

(1) Share capital and surplus

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

	Shares	
	FY2023	FY2022
Number of shares authorized	**5,000,000,000**	**5,000,000,000**
Number of shares issued:		
Balance at the beginning of fiscal year	**1,655,860,207**	**1,655,446,177**
Changes during the year (Note 2)	**588,938**	**414,030**
Balance at the end of fiscal year	**1,656,449,145**	**1,655,860,207**

Note 1: All of the issued shares of the Company are ordinary shares that have no par value and no limitations on rights. Issued shares are fully paid.

Note 2: The increase during FY2023 and 2022 is due to the issuance of new shares based on the restricted stock compensation plan.

The details of surplus are as follows:

① Capital surplus

The Companies Act in Japan stipulates that half or more of the capital contributed from the issue of shares must be included in share capital and that the remainder must be included in capital reserve that is included in capital surplus. Moreover, capital reserve may be reclassified to share capital by resolution of the General Meeting of Shareholders.

In the event that capital surplus falls below zero due to the difference between additional equity acquired in the shares of subsidiaries and the additional investment amount, the Company reduces capital surplus to zero and deducts the remaining balance from retained earnings.

② Retained earnings

The Companies Act in Japan requires that an amount equal to one-tenth of dividends must be appropriated to capital reserve or earned surplus reserve until the total of aggregate amount of capital reserve and earned surplus reserve equals one-quarter of share capital. Earned surplus reserve may be appropriated to reduce a deficit, and also may be reversed by resolution of the General Meeting of Shareholders.

(2) Treasury shares

Changes in the numbers of treasury shares are as follows:

	Shares	
	FY2023	FY2022
Balance at the beginning of fiscal year	**20,486,616**	**20,474,797**
Changes during the year	**14,306**	**11,819**
Balance at the end of fiscal year	**20,500,922**	**20,486,616**

Note: The changes during the periods are mainly due to claims for purchases from or sales to shareholders with less than one unit of shares.

(3) Other components of equity

① Financial assets measured at fair value through other comprehensive income

This is the valuation difference in fair value on financial assets measured at fair value through other comprehensive income.

② Remeasurement of defined benefit plans

Remeasurement of defined benefit plans includes actuarial gains and losses that arise from the present value of defined benefit obligations, the return on plan assets (except for amounts included in net interest), and changes in the effect of the asset ceiling (except for amounts included in net interest). These amounts are recognized in other comprehensive income when they occur and are immediately transferred from other components of equity to retained earnings.

③ Cash flow hedges

This is the effective portion of gains or losses on the hedging instrument designated as cash flow hedges.

④ Exchange differences on conversion of foreign operations

These adjustments result from consolidating the financial statements of foreign subsidiaries with foreign currencies.

28. Dividends

Dividends paid are as follows:

Fiscal year 2023

Date of Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 15, 2023 Board of Directors	Ordinary shares	**¥ 9,812**	**¥ 6.00**	March 31, 2023	June 1, 2023
November 1, 2023 Board of Directors	Ordinary shares	**¥ 9,816**	**¥ 6.00**	September 30, 2023	December 4, 2023

Fiscal year 2022

Date of Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Record date	Effective date
May 13, 2022 Board of Directors	Ordinary shares	**¥ 22,890**	**¥ 14.00**	March 31, 2022	June 2, 2022
November 1, 2022 Board of Directors	Ordinary shares	**¥ 19,625**	**¥ 12.00**	September 30, 2022	December 2, 2022

Dividends with an effective date after FY2023 and FY2022 are as follows:

Fiscal year 2023

Date of Resolution	Type of shares	Total dividends (Millions of yen)	Paid from	Dividends per share (Yen)	Record date	Effective date
May 15, 2024 Board of Directors	Ordinary shares	**¥ 4,908**	Retained earnings	**¥ 3.00**	March 31, 2024	June 3, 2024

Fiscal year 2022

Date of Resolution	Type of shares	Total dividends (Millions of yen)	Paid from	Dividends per share (Yen)	Record date	Effective date
May 15, 2023 Board of Directors	Ordinary shares	**¥ 9,812**	Retained earnings	**¥ 6.00**	March 31, 2023	June 1, 2023

29. Revenue

(1) Disaggregation of revenue

The Group mainly engages in manufacturing and sales of “Essential Chemicals & Plastics,” “Energy & Functional Materials,” “IT-related Chemicals,” “Health & Crop Sciences,” and “Pharmaceuticals.” The Board of Directors of the Company reviews the reportable segments regularly to determine allocation of resources and to assess their performance, therefore revenue of these businesses is presented as sales revenue. Revenue is geographically disaggregated based on the customer location. The relationship between disaggregated sales revenue and sales revenue by reportable segment is as follows:

Fiscal year 2023

	Millions of yen						
	Essential Chemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others (Note 1)	Total
Japan	**¥ 303,109**	**¥ 158,605**	**¥ 11,375**	**¥ 111,339**	**¥ 135,310**	**¥ 62,310**	**¥ 782,048**
China	**129,381**	**36,592**	**175,208**	**9,168**	**33,795**	**103**	**384,247**
North America	**23,535**	**31,342**	**8,472**	**107,970**	**155,180**	**31**	**326,530**
Of which: U.S.	**19,926**	**31,155**	**8,472**	**97,509**	**152,551**	**31**	**309,644**
Southeast Asia	**136,566**	**11,196**	**60,665**	**24,247**	**5,658**	**7,231**	**245,563**
Others	**181,388**	**62,529**	**158,430**	**293,241**	**12,793**	**124**	**708,505**
Total	**¥ 773,979**	**¥ 300,264**	**¥ 414,150**	**¥ 545,965**	**¥ 342,736**	**¥ 69,799**	**¥ 2,446,893**
Revenue from contracts with customers	**773,979**	**300,264**	**414,150**	**545,965**	**325,770**	**69,799**	**2,429,927**
Revenue from other sources (Note 2)	**—**	**—**	**—**	**—**	**16,966**	**—**	**16,966**

Note 1: “Others” represents businesses such as supplying electrical power and steam, providing services for the design, engineering, and construction management of chemical plants, providing transport and warehousing, and conducting materials and environmental analysis.

Note 2: Revenue from other sources is revenue from contracts with joint partners when the counterparty is not considered customers.

Fiscal year 2022

	Millions of yen						
	Essential Chemicals & Plastics	Energy & Functional Materials	IT-related Chemicals	Health & Crop Sciences	Pharmaceuticals	Others (Note 1)	Total
Japan	**¥ 323,982**	**¥ 197,499**	**¥ 13,849**	**¥ 117,116**	**¥ 198,820**	**¥ 77,078**	**¥ 928,344**
China	**151,324**	**43,518**	**208,047**	**11,872**	**39,676**	**43**	**454,480**
North America	**23,304**	**34,536**	**10,456**	**94,316**	**329,085**	**60**	**491,757**
Of which: U.S.	**19,765**	**34,159**	**10,456**	**84,979**	**325,882**	**60**	**475,301**
Southeast Asia	**158,266**	**14,013**	**56,263**	**23,830**	**3,514**	**8,143**	**264,029**
Others	**196,040**	**52,894**	**142,604**	**351,256**	**13,778**	**101**	**756,673**
Total	**¥ 852,916**	**¥ 342,460**	**¥ 431,219**	**¥ 598,390**	**¥ 584,873**	**¥ 85,425**	**¥ 2,895,283**
Revenue from contracts with customers	**852,916**	**342,460**	**431,219**	**598,390**	**565,450**	**85,425**	**2,875,860**
Revenue from other sources (Note 2)	**—**	**—**	**—**	**—**	**19,423**	**—**	**19,423**

Note 1: “Others” represents businesses such as supplying electrical power and steam, providing services for the design, engineering, and construction management of chemical plants, providing transport and warehousing, and conducting materials and environmental analysis.

Note 2: Revenue from other sources is revenue from contracts with joint partners when the counterparty is not considered customers.

(Change in presentation)

"Southeast Asia," which was included in "Others" in FY2022, is presented separately in FY2023 due to increased quantitative materiality. Items for FY2022 have been reclassified in order to reflect this change in presentation.

(2) Performance obligations

Timing of the Group's satisfaction of its performance obligations, and obligations for returns and refunds are presented in Note 3 Material Accounting Policies. The consideration of products and services promised in contracts with customers is generally received within one year from performance obligations' fulfillment. Such product sales do not include a significant financing component.

(3) Contract balances

The details of outstanding contract balances arising from contracts with customers are as follows:

	Millions of yen		
	March 31, 2024	March 31, 2023	April 1, 2022
Receivables from contracts with customers	**¥ 537,707**	**¥ 534,987**	**¥ 652,829**
Contract assets	**7,383**	**1,826**	**5,603**
Contract liabilities	**22,593**	**16,736**	**24,711**

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

Contract assets are primarily recognized for the right to receive ongoing construction contract consideration and consideration in exchange for a good or service transferred under the contract for the sale of a particular product, and contract liabilities are primarily recognized for advances received from customers.

