

**Consolidated Financial Statements  
and Independent Auditor's Report**

**For the year ended 31 March, 2024**



**Daiichi-Sankyo**

**Daiichi Sankyo Company, Limited**

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## Consolidated Financial Statements

### 1) Consolidated Statement of Financial Position

(Millions of JPY)

	Note	As of March 31, 2023	As of March 31, 2024
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	8,30	441,921	647,180
Trade and other receivables	9	349,111	454,188
Other financial assets	10	383,205	577,040
Inventories	11	301,608	438,111
Other current assets		19,204	32,999
Subtotal		1,495,051	2,149,521
Assets held for sale	12	–	24,503
Total current assets		1,495,051	2,174,024
Non-current assets			
Property, plant and equipment	6,13	348,912	421,692
Goodwill	6,14	98,330	108,498
Intangible assets	6,14	159,609	168,300
Investments accounted for using the equity method	15	1,306	608
Other financial assets	10	130,393	147,906
Deferred tax assets	16	180,096	249,354
Other non-current assets		95,188	190,749
Total non-current assets		1,013,837	1,287,111
Total assets		2,508,889	3,461,135

(Millions of JPY)

	Note	As of March 31, 2023	As of March 31, 2024
<b>LIABILITIES AND EQUITY</b>			
Current liabilities			
Trade and other payables	17,21	395,169	557,131
Bonds and borrowings	18,30	41,396	399
Other financial liabilities	18	11,080	12,775
Income taxes payable		21,470	46,391
Provisions	19	7,626	15,435
Contract liabilities	24	28,867	57,435
Other current liabilities		24,652	22,345
Subtotal		530,263	711,914
Liabilities directly associated with assets held for sale	12	–	11,484
Total current liabilities		530,263	723,399
Non-current liabilities			
Bonds and borrowings	18,30	101,692	101,314
Other financial liabilities	18	41,647	46,229
Post-employment benefit liabilities	20	1,310	1,291
Provisions	19	16,376	13,978
Contract liabilities	24	292,245	680,166
Deferred tax liabilities	16	12,647	12,858
Other non-current liabilities	21	66,851	193,294
Total non-current liabilities		532,770	1,049,133
Total liabilities		1,063,034	1,772,532
Equity			
Equity attributable to owners of the Company			
Share capital	22	50,000	50,000
Capital surplus	22	–	1,962
Treasury shares	22	(36,808)	(36,629)
Other components of equity	22	200,874	283,998
Retained earnings		1,231,788	1,388,842
Total equity attributable to owners of the Company		1,445,854	1,688,173
Non-controlling interests		–	429
Total equity		1,445,854	1,688,603
Total liabilities and equity		2,508,889	3,461,135

## 2) Consolidated Statement of Profit or Loss

(Millions of JPY)

	Note	Year ended March 31, 2023	Year ended March 31, 2024
Revenue	6,24	1,278,478	1,601,688
Cost of sales	25	363,525	415,322
Gross profit		914,952	1,186,366
Selling, general and administrative expenses	25	471,221	636,997
Research and development expenses	25	341,570	365,169
Other income	26	19,101	27,477
Other expenses	26	680	88
Operating profit		120,580	211,588
Financial income	27	14,773	31,487
Financial expenses	27	8,480	6,026
Share of profit (loss) of investments accounted for using the equity method	15	(19)	184
Profit before tax		126,854	237,234
Income taxes	16	17,666	36,217
Profit for the year		109,188	201,016
Profit attributable to:			
Owners of the Company		109,188	200,731
Non-controlling interests		–	285
Profit for the year		109,188	201,016
Earnings per share	28		
Basic earnings per share (JPY)		56.96	104.69
Diluted earnings per share (JPY)		56.91	104.62

### 3) Consolidated Statement of Comprehensive Income

(Millions of JPY)

	Note	Year ended March 31, 2023	Year ended March 31, 2024
Profit for the year		109,188	201,016
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	16	(2,798)	15,114
Remeasurements of defined benefit plans	16	5,932	16,226
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	16,32	36,312	75,512
Cash flow hedges	16,30,32	403	578
Other comprehensive income for the year		39,850	107,431
Total comprehensive income for the year		149,038	308,447
Total comprehensive income attributable to:			
Owners of the Company		149,038	307,945
Non-controlling interests		—	502
Total comprehensive income for the year		149,038	308,447

#### 4) Consolidated Statement of Changes in Equity

Year ended March 31, 2023

(Millions of JPY)

	Equity attributable to owners of the Company						
	Note	Equity attributable to owners of the Company			Other components of equity		
		Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Cash flow hedges
Balance as of April 1, 2022		50,000	–	(37,482)	822	132,103	–
Profit for the year		–	–	–	–	–	–
Other comprehensive income for the year		–	–	–	–	36,312	403
Total comprehensive income for the year		–	–	–	–	36,312	403
Purchase of treasury shares		–	–	(24)	–	–	–
Disposal of treasury shares		–	–	698	(213)	–	–
Dividend	23	–	–	–	–	–	–
Transfer from other components of equity to retained earnings		–	–	–	–	–	–
Others		–	–	–	–	–	–
Total transactions with owners of the Company		–	–	674	(213)	–	–
Balance as of March 31, 2023		50,000	–	(36,808)	608	168,415	403

(Millions of JPY)