As of the beginning of FY2023 and FY2022, the amounts included in current contract liabilities were ¥8,613 million and ¥14,660 million, respectively, of which, the amount that has not been recognized as revenue in FY2023 and FY2022 is not material.

Also, the amount of revenue recognized during FY2023 and FY2022 from performance obligations satisfied (or partially satisfied) in previous periods is not material.

(4) Transaction prices allocated to performance obligations that have not been satisfied

Transaction prices allocated to the remaining performance obligations and periods when the revenue is expected to be recognized are as follows. The transactions for which individual contract terms are within one year are excluded as the Group uses a practical expedient. In addition, there are no significant amounts in consideration from contracts with customers that are not included in transaction prices.

	Millions of yen	
	March 31, 2024	March 31, 2023
Within 1 year	**¥ 32,426**	**¥ 28,577**
Later than 1 year	**29,787**	**21,192**
Total	**¥ 62,212**	**¥ 49,769**

(5) Assets recognized from the costs to obtain or fulfill a contract with a customer

The total amounts of the costs to obtain or fulfill contracts with customers for FY2023 and FY2022 are not material.

30. Selling, General and Administrative Expenses

The breakdown of selling, general and administrative expenses is as follows:

	Millions of yen	
	FY2023	FY2022
Research and development expenses	**¥ 179,062**	**¥ 191,181**
Employee benefit expenses	**204,004**	**237,863**
Freight and storage cost	**61,883**	**79,347**
Advertising and sales promotion expenses	**53,979**	**70,684**
Depreciation and amortization	**56,527**	**57,363**
Changes in fair value of contingent consideration	**1,562**	**(3,388)**
Others	**330,107**	**245,211**
Total	**¥ 887,124**	**¥ 878,261**

Note: The amount of the impairment losses arising from research and development in process with respect to compounds under development is ¥10,577 million, patent and goodwill of pharmaceuticals is ¥133,457 million and ¥35,858 million, respectively, and calcination demonstration facilities for cathode material is ¥11,566 for FY2023, and which are included in “Others” of the above table.

The amount of the impairment losses arising from research and development in process with respect to compounds under development is ¥21,140 million and patent of pharmaceuticals is ¥58,863 million for FY2022, and which are included in “Others” of the above table.

31. Other Operating Income and Operating Expenses

The breakdown of other operating income is as follows:

	Millions of yen	
	FY2023	FY2022
Gains on business transfers	**¥ 15,014**	**¥ 49,159**
Gains on sales of property, plant and equipment, and intangible assets	**1,215**	**5,221**
Subsidy income	**772**	**860**
Others	**10,934**	**13,987**
Total	**¥ 27,935**	**¥ 69,227**

The breakdown of other operating expenses is as follows:

	Millions of yen	
	FY2023	FY2022
Restructuring costs (Note 1)	**¥ 48,397**	**¥ 22,100**
Losses on transfer of shares of subsidiary (Note 2)	**6,114**	**—**
Donation	**1,133**	**1,069**
Others	**16,290**	**12,910**
Total	**¥ 71,934**	**¥ 36,079**

Note 1: Restructuring costs are expenses to improve the business structure, which mainly include loss on disposal of property, plant and equipment and expenses for reformation of the organizations and operations.

Note 2 : Losses on transfer of shares of subsidiary were recorded due to the transfer of all the shares of Spirovant Sciences LLC, Sumitomo Pharma’s consolidated subsidiary, to Ruagen Bio, Inc. during FY2023.

32. Finance Income and Finance Expenses

The breakdown of finance income is as follows:

	Millions of yen	
	FY2023	FY2022
Interest income:		
Financial assets measured at amortized cost	¥ 10,057	¥ 9,307
Financial assets measured at fair value through profit or loss	6,677	3,686
Dividend income:		
Financial assets measured at fair value through other comprehensive income:		
Financial assets derecognized during fiscal year	799	70
Financial assets held at fiscal year-end	3,857	4,887
Financial assets measured at fair value through profit or loss	749	780
Exchange gains	49,254	40,107
Derivative gains	—	11,228
Others	1,604	771
Total	¥ 72,997	¥ 70,836

The breakdown of finance expenses is as follows:

	Millions of yen	
	FY2023	FY2022
Interest expenses:		
Financial liabilities measured at amortized cost	¥ 25,011	¥ 19,200
Financial liabilities measured at fair value through profit or loss	1,367	1,201
Other liabilities	2,856	2,067
Derivative losses	16,772	15,528
Others	957	1,625
Total	¥ 46,963	¥ 39,621

33. Other Comprehensive Income

Gains (losses) arising for the year, reclassification adjustments to profit or loss and tax effect for each component of other comprehensive income are as follows:

Fiscal year 2023

	Millions of yen				
	Gains (losses) arising for the year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss:					
Remeasurements of financial assets (equity instruments) measured at fair value through other comprehensive income	¥ 57,802	¥ —	¥ 57,802	¥ (15,180)	¥ 42,622
Remeasurements of defined benefit plans	(5,833)	—	(5,833)	2,446	(3,387)
Share of other comprehensive income of investments accounted for using the equity method	3,355	—	3,355	289	3,644
Total of items that will not be reclassified to profit or loss	55,324	—	55,324	(12,445)	42,879
Items that may be subsequently reclassified to profit or loss:					
Remeasurements of financial assets (debt instruments) measured at fair value through other comprehensive income	(13)	13	—	—	—
Cash flow hedge	(1,831)	3,083	1,252	(327)	925
Exchange differences on conversion of foreign operations	104,646	(27)	104,619	—	104,619
Share of other comprehensive income of investments accounted for using the equity method	26,406	(4,737)	21,669	(6,646)	15,023
Total of items that may be subsequently reclassified to profit or loss	129,221	(1,681)	127,540	(6,973)	120,567
Total	¥ 184,545	¥ (1,681)	¥ 182,864	¥ (19,418)	¥ 163,446

Fiscal year 2022

	Millions of yen				
	Gains (losses) arising for the year	Reclassification adjustments	Before tax effect	Tax effect	After tax effect
Items that will not be reclassified to profit or loss:					
Remeasurements of financial assets (equity instruments) measured at fair value through other comprehensive income	**¥ 21,598**	**¥ —**	**¥ 21,598**	**¥ (6,640)**	**¥ 14,958**
Remeasurements of defined benefit plans	**12,709**	**—**	**12,709**	**(4,039)**	**8,670**
Share of other comprehensive income of investments accounted for using the equity method	**643**	**—**	**643**	**483**	**1,126**
Total of items that will not be reclassified to profit or loss	**34,950**	**—**	**34,950**	**(10,196)**	**24,754**
Items that may be subsequently reclassified to profit or loss:					
Remeasurements of financial assets (debt instruments) measured at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**
Cash flow hedge	**12,077**	**(680)**	**11,397**	**(3,234)**	**8,163**
Exchange differences on conversion of foreign operations	**62,470**	**102**	**62,572**	**—**	**62,572**
Share of other comprehensive income of investments accounted for using the equity method	**21,305**	**15**	**21,320**	**(4,317)**	**17,003**
Total of items that may be subsequently reclassified to profit or loss	**95,852**	**(563)**	**95,289**	**(7,551)**	**87,738**
Total	**¥ 130,802**	**¥ (563)**	**¥ 130,239**	**¥ (17,747)**	**¥ 112,492**

34. Earnings per Share

(1) The basis for calculating basic earnings per share

	FY2023	FY2022
Net income (loss) attributable to owners of the parent (millions of yen)	**¥ (311,838)**	**¥ 6,987**
Amounts not attributable to ordinary shareholders of the parent (millions of yen)	**—**	**—**
Net income (loss) used to calculate basic earnings per share (millions of yen)	**¥ (311,838)**	**¥ 6,987**
Average number of ordinary shares (thousands of shares)	**1,635,352**	**1,634,980**
Basic earnings (losses) per share (yen)	**¥ (190.69)**	**¥ 4.27**

(2) The basis for calculating diluted earnings per share

	FY2023	FY2022
Net income (loss) used to calculate basic earnings per share (millions of yen)	**¥ (311,838)**	**¥ 6,987**
Adjustments by dilutive potential ordinary shares of parent (millions of yen)	**—**	**—**
Net income (loss) used to calculate diluted earnings per share (millions of yen)	**¥ (311,838)**	**¥ 6,987**
Average number of ordinary shares (thousands of shares)	**1,635,352**	**1,634,980**
Restricted stock compensation plan (thousands of shares)	**—**	**295**
Average number of ordinary shares after dilution (thousands of shares)	**1,635,352**	**1,635,275**
Diluted earnings per share (yen)	**¥ —**	**¥ 4.27**
Stocks not included in the calculation of diluted earnings per share because they have anti-dilutive effect	**Restricted stock 456,230 shares**	–

Note 1: For diluted earnings per share for FY2023, although there are potential shares, they are not listed because they have an anti-dilutive effect.

Note 2: There are no significant transactions involving ordinary shares or potential ordinary shares from the end of fiscal year to the authorization date of the consolidated financial statements.

35. Share-Based Payment

(1) Restricted stock compensation plan

The Company has introduced the restricted stock compensation plan (hereinafter, the "Plan") to incentivize members of the Company's Board of Directors (excluding Outside Directors) and executive officers not concurrently serving as members of the Board of Directors (excluding non-residents of Japan) (hereinafter, collectively, "Eligible Officers") to continually enhance the Company's corporate value and bring the interests of the Eligible Officers into even closer alignment with shareholders. Eligible Officers shall pay in, as in-kind contribution of property, all monetary claims paid by the Company under the Plan and receive shares of the Company's common stock to be issued or disposed of. The amount of the monetary claims to be paid in per share of such shares shall be decided by the Board of Directors based on the closing price of the Company's common stock on the Tokyo Stock Exchange on the last working day before the date of each resolution of the Board of Directors on such amount (or the closing price on the most recent previous trading day if there was no trading for the Company's common stock on that day), within such boundaries that the amount is not particularly advantageous to Eligible Officers receiving such shares.

In addition, when shares of the Company's common stock are issued or disposed of under the Plan, a restricted stock allotment contract shall be concluded between the Company and Eligible Officers, the contents of which shall include the following: 1. Eligible Officers may not transfer to a third party, create a security interest in, or otherwise dispose of in any way, shares of the Company's common stock allotted by the Company under the restricted stock allotment contract for a certain period of time; and 2. upon the occurrence of certain events, the Company will acquire the shares of the Company's common stock without consideration.

The details of the restricted stock granted in FY2023 and 2022 are as follows:

	FY2023	FY2022
Allotment date	**July 20, 2023**	**July 22, 2022**
Granted number of restricted stocks	**588,938 shares**	**414,030 shares**
Fair value per share on the allotment date	**¥ 435**	**¥ 536**

(2) Stock option

Myovant Sciences Ltd., the Company's consolidated subsidiary, had adopted equity-settled share-based payment plans for its directors and employees and granted them stock options.

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

Information related to the stock options of Myovant Sciences Ltd. is as follows.

The transaction wherein Myovant Sciences Ltd. became a wholly owned subsidiary was completed during FY2022, and there were no stock options in existence FY2022.

Fiscal year 2023

There are no stock options.

Fiscal year 2022

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

Note: The weighted average share price at the date of exercise is $ 17.49.

The Black-Scholes model is used for the purpose of valuation of the fair value of the stock options. As for the stock options granted during the period, the assumptions used for the Black-Scholes model are as follows. Expected weighted average fair value of each stock option is $7.44.

	March 31, 2023
Expected weighted average share price	**$ 19.56**
Expected exercise price	**$ 11.33**
Expected volatility (Note 1)	**71.0%**
Expected stock option period	**6.3 years**
Expected dividends	—
Risk-free interest rate	**2.8%**

Note 1: The estimation of expected volatility is based on past volatilities of Myovant Sciences Ltd. and reference companies that are publicly listed and conduct similar business to Myovant Sciences Ltd., corresponding to the expected remaining duration for stock options.

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

(3) Share-based payment expenses

In FY2023, expenses of ¥256 million are recorded related to the restricted stock compensation plan.

In FY2022, expenses of ¥191 million are recorded related to the restricted stock compensation plan and expenses of ¥15,255 million are recorded related to the stock option plan.

These share-based payment expenses are included in “Selling, general and administrative expenses” in the consolidated statement of income.

36. Financial Instruments

(1) Capital management

The Group conducts capital management for sustainable growth and maximization of its corporate value.

To achieve sustainable growth, the Group considers it essential to secure sufficient financing capacity to make agile investment in businesses when an opportunity for such investments for business growth (such as acquisition of external resources) arises in the future and aims to maintain the capital structure with balance.

There is no significant capital restriction that applies to the Company (excluding general provisions of the Companies Act and other laws and regulations).

When the Company determines dividends, the Company considers shareholder return as one of its most prioritized management issues and has made it a policy to maintain stable dividends payments, giving due consideration to its business performance and a dividends payout ratio for each fiscal period, the level of retained earnings necessary for future growth, and other relevant factors.

Based on the provisions of Article 459, Paragraph 1 of the Companies Act, the Company stipulates that it may pay dividends of surplus by resolution of the Board of Directors.

(2) Financial risk management

The Group is exposed to financial risks (e.g. credit risk, liquidity risk, foreign exchange risk, interest rate risk and market price fluctuation risk) in the course of doing business. The Group performs risk management to reduce these financial risks.

(3) Credit risk

The Company regularly reassesses the dealing policies about trade receivables through monitoring the business condition, the sales turnover, and the balance of receivables of all business counterparties by sales sections of each business segment, and aims to grasp changes in customers' credit risks due to deterioration of the financial condition, etc. at an early stage and the reduction of credit risks in accordance with the Company regulation for credit management.

In the case of the consolidated subsidiaries, their sales divisions or accounting departments also manage the financial and credit conditions of their customers pursuant to their internal rules and regulations.

The Group conducts derivative transactions only with creditworthy financial institutions and trading companies to minimize the counterparty risk, and accordingly the impact on credit risk is limited.

The Group does not have significant exposure of credit risk relating to particular counterparties nor excessive concentration of credit risk that requires special attention.

The maximum exposure related to the credit risk of financial assets is the carrying amount (net of impairment) presented in the consolidated statement of financial position. The maximum exposures related to the credit risk of guarantee obligations are described in Note 40 Contingent Liabilities.

The Group holds deposits mainly as collateral against certain trade and other receivables. The amounts recognized in "Other financial liabilities" in the consolidated statement of financial position are ¥10,366 million and ¥10,315 million as of March 31, 2024 and 2023, respectively.

Changes in allowance for doubtful accounts

The Group reviews collectability of trade receivables and other receivables, other financial assets, and financial guarantee contracts based on the credit conditions of customers and recognizes an allowance for doubtful accounts.

For trade receivables and contract assets without material financial components, allowances for doubtful accounts are always measured at an amount equal to the lifetime expected credit losses (simplified approach). For other receivables, other financial assets, and financial guarantee contracts, allowances for doubtful accounts are generally measured at an amount equal to the 12-month expected credit losses, while in the case that credit risk of a financial asset (including financial guarantee contracts) has increased significantly since initial recognition, an allowance for doubtful account for the financial asset is measured by estimating individually the lifetime expected credit losses based on the past experiences of bad debts and forecasts on future recoverable amounts (general approach).

The Group considers whether there has been a significant increase in the credit risk based on changes in default risk. To determine if there has been a change in the default risk, the Group considers financial conditions of counterparties, past credit losses history and past overdue information. The Group determines there has been a significant increase in credit risk if a contractual payment is past due for more than 30 days. And it is generally determined that there has been a default, if a contractual payment is past due for over 90 days. When making these judgments, the Group considers reasonable and supportable information that is available without excessive cost or effort, and it would be determined that there have been no significant increases in credit risk if it is rebuttable based on this information.

Any financial assets are treated as credit-impaired financial assets if there is a request for changing terms and conditions for repayment from the debtors, serious financial difficulties of the debtor, or commencement of legal liquidation procedures due to bankruptcy and others of the debtor, etc. For any amount that is probably not recoverable in the future, the carrying amount of the financial asset is directly reduced from the total amount, and the amount of allowance for doubtful account is reduced correspondingly.

The amount of allowance for doubtful accounts is calculated as follows:

・Trade receivables (note receivables and account receivables), other receivables (contract assets)

Based on the simplified approach, the allowance is calculated by multiplying the total amount of the receivables by the provision rate calculated by considering future prospects of economic conditions, etc. in addition to the historical rate of credit losses.

・Other receivables (other account receivables, etc.), other financial assets, and financial guarantee contracts

As for assets for which credit risk is not considered significantly increased, the amount of the allowance is calculated by multiplying the total carrying amount by the provision rate that is determined by considering future prospects of economic conditions, etc. in addition to the historical rate of credit losses of similar assets. If credit risk of the asset is considered to be significantly increasing or the asset meets criteria for credit-impaired financial assets, the amount of the allowance is calculated as the difference between the recoverable amount that is individually determined by considering future prospects of economic conditions, etc. in addition to the financial conditions of the counterparty and the total carrying amount.

The total carrying amount of financial assets and the balance of financial guarantee contracts for which an allowance for doubtful accounts is to be recognized is as follows:

	Millions of yen			
		Financial assets applied to the general approach		
	Financial assets applied by the simplified approach	Stage 1 Financial assets measured at an amount equal to the 12-month expected credit losses	Stage 2 Financial assets measured at an amount equal to the lifetime expected credit losses	Stage 3 Financial assets measured at an amount equal to the lifetime expected credit losses
March 31, 2024	**¥ 552,067**	**¥ 306,741**	**¥ －**	**¥ 510**
March 31, 2023	**¥ 542,417**	**¥ 275,620**	**¥ －**	**¥ 403**

Expected credit losses of financial assets applied by the simplified approach and Stage 1 financial assets, are measured on a collective basis by multiplying the historical rate of credit losses considering the forecasts on future economic conditions in a group of financial assets with similar credit risk characteristics. Expected credit losses of financial assets of Stage 2 and 3 are measured individually considering future prospects of economic conditions, etc. in addition to the financial conditions of counterparties.

Changes in allowance for doubtful accounts are as follows.

There is no significant increase or decrease of carrying amount that could affect a change in allowance for doubtful accounts for FY2023.

	Millions of yen	
	FY2023	FY2022
Balance at the beginning of fiscal year	**¥ 6,027**	**¥ 7,569**
Increase	**1,187**	**778**
Decrease (provision used)	**(436)**	**(1,582)**
Others	**723**	**(738)**
Balance at the end of fiscal year	**¥ 7,501**	**¥ 6,027**

Note: Allowance for doubtful accounts mainly relates to financial assets under the simplified approach.

(4) Liquidity risk

Liquidity risk is the risk that the Group is unable to perform its repayment obligations of financial liabilities on the settlement date.

The Company's finance department prepares and updates funding plans timely based on each department's cash flow schedule. While liquidity on hand is normally kept to about one day's worth of sales revenue in view of asset efficiency, the Company manages liquidity risk by signing overdraft contracts and entering into commitment line agreements totaling ¥151,500 million with financial institutions. The balance of borrowings related to those commitment lines is zero as of March 31, 2024 and 2023.

In addition, the Company and its major consolidated subsidiaries are striving to minimize liquidity risk by improving the efficiency of funds within the Group through the cash management system introduced in FY2023 and group financing.

The balance of financial liabilities (including derivative financial instruments) by contractual settlement date is as follows. Expected amount to be paid in the future is used for the interest.

As of March 31, 2024

	Millions of yen							
	Carrying amount	Total contractual cash flow	Due within one year	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
Non-derivative financial liabilities:								
Trade and other payables	**¥ 543,384**	**¥ 543,384**	**¥ 543,384**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Short-term borrowings	**319,104**	**320,763**	**320,763**	**—**	**—**	**—**	**—**	**—**
Commercial paper	**74,000**	**74,094**	**74,094**	**—**	**—**	**—**	**—**	**—**
Long-term borrowings	**552,709**	**564,329**	**124,027**	**136,222**	**38,900**	**60,734**	**71,912**	**132,534**
Bonds	**617,673**	**655,830**	**25,892**	**4,993**	**44,936**	**24,424**	**23,934**	**531,651**
Lease liabilities	**111,169**	**123,043**	**19,256**	**16,041**	**12,973**	**10,829**	**8,927**	**55,017**
Deposits received	**40,166**	**40,166**	**36,089**	**34**	**33**	**33**	**32**	**3,945**
Others	**18,114**	**18,114**	**17,764**	**146**	**66**	**33**	**33**	**72**
Derivative liabilities	**4,991**	**4,821**	**4,821**	**—**	**—**	**—**	**—**	**—**

Note: The principal of the hybrid bonds (subordinated bonds) issued by the Company and Sumitomo Pharma is included in "Due after five years" based on maturity date stipulated in the contract, however, the bonds may be redeemed earlier due to the special clause. Details are presented in Note 19 Bonds and Borrowings.

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. Details are described in Note 19 Bonds and Borrowings.

As of March 31, 2023

	Millions of yen							
	Carrying amount	Total contractual cash flow	Due within one year	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
Non-derivative financial liabilities:								
Trade and other payables	¥ 515,865	¥ 515,865	¥ 515,865	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	283,781	285,032	285,032	—	—	—	—	—
Commercial paper	45,000	45,001	45,001	—	—	—	—	—
Long-term borrowings	525,317	534,238	39,985	123,889	136,410	37,784	59,598	136,572
Bonds	607,268	650,573	35,790	25,720	4,821	14,806	24,336	545,100
Lease liabilities	109,969	119,049	18,055	14,370	12,068	10,302	8,974	55,280
Deposits received	41,159	41,159	37,960	78	33	33	33	3,022
Others	17,163	17,163	16,757	17	19	33	—	337
Derivative liabilities	3,752	3,559	3,411	149	—	—	—	—

Note: The principal of the hybrid bonds (subordinated bonds) issued by the Company and Sumitomo Pharma is included in "Due after five years" based on maturity date stipulated in the contract, however, the bonds may be redeemed earlier due to the special clause. Details are presented in Note 19 Bonds and Borrowings.

(5) Foreign exchange risk

The Company and certain of its consolidated subsidiaries use forward foreign exchange contracts within a certain extent in accordance with the Company's regulation for management of foreign exchange risk to hedge foreign currency exchange fluctuation risk identified by currency and on a monthly basis for trade receivables and payables, etc. denominated in foreign currencies. The Group does not use transactions that have larger market price fluctuation ratio than the price fluctuation of the underlying transaction, such as leveraged derivatives transactions.

Exposure of foreign exchange risk

The Group is exposed to foreign exchange risk primarily from US dollars.

The net exposure to foreign exchange risk of US dollars is as follows, excluding exposures hedged by derivative transactions.

	Thousands of US dollars	
	March 31, 2024	March 31, 2023
Net exposure	**$ 965,405**	**$ 1,947,647**

Foreign exchange sensitivity analysis

For financial instruments denominated in foreign currencies held by the Group as of March 31, 2024 and 2023, the financial impact on net income and equity in the event of 1% appreciation against the US dollar at fiscal year-end, is as follows.

The impact of financial instruments denominated in functional currency and converting assets, liabilities, income and expenses of foreign operations into Japanese yen is not included. Also, the analysis assumes that all other factors (balance, interest rate, etc.) are held constant.

	Millions of yen	
	March 31, 2024	March 31, 2023
	¥ (1,133)	**¥ (1,885)**

(6) Interest rate risk

The Group considers the details of funding demands, financial condition and financial environment and determines amounts, periods and methods for funding. The Group raises funds with combinations of fixed and variable interest rates to be prepared for future interest rate fluctuations, however, there is a possibility that interest expenses will increase in case of interest rate increase and adversely affect the Group's financial performance and condition. The Company and certain of its consolidated subsidiaries hedge the risk of an increase in interest rate by using interest rate swap transactions within some extent to mitigate the interest rate fluctuation risk related to loan payables.

Exposure of interest rate risk

The net exposure to interest rate risk is as follows, excluding exposures hedged by derivative transactions.

	Millions of yen	
	March 31, 2024	March 31, 2023
Net exposure	**¥ 209,399**	**¥ 225,672**

Interest rate sensitivity analysis

For financial instruments held by the Group as of March 31, 2024 and 2023, in the event of a 100-basis point interest rate increase, the monetary impact of financial instruments affected by the interest rate movement on net income and equity is as follows.

The analysis relates only to the financial instruments influenced by interest rate fluctuation, and assumes that all other factors (balance, exchange rate, etc.) are held constant.

	Millions of yen	
	March 31, 2024	March 31, 2023
	¥ (1,455)	**¥ (1,569)**

Effect of reference rate reform

The Group prepared for a smooth transition to a new benchmark interest rate as an alternative to LIBOR by monitoring the trends of the interest rate benchmark reform and evaluating their impact on the Group.

For non-derivative financial instruments, USD LIBOR was referenced in loan receivable. However, the Company transitioned to the Term SOFR during FY2022.

Thereby, there are no financial instruments that reference LIBOR and have not yet been transitioned to alternative benchmark rates as of March 31, 2024.

There is no change in the Group's risk management strategy as a result of the transition.

(7) Market price fluctuation risk

The Group is exposed to stock price fluctuation risk because the Group holds the stocks of business partner companies to maintain and strengthen business relationships with them. With regard to those stocks, the Group regularly monitors market price and financial conditions of the issuers (business partner companies) and reassesses the Groups' stockholding status in light of relationships with business partner companies.

In the event of a 10% market price change on each reporting date, the impact of equity instruments affected by the market price movement on other comprehensive income (after-tax effect) as of March 31, 2024 and 2023 would be ¥14,950 million and ¥13,136 million, respectively. It is assumed that all other factors are held constant.

(8) Fair value of financial instruments

The fair value hierarchy of financial instruments is categorized into the following levels based on the level of the input used for the fair value measurements.

Level 1: Quoted prices in active markets for identical assets or liabilities
Level 2: Inputs other than Level 1, either directly or indirectly observable
Level 3: Inputs that are not based on observable market data

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

	Millions of yen			
	March 31, 2024		March 31, 2023	
	Carrying amount	Fair value	Carrying amount	Fair value
Bonds	**¥ 617,673**	**¥ 538,325**	**¥ 607,268**	**¥ 581,477**
Long-term borrowings	**501,780**	**495,387**	**525,317**	**521,714**

The above table does not include the following financial instruments for which carrying amounts are reasonable approximations of fair value: Cash and cash equivalents, Trade and other receivables, Loan receivables, Other financial assets (Other), Trade and other payables, Short-term borrowings, Commercial paper, Deposits received, Other financial liabilities (Other).

The fair value of bonds is determined based on market prices.

The fair value of long-term borrowings is calculated based on the present value that is calculated by discounting future cash flow using a deemed interest rate assumed on new borrowings with equivalent conditions.

As for fair value hierarchy of financial instruments measured at amortized cost, bonds are classified as Level 2 and others are classified as Level 3.

Financial assets and liabilities measured at fair value are as follows:

No financial instruments were transferred between levels during each reporting period.

As of March 31, 2024

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss:				
Loan receivables	¥ —	¥ —	¥ 114,968	¥ 114,968
Long-term accrued interests	—	—	910	910
Derivative assets designated as hedging instruments	—	345	—	345
Derivative assets not designated as hedging instruments	—	411	—	411
Other financial assets	8,154	7,290	1,031	16,475
Subtotal	8,154	8,046	116,909	133,109
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	212,529	—	80,721	293,250
Other financial assets	—	—	—	—
Subtotal	212,529	—	80,721	293,250
Total	¥ 220,683	¥ 8,046	¥ 197,630	¥ 426,359
Liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities designated as hedging instruments	—	184	—	184
Derivative liabilities not designated as hedging instruments	—	4,807	—	4,807
Contingent consideration	—	—	3,314	3,314
Other financial liabilities	—	—	17,764	17,764
Total	¥ —	¥ 4,991	¥ 21,078	¥ 26,069

As of March 31, 2023

	Millions of yen			
	Level 1	Level 2	Level 3	Total
Assets:				
Financial assets measured at fair value through profit or loss:				
Loan receivables	¥ —	¥ —	¥ 39,501	¥ 39,501
Long-term accrued interests	—	—	803	803
Derivative assets designated as hedging instruments	—	342	—	342
Derivative assets not designated as hedging instruments	—	1,623	—	1,623
Other financial assets	4,735	2,168	909	7,812
Subtotal	4,735	4,133	41,213	50,081
Financial assets measured at fair value through other comprehensive income:				
Shares and investments	188,585	—	81,105	269,690
Other financial assets	—	3,040	—	3,040
Subtotal	188,585	3,040	81,105	272,730
Total	¥ 193,320	¥ 7,173	¥ 122,318	¥ 322,811
Liabilities:				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities designated as hedging instruments	—	1,399	—	1,399
Derivative liabilities not designated as hedging instruments	—	2,353	—	2,353
Contingent consideration	—	—	1,482	1,482
Other financial liabilities	—	—	16,757	16,757
Total	¥ —	¥ 3,752	¥ 18,239	¥ 21,991

Changes in balances of financial instruments categorized as Level 3 are as follows:

	Millions of yen					
	FY2023			FY2022		
	FVTPL Financial assets	FVTOCI Financial assets	FVTPL Financial liabilities	FVTPL Financial assets	FVTOCI Financial assets	FVTPL Financial liabilities
Balance at the beginning of fiscal year	**¥ 41,213**	**¥ 81,105**	**¥ 18,239**	**¥ 191,374**	**¥ 81,472**	**¥ 21,110**
Transfer from/to Level 3	—	—	—	—	—	—
Total gains and losses	**1,220**	**690**	**2,188**	**(437)**	**(3,372)**	**(3,221)**
Profit or loss (Note 1)	**1,220**	—	**2,188**	**(437)**	—	**(3,221)**
Other comprehensive income (Note 2)	—	**690**	—	—	**(3,372)**	—
Increase (Note 3)	**66,128**	**4,048**	**669**	—	**5,669**	**1,094**
Decrease (Note 4)	—	**(180)**	**(1,803)**	**(153,599)**	**(1,612)**	**(1,444)**
Transfer to assets held for sale	—	**(4,990)**	—	—	**(1,111)**	—
Others (Note 5)	**8,348**	**48**	**1,785**	**3,875**	**59**	**700**
Balance at the end of fiscal year	**¥ 116,909**	**¥ 80,721**	**¥ 21,078**	**¥ 41,213**	**¥ 81,105**	**¥ 18,239**

Note 1: Gains and losses from financial assets measured at FVTPL, which are included in net income, are recorded in "Finance income" and "Finance expenses" in the consolidated statement of income. Among Gains and losses related to financial liabilities measured at FVTPL, changes in fair value of contingent consideration are recorded in "Selling, general and administrative expenses," while those related to other financial liabilities are recorded in "Finance income" and "Finance expenses" in the consolidated statement of income.

Note 2: Gains and losses included in other comprehensive income are those derived from financial assets measured at fair value through other comprehensive income as of the reporting date. These gains and losses are recorded in "Remeasurements of financial assets measured at fair value through other comprehensive income" in the consolidated statement of comprehensive income.

Note 3: "Increase" of FVTPL Financial assets for FY2023 is mainly due to the loan provided to Petro Rabigh.

Note 4: "Decrease" of FVTPL Financial assets for FY2022 is mainly due to the collection of the loan provided to Petro Rabigh, or the conversion of the loan into shares when subscribing to the capital increase of Petro Rabigh.

Note 5: "Others" mainly includes exchange differences of financial instruments denominated in foreign currencies. These gains and losses are recorded in "Finance income" or "Finance expenses" in the consolidated statement of income or "Exchange differences on conversion of foreign operations" in the consolidated statement of comprehensive income.

Note 6: Fair value measurements of financial instruments classified as level 3 are determined in accordance with valuation policies and procedures approved by appropriate authorized personnel. Valuation models are determined so that they reflect each financial instrument's nature, characteristics and risks most appropriately. The valuator examines whether it is possible to provide reasonable explanations by comparing changes in important inputs that could affect the fair value and changes in fair value, on an ongoing basis.

Material unobservable inputs related to fair value measurements of financial instruments classified as Level 3 are as follows:

・Fair value of financial assets measured at FVTPL is calculated by the discounted cash flow method, and the material unobservable inputs are the total amount of future cash flow (¥164,712 million and ¥59,482 million as of March 31, 2024 and 2023, respectively) and the discount rate (7.00% and 6.54% as of March 31, 2024 and 2023, respectively). In estimating future cash flows in relation to the fair value of loan receivables and long-term accrued interests to Petro Rabigh, assumptions regarding future sales prices and margins of major products and the overall capacity utilization rate of Petro Rabigh are made.

・The financial assets measured at FVTOCI are mainly composed of unlisted equity securities, and their fair value is calculated by the discounted cash flow method in principle. However, for unlisted equity securities for which fair value approximates their net asset value, the fair value is mainly calculated by valuation technique based on the net asset value.

・As for financial liabilities measured at FVTPL, fair value of contingent consideration is calculated by the discounted cash flow method, and material unobservable inputs are sales revenue arising from relevant business and the discount rate. Certain consolidated subsidiaries recognize the interest of preference shares issued as financial liabilities because it is redeemable at the amount based on its net asset value at any time based on the request of holders of preference shares. Fair value of preference shares is calculated by valuation technique based on the net asset value.
・The unobservable inputs may be affected by changes in uncertain future economic conditions.

Changes in the material assumptions that affect fair value of financial instruments classified as Level 3 are as follows:

			Millions of yen	
			March 31, 2024	March 31, 2023
FVTPL Financial assets	Total future cash flow	5% decrease	**¥ (5,794)**	**¥ (2,015)**
	Discount rate	0.5% increase	**(2,754)**	**(1,134)**
		0.5% decrease	**2,837**	**1,175**
FVTPL Financial liabilities (contingent consideration)	Sales revenue	5% increase	**58**	**41**
		5% decrease	**(58)**	**(41)**
	Discount rate	0.5% increase	**(29)**	**(27)**
		0.5% decrease	**29**	**27**

(9) Transfer of financial assets

The Group enters into liquidation transactions involving certain trade receivables. However, some of these liquidated receivables give rise to an obligation for the Group to make payments retrospectively if the obligor fails to settle. The Group does not derecognize such liquidated receivables because the derecognition criteria has not been met for such financial assets.

The carrying amounts of assets and associated liabilities that are transferred but do not meet the derecognition criteria are as follows. Transferred assets and associated liabilities are mainly included in “Trade and other receivables” (accounts receivables) and “Bonds and borrowings” (short-term borrowings), respectively in the consolidated statement of financial position. The fair value of these financial assets and liabilities is close to their carrying amount.

	Millions of yen	
	March 31, 2024	March 31, 2023
Carrying amount of transferred assets	**¥ 7,227**	**¥ 3,621**
Carrying amount of associated liabilities	**7,227**	**3,621**

(10) Derivatives

The Group uses derivatives, such as foreign exchange forward contracts for hedging foreign exchange fluctuation risk related to trade receivables and payables denominated in foreign currencies, etc., interest rate swap contracts for hedging interest payment fluctuation risk related to bonds and borrowings and commodity future (forwards) contracts for hedging market price fluctuation risk related to the sales and purchase of aluminum.

These derivatives are not designated as hedging instruments except for certain transactions designated as cash flow hedges. However, the Group determines that certain derivative transactions that are not designated as hedging instruments effectively offset the effect of fluctuation of foreign exchange and commodity markets, because the Group only uses derivatives for the purpose of hedging risks to the extent of actual demand.

Cash Flow Hedge

A cash flow hedge is a hedge for avoiding risk of volatility in future cash flows.

The Group uses interest rate swap contracts for the purpose of hedging interest rate fluctuation risk related to bonds and borrowings, and commodity future contracts for the purpose of hedging market price fluctuation risk related to the forecast transactions of aluminum with high possibility.

The Group assesses hedge effectiveness at the hedge's inception and on an ongoing basis, through qualitative assessment on whether important terms and conditions of the hedged item match or conform closely to those of the hedging instrument, or quantitative assessment on whether changes in cash flows of the hedged item and the hedging instrument are offset by each other because of the same risk, in which changes in cash flows of the hedged item caused by the hedged risk are offset by changes in cash flows of the hedging instrument. In addition, the Group determines the necessary quantity of hedging instruments by estimating the ratio of the change in value of hedged items that is attributed to the change in value of risks of hedged items to the change in value of hedging instruments at the inception of hedging relationships. In principle, the Group sets the hedge ratio so as to obtain a one-to-one relationship.
It is possible to incur an ineffective portion due to cancellation of forecast transaction, etc. However, because the Company performs highly effective hedges, the risk of incurring ineffective portion is expected to be insignificant. The amounts of hedge ineffectiveness recognized in profit or loss for FY2023 and FY2022 are not material.

The interest rates of interest rate swap contracts, and average prices in commodity future contracts are as follows:

	March 31, 2024	March 31, 2023
Interest rate fluctuation risk:		
Interest rate swap contracts		
Pay fixed rate, receive floating rate	**0.75%-0.81%**	**0.75%-0.99%**
Market price fluctuation risk:		
Commodity future contracts		
Aluminum future contract	**$ 2,428.03/MT**	**$ 2,397.01/MT**

① Amounts for derivatives designated as hedging instruments

The effect of hedging instruments on the consolidated statement of financial position is as follows. The carrying amount (fair value) of assets related to hedging instruments is included in "Other financial assets", and the carrying amount (fair value) of liabilities related to hedging instruments is included in "Other financial liabilities."

Cash flow hedge

Fiscal year 2023

Transaction type	Millions of yen			
	Contract amount		Carrying amount (Fair Value)	
	Total	Due after one year	Assets	Liabilities
Interest rate fluctuation risk:				
Interest rate swap contracts	**¥ 34,000**	**¥ —**	**¥ —**	**¥ 59**
Market price fluctuation risk:				
Commodity future contracts	**7,132**	**—**	**237**	**90**

Fiscal year 2022

Transaction type	Millions of yen			
	Contract amount		Carrying amount (Fair Value)	
	Total	Due after one year	Assets	Liabilities
Interest rate fluctuation risk:				
Interest rate swap contracts	**¥ 64,000**	**¥ 34,000**	**¥ —**	**¥ 449**
Market price fluctuation risk:				
Commodity future contracts	**16,967**	**4,386**	**310**	**813**

② Effect of hedge accounting on consolidated statement of income and comprehensive income

Changes in valuation net gains (losses) derived from hedging instruments designated as cash flow hedges are as follows:

Fiscal year 2023

	Millions of yen	
	Effective portion of changes in the fair value of cash flow hedges	
	Interest rate fluctuation risk	Market price fluctuation risk
As of April 1, 2023	**¥ (317)**	**¥ (347)**
Other comprehensive income:		
Gains (losses) arising for the year (Note 1)	**786**	**(1,957)**
Reclassification adjustments (Note 2)	**(397)**	**2,609**
Tax effect	**(123)**	**(199)**
As of March 31, 2024	**¥ (51)**	**¥ 106**

Note 1: The changes in value of the hedged items used as the basis for recognizing hedge ineffectiveness approximate the changes in fair value of the hedging instruments.

Note 2: The major accounts for reclassification adjustments on the consolidated statement of income are "Financial expenses" (Interest expenses) for interest rate fluctuation risk and "Cost of sales" for market price fluctuation risk.

Fiscal year 2022

	Millions of yen	
	Effective portion of changes in the fair value of cash flow hedges	
	Interest rate fluctuation risk	Market price fluctuation risk
As of April 1, 2022	**¥ (642)**	**¥ (7,551)**
Other comprehensive income:		
Gains (losses) arising for the year (Note 1)	**943**	**11,827**
Reclassification adjustments (Note 2)	**(478)**	**(1,444)**
Tax effect	**(140)**	**(3,179)**
As of March 31, 2023	**¥ (317)**	**¥ (347)**

Note 1: The changes in value of the hedged items used as the basis for recognizing hedge ineffectiveness approximate the changes in fair value of the hedging instruments.

Note 2: The major accounts for reclassification adjustments on the consolidated statement of income are "Financial expenses" (Interest expenses) for interest rate fluctuation risk and "Cost of sales" for market price fluctuation risk.

37. Significant Subsidiaries

(1) Significant subsidiaries

Company name	Capital	Ratio of voting rights (%)	Principal business
Sumitomo Chemical Brasil Indústria Química S.A.	BRL 3,125,762 thousand	100.00	Development, promotion and sales of crop protection chemicals, feed additives and household & public hygiene insecticides and manufacturing crop protection chemicals
Sumitomo Chemical America, Inc.	USD 663,092 thousand	100.00	Investment in related companies in the U.S. and sales of chemical products
Valent North America LLC	USD 382,574 thousand	100.00 (100.00)	Offering corporate services to related companies in North America
Valent BioSciences LLC	USD 268,972 thousand	100.00 (100.00)	Research, development, manufacturing and sales of biorational products
Sumika Polymers America Corp.	USD 222,544 thousand	100.00 (100.00)	—
CDT Holdings Ltd.	GBP 187,511 thousand	100.00	Investment in Cambridge Display Technology Ltd.
Cambridge Display Technology Ltd.	GBP 183,716 thousand	100.00 (100.00)	Research, development and licenses in polymer organic light-emitting diodes and devices
Dongwoo Fine-Chem Co., Ltd.	KRW 290,499 million	100.00	Manufacturing and sales of processing chemicals for semiconductors and displays, photoresists, optical functional films, touch screen sensor panels, etc.
Sumika Semiconductor Materials Texas Inc.	USD 130,000 thousand	100.00 (80.00)	Manufacturing and sales of processing chemicals for semiconductors
SSLM Co., Ltd.	KRW 280,000 million	100.00	Manufacturing and sales of heat-resistant separators
Japan-Singapore Petrochemicals Co., Ltd.	JPY 23,877 million	79.67	Investment in PCS (Pte.) Ltd.
Sumitomo Pharma Co., Ltd.	JPY 22,400 million	51.78	Manufacturing and sales of pharmaceuticals
Sumitomo Pharma America, Inc.	USD 1,710,032 thousand	100.00 (100.00)	Manufacturing and sales of pharmaceuticals
Sumitomo Pharma UK Holdings, Ltd.	USD 2,785,182 thousand	100.00 (100.00)	Investment in related companies conducting research, development and management of production contractors of pharmaceuticals
Sumitomo Pharma Switzerland GmbH	USD 1,015,312 thousand	100.00 (100.00)	Manufacturing and sales of pharmaceuticals
Urovant Sciences GmbH	USD 1,198,609 thousand	100.00 (100.00)	Research and development of pharmaceuticals
XUYOU Electronic Materials (Wuxi) Co., Ltd.	RMB 1,115,757 thousand	100.00 (55.00)	Manufacturing and sales of optical functional films
Sumika Electronic Materials (Wuxi) Co., Ltd.	RMB 1,276,517 thousand	100.00 (10.00)	Processing and sales of optical functional films
Sumika Technology Co., Ltd.	TWD 4,417 million	84.96	Manufacturing and sales of optical functional films sputtering targets, research, development and sales of color resists and sales of photoresists
Sumitomo Chemical Asia Pte Ltd.	USD 150,565 thousand	100.00	Manufacturing and sales of petrochemical products, etc. and regional headquarters for Southeast Asia, India, and Oceania area
The Polyolefin Company (Singapore) Pte. Ltd.	USD 51,690 thousand	70.00 (70.00)	Manufacturing and sales of low-density polyethylene and polypropylene
Sumitomo Chemical Chile S.A.	USD 80,388 thousand	100.00	Sales of crop protection chemicals and feed additives
Tanaka Chemical Corp.	JPY 9,155 million	50.46	Manufacturing and sales of cathode materials for secondary batteries

Company name	Capital	Ratio of voting rights (%)	Principal business
Sumitomo Chemical India Ltd.	INR 2,745,881 thousand	75.00	Development, promotion and sales of crop protection chemicals, feed additives and household & public hygiene insecticides and manufacturing crop protection chemicals
Koei Chemical Co., Ltd.	JPY 2,343 million	55.90 (0.25)	Manufacturing and sales of chemical products for pharmaceutical and crop protection, and functional chemicals
Taoka Chemical Co., Ltd.	JPY 1,572 million	50.61 (0.29)	Manufacturing and sales of fine chemicals, functional materials, and resin additives

Note 1: Figures enclosed in parentheses ( ) for "ratio of voting rights" are the ratio of voting rights held by subsidiaries of the Company.

Note 2: Capital for Sumitomo Chemical America, Inc., Valent North America LLC, Valent BioSciences LLC, CDT Holdings Ltd., Cambridge Display Technology Ltd., Sumika Semiconductor Materials Texas Inc., Sumitomo Pharma America, Inc., Sumitomo Pharma UK Holdings, Ltd., Sumitomo Pharma Switzerland GmbH and Urovant Sciences GmbH are shown as paid-in capital.

Note 3: Sumika Polymers America Corp. made investment in Philips Sumika Polypropylene Company, which has dissolved.

Note 4: Sumitomo Pharma America Holdings, Inc., Sumitomo Pharma Oncology, Inc., Sumitovant Biopharma Inc., Myovant Sciences Ltd., Myovant Sciences Inc., Myovant Sciences LLC, Urovant Sciences LLC, Enzyvant Therapeutics GmbH, and Altavant Sciences GmbH, which were on the list in FY2022, have been extinguished due to the reorganization of Sumitomo Pharma's subsidiaries in the U.S. and Europe during FY2023.

Due to the transfer of all shares, Spirovant Sciences LLC (formerly: Spirovant Sciences Inc.) has been removed from the list of Significant Subsidiaries.

Due to the decrease in materiality, Myovant Holdings Ltd. has been removed from the list of significant subsidiaries.

Note 5: Sunovion Pharmaceuticals Inc., Sumitovant Biopharma Ltd., and Myovant Sciences GmbH changed its trade name to Sumitomo Pharma America, Inc., Sumitomo Pharma UK Holdings, Ltd., and Sumitomo Pharma Switzerland GmbH, respectively.

(2) Consolidated subsidiaries with material non-controlling interests

Summarized financial information on consolidated subsidiaries with material non-controlling interests is as follows. Summarized financial information is based on the amounts before elimination in consolidation.

Sumitomo Pharma Co., Ltd.

① Non-controlling interest ownership ratios and cumulative non-controlling interest amounts

	Millions of yen	
	March 31, 2024	March 31, 2023
Non-controlling interest ownership ratios	**48.24%**	**48.24%**
Cumulative non-controlling interest amounts	**¥ 75,358**	**¥196,249**

② Net profit attributable to non-controlling interests and dividends paid to non-controlling interests

	Millions of yen	
	FY2023	FY2022
Net income attributable to non-controlling interests	**¥ (151,901)**	**¥(58,147)**
Dividends paid to non-controlling interests	**1,353**	**5,367**

③ Summarized financial information

(i) Summarized consolidated statement of financial position

	Millions of yen	
	March 31, 2024	March 31, 2023
Current assets	¥ 269,569	¥ 381,860
Non-current assets	637,937	752,882
Total assets	¥ 907,506	¥ 1,134,742
Current liabilities	515,474	372,694
Non-current liabilities	235,896	355,266
Total liabilities	¥ 751,370	¥ 727,960
Total equity	156,136	406,782
Total liabilities and equity	¥ 907,506	¥ 1,134,742

(ii) Summarized consolidated statement of income and comprehensive income

	Millions of yen	
	FY2023	FY2022
Sales revenue	¥ 314,558	¥ 555,544
Net income (loss)	(314,929)	(96,714)
Total comprehensive income	(250,345)	(35,085)

(iii) Summarized consolidated statement of cash flows

	Millions of yen	
	FY2023	FY2022
Cash flows from operating activities	¥ (241,893)	¥ 11,937
Cash flows from investing activities	33,036	52,419
Cash flows from financing activities	77,851	(146,817)
Effect of exchange rate changes on cash and cash equivalents	15,440	24,090
Net increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	1,135	(1,135)
Net Increase (decrease) in cash and cash equivalents	(114,431)	(59,506)
Cash and cash equivalents at end of year	¥ 29,047	¥ 143,478

(3) Changes in ownership interests in subsidiaries that do not result in loss of control

As of March 31, 2023, Sumitomo Pharma converted one of its consolidated subsidiaries, Myovant Sciences Ltd., into a wholly-owned subsidiary.

The effects on capital surplus from changes in ownership interests in subsidiaries that do not result in loss of control are as follows:

	Millions of yen	
	FY2023	FY2022
Changes due to equity transactions with non-controlling interests	¥ —	¥ (88,357)

(4) Loss of control over subsidiaries

During FY2023, Sumitomo Pharma transferred all of the shares that it held in its consolidated subsidiary, Spirovant Sciences LLC. The main breakdown of assets and liabilities at the time of loss of control, as well as the relationship between the transfer consideration and proceeds/expenses due to the loss of control, are as follows.

	Millions of yen	
	FY2023	FY2022
Breakdown of assets at the time of loss of control:		
Current assets	¥ 2,725	¥ —
Non-current assets	3,493	—
Breakdown of liabilities at the time of loss of control:		
Current liabilities	1,078	—
Non-current liabilities	327	—
Consideration for transfer	(217)	—
Cash and cash equivalents in assets at the time of loss of control	2,252	—
Net proceeds (expenses) from transfer of subsidiaries	(2,469)	—

38. Related Parties

(1) Related party transactions

Significant transactions with related parties are as follows:

Fiscal year 2023

① Sales amounts and receivable balances to/from associates and joint ventures

	Millions of yen	
	Sales amounts	Receivable balance
Joint ventures	**¥ 29,115**	**¥ 26,756**
Associates	**111,228**	**16,237**

② Purchase amounts and payable balances from/to associates and joint ventures

	Millions of yen	
	Purchase amounts	Payable balance
Joint ventures	**¥ 448,218**	**¥ 50,430**
Associates	**51,354**	**4,975**

③ Other significant transactions

<table>
<tr><th>Type</th><th>Company Name</th><th>Transaction details</th><th>Transaction amount (millions of yen)</th><th>Account</th><th>Ending balance (millions of yen)</th></tr>
<tr><td rowspan="5">Joint venture</td><td rowspan="5">Rabigh Refining and Petrochemical Company</td><td>Loans (Note 1)</td><td>¥ 74,834</td><td>Other financial assets (Loan receivables)</td><td>¥ 114,968</td></tr>
<tr><td rowspan="2">Receipt of interest (Note 1)</td><td rowspan="2">4,954</td><td>Trade and other receivables (Accrued interests)</td><td>1,997</td></tr>
<tr><td>Other financial assets (Long-term accrued interests)</td><td>910</td></tr>
<tr><td>Guarantee obligations (Note 2)</td><td>211,182</td><td>—</td><td>—</td></tr>
<tr><td>Pledged as collateral (Note 3)</td><td>197,136</td><td>—</td><td>—</td></tr>
</table>

Note 1: Loans of funds are conducted based on market interest rates. Transaction amount in the table above presents a net increase or decrease during FY2023.

Note 2: The Company guarantees indebtedness of Petro Rabigh from financial institutions. Transaction amount in the above table presents an ending balance of guarantee obligations.

Note 3: Investments in Petro Rabigh are subject to real guarantee to pledge as collateral for Petro Rabigh's indebtedness from financial institutions. Transaction amount in the above table presents an ending balance of liabilities with collateral.

Fiscal year 2022

① Sales amounts and receivable balances to/from associates and joint ventures

	Millions of yen	
	Sales amounts	Receivable balance
Joint ventures	**¥ 44,339**	**¥ 18,628**
Associates	**140,806**	**25,176**

② Purchase amounts and payable balances from/to associates and joint ventures

	Millions of yen	
	Purchase amounts	Payable balance
Joint ventures	**¥ 515,022**	**¥ 49,278**
Associates	**56,570**	**13,612**

③ Other significant transactions

Type	Company Name	Transaction details	Transaction amount (millions of yen)	Account	Ending balance (millions of yen)
Joint venture	Rabigh Refining and Petrochemical Company	Collection of loans (Note1,2)	**¥ 130,957**	Other financial assets (Loan receivables)	**¥ 39,501**
		Receipt of interest (Note1)	**2,459**	Other financial assets (Long-term accrued interests)	**803**
		Collection of accrued interests (Note 1,2)	**22,642**		
		Subscription to capital increase (Note 2)	**108,112**	—	—
		Guarantee obligations (Note 3)	**185,805**	—	—
		Pledged as collateral (Note 4)	**193,619**	—	—

Note 1: Loans of funds are conducted based on market interest rates. Transaction amount in the table above presents a net increase or decrease during FY2022.

Note 2: The Company has collected its loans and accrued interests receivable from Petro Rabigh, or converted them to shares at the time of subscription to a capital increase by Petro Rabigh.

Note 3: The Company guarantees indebtedness of Petro Rabigh from financial institutions. Transaction amount in the above table presents an ending balance of guarantee obligations.

Note 4: Investments in Petro Rabigh are subject to real guarantee to pledge as collateral for Petro Rabigh's indebtedness from financial institutions. Transaction amount in the above table presents an ending balance of liabilities with collateral.

(2) Key management personnel compensation

	Millions of yen	
	FY2023	FY2022
Basic remuneration and bonuses	**¥ 627**	**¥ 720**
Share-based payment	**129**	**94**
Total	**¥ 756**	**¥ 813**

39. Commitments

Commitments related to expenditures after the fiscal year-end are as follows:

	Millions of yen	
	March 31, 2024	March 31, 2023
Purchase of property, plant and equipment	**¥ 93,660**	**¥ 102,309**
Purchase of intangible assets	**29,926**	**69,619**
Total	**¥ 123,586**	**¥ 171,928**

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

40. Contingent Liabilities

The Group provides guarantees and similar undertakings for borrowings from financial institutions taken out by companies outside the Group. These guarantees and similar undertakings for borrowings are applicable to financial guarantee contracts. Should the guaranteed parties go into default, the Group would be required to make such payments under those guarantees. Guarantee obligations are as follows:

Guarantee obligations

	Millions of yen	
	March 31, 2024	March 31, 2023
Joint ventures	**¥ 212,503**	**¥ 187,561**
Employees (for their mortgage loans)	**19**	**21**
Others	**249**	**129**
Total	**¥ 212,771**	**¥ 187,711**

41. Subsequent Events

To improve the efficiency of assets by reviewing strategic shareholdings, Sumitomo Pharma 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 Sumitomo Pharma 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.

Independent auditor's report

To the Board of Directors of Sumitomo Chemical Company, Limited:

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the accompanying consolidated financial statements of Sumitomo Chemical Company, Limited ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at March 31, 2024, and the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising material 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.

Reasonableness of the estimated fair value of financial receivables to Rabigh Refining and Petrochemical Company	
The key audit matter	**How the matter was addressed in our audit**

As described in Note 17, "Investments Accounted for Using the Equity Method" and Note 38, "Related Parties" to the consolidated financial statements, in the consolidated statement of financial position as at March 31, 2024, Sumitomo Chemical Company, Limited (hereinafter, the “Company”) and its consolidated subsidiaries recognized investments in Rabigh Refining and Petrochemical Company (hereinafter "Petro Rabigh") of ¥139,664 million, and loan receivables and long-term accrued interests (hereinafter, collectively referred to as "finance receivables") to Petro Rabigh of ¥114,968 million and ¥910 million respectively, which represented 6% of total assets in the consolidated financial statements. Petro Rabigh is a joint venture established between the Company and Saudi Arabian Oil Company, which has an integrated petroleum refining and petrochemical complex based in the Kingdom of Saudi Arabia.

The investments in the joint venture are accounted for using the equity method, and its fair value is based on a market price exceeding its carrying amount as described in Note 17, "Investments Accounted for Using the Equity Method" to the consolidated financial statements. Financial receivables are classified as financial assets measured at fair value through profit or loss, and its fair value was measured using the discounted cash flow method.

During the current fiscal year, share of loss of investments accounted for using the equity method of ¥64,716 million was recognized for Petro Rabigh as a result of its poor performance due factors such as deterioration of market conditions with changes in launches of new plants mainly in developing countries and world-wide recession, and periodic maintenance. The cumulative loss of Petro Rabigh reached 46.51% of its capital as at March 31, 2024. Considering these circumstances, future cash flows were reviewed for the fair value measurement of financial receivables.

The estimate of future cash flows was based on the business plan of Petro Rabigh prepared by management. In preparing the business plan, as described in Note 36, "Financial Instruments" to the consolidated financial statements, management used the forecasts for future sales prices and margins of major products and the overall capacity utilization rate as key assumptions. These forecasts involved a high

The primary procedures we performed to assess whether the estimated fair value of financial receivables to Petro Rabigh was reasonable, included the following:

(1) Internal control testing

We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to estimating the fair value. In this assessment, we focused our testing on a control relevant to the estimated future cash flows.

(2) Assessment of the appropriateness of the estimated value in use

In order to assess the appropriateness of the key assumptions adopted by management in preparing the business plan of Petro Rabigh, which formed the basis for estimating future cash flows, we inquired of management and personnel responsible for Petro Rabigh about the rationale on which those assumptions were developed.

Furthermore, in order to assess the appropriateness of key assumptions, which were estimated by management by incorporating future uncertainties, we:

- confirmed that the sales price forecast information of the main products, published by an external organization used by the management to determine the future sales price and margin of the main products, was consistent with the business plan. We also compared the sales price forecast information provided by management with the sales price forecast information published by external organizations, which were independently obtained by us; and
- considered the historical capacity utilization rate and assessed the impact on the business plan in the event that the actual capacity utilization rate would fall below the capacity utilization rate projected by management due to production troubles, etc.

degree of uncertainty and management's judgment thereon had a significant effect on the estimated future cash flows. We, therefore, determined that our assessment of the reasonableness of the estimated fair value of financial receivables to Petro Rabigh 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.	

Reasonableness of the estimate of the recoverable amount used in the impairment testing for goodwill attributable to the North America business	
The key audit matter	**How the matter was addressed in our audit**
As described in Note 16. "Impairment of Non-financial Assets" to the consolidated financial statements, in the consolidated statement of financial position as at March 31, 2024, Sumitomo Chemical Company, Limited. and its subsidiaries recognized goodwill of ¥199,783 million attributable to the North America business of Sumitomo Pharma Co., Ltd. (hereinafter, "Sumitomo Pharma"), which is the consolidated subsidiary within the Pharmaceuticals segment. The goodwill represents 5% of total assets in the consolidated financial statements. An impairment loss amounting to ¥35,858 million was recognized on the goodwill attributed to the North America business as a result of the impairment testing for the fiscal year ended March 31, 2024. 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. In the current fiscal year, Sumitomo Pharma used the fair value less costs of disposal as the recoverable amount in the impairment testing for the goodwill attributable to the North America business. 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 business prepared by management, and in the preparation of the business plan, importance was placed on the revenue projection of products	In order to assess whether the estimate of the recoverable amount used in the impairment testing for goodwill attributable to the North America business was reasonable, we requested the component auditor of Sumitomo Pharma to perform an audit. We evaluated the report of the component auditor of Sumitomo Pharma and concluded on whether sufficient and appropriate audit evidence was obtained from the following procedures, among others: **(1) Internal control testing** Testing the design and operating effectiveness of certain internal controls relevant to measuring the fair value less costs of disposal used in the impairment testing for the goodwill attributable to the North America business 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** Inquiry 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 business that formed the basis for the estimated future cash flows. In addition, assessment of the reasonableness of the estimated fair value less costs of disposal by performing the followings: ● compared the business plan that formed the basis for estimating the future cash flows with the business plan approved by management,

attributable to the North America business. 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 uncertainty. Accordingly, management's 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 business 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.	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 Corporate Auditors and the Board of Corporate Auditors 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.

Corporate auditors and the board of corporate auditors 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 corporate auditors and the board of corporate auditors 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 corporate auditors and the board of corporate auditors 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 corporate auditors and the board of corporate auditors, 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 1,473 million yen and 497 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.

Ayumu Nakajima
Designated Engagement Partner
Certified Public Accountant

Ryohei Tomita
Designated Engagement Partner
Certified Public Accountant

Naoto Watanabe
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 21, 2024

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