	Equity attributable to owners of the Company						
	Note	Equity attributable to owners of the Company			Other components of equity		Total equity
		Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total other components of equity	Retained earnings	Total equity attributable to owners of the Company	
Balance as of April 1, 2022		35,211	–	168,147	1,170,208	1,350,872	1,350,872
Profit for the year		–	–	–	109,188	109,188	109,188
Other comprehensive income for the year		(2,798)	5,932	39,850	–	39,850	39,850
Total comprehensive income for the year		(2,798)	5,932	39,850	109,188	149,038	149,038
Purchase of treasury shares		–	–	–	–	(24)	(24)
Disposal of treasury shares		–	–	(213)	(194)	290	290
Dividend	23	–	–	–	(54,632)	(54,632)	(54,632)
Transfer from other components of equity to retained earnings		(976)	(5,932)	(6,909)	6,909	–	–
Others		–	–	–	309	309	309
Total transactions with owners of the Company		(976)	(5,932)	(7,123)	(47,607)	(54,056)	(54,056)
Balance as of March 31, 2023		31,446	–	200,874	1,231,788	1,445,854	1,445,854

Year ended March 31, 2024

(Millions of JPY)

Note	Equity attributable to owners of the Company						
	Share capital	Capital surplus	Treasury shares	Other components of equity			
				Subscription rights to shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2023	50,000	–	(36,808)	608	168,415	403	31,446
Profit for the year	–	–	–	–	–	–	–
Other comprehensive income for the year	–	–	–	–	75,512	578	15,114
Total comprehensive income for the year	–	–	–	–	75,512	578	15,114
Purchase of treasury shares	–	–	(25)	–	–	–	–
Disposal of treasury shares	–	156	204	(48)	–	–	–
Dividend	23	–	–	–	–	–	–
Share-based compensation	–	1,806	–	–	–	–	–
Changes in ownership interest in subsidiaries	–	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	(6,818)
Transfer to non-financial assets and similar items	–	–	–	–	–	(1,213)	–
Others	–	–	–	–	–	–	–
Total transactions with owners of the Company	–	1,962	178	(48)	–	(1,213)	(6,818)
Balance as of March 31, 2024	50,000	1,962	(36,629)	560	243,928	(232)	39,742

(Millions of JPY)

Note	Equity attributable to owners of the Company					
	Other components of equity		Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Total other components of equity				
Balance as of April 1, 2023	–	200,874	1,231,788	1,445,854	–	1,445,854
Profit for the year	–	–	200,731	200,731	285	201,016
Other comprehensive income for the year	16,009	107,213	–	107,213	217	107,431
Total comprehensive income for the year	16,009	107,213	200,731	307,945	502	308,447
Purchase of treasury shares	–	–	–	(25)	–	(25)
Disposal of treasury shares	–	(48)	–	311	–	311
Dividend	23	–	(67,109)	(67,109)	–	(67,109)
Share-based compensation	–	–	–	1,806	–	1,806
Changes in ownership interest in subsidiaries	–	–	–	–	(73)	(73)
Transfer from other components of equity to retained earnings	(16,009)	(22,827)	22,827	–	–	–
Transfer to non-financial assets and similar items	–	(1,213)	–	(1,213)	–	(1,213)
Others	–	–	604	604	–	604
Total transactions with owners of the Company	(16,009)	(24,089)	(43,677)	(65,626)	(73)	(65,699)
Balance as of March 31, 2024	–	283,998	1,388,842	1,688,173	429	1,688,603

## 5) Consolidated Statement of Cash Flows

(Millions of JPY)

	Note	Year ended March 31, 2023	Year ended March 31, 2024
Cash flows from operating activities			
Profit before tax		126,854	237,234
Depreciation and amortization		67,789	59,646
Impairment losses (reversal of impairment losses)		19,083	826
Financial income		(14,773)	(31,487)
Financial expenses		8,480	6,026
Share of (profit) loss of investments accounted for using the equity method		19	(184)
(Gain) loss on sale and disposal of non-current assets		(11,228)	1,298
(Increase) decrease in trade and other receivables		(64,584)	(69,893)
(Increase) decrease in inventories		(80,664)	(128,734)
Increase (decrease) in trade and other payables		51,069	119,836
Increase (decrease) in contract liabilities		86,800	416,097
Others, net		(33,677)	68,302
Subtotal		155,169	678,968
Interest and dividend received		7,674	18,892
Interest paid		(2,080)	(1,844)
Income taxes paid		(46,248)	(96,758)
Net cash flows from (used in) operating activities		114,514	599,258
Cash flows from investing activities			
Payments into time deposits		(481,799)	(484,189)
Proceeds from maturities of time deposits		332,503	356,053
Acquisition of securities		(322,031)	(298,770)
Proceeds from sale and redemption of securities		285,068	261,950
Acquisition of property, plant and equipment		(60,749)	(88,321)
Proceeds from sale of property, plant and equipment		9,941	519
Acquisition of intangible assets		(6,617)	(34,470)
Acquisition of subsidiaries	7	(30,812)	(6,900)
Proceeds from sale of subsidiaries	33	8,302	7,500
Proceeds from collection of loans receivable		311	173
Others, net		8,101	3,818
Net cash flows from (used in) investing activities		(257,782)	(282,636)
Cash flows from financing activities			
Proceeds from bonds and borrowings	33	–	484
Repayments of bonds and borrowings	33	(20,394)	(41,396)
Purchase of treasury shares		(24)	(25)
Proceeds from sale of treasury shares		0	0
Dividend paid		(54,616)	(67,080)
Payments of lease liabilities	33	(14,560)	(15,545)
Others, net		0	0
Net cash flows from (used in) financing activities		(89,594)	(123,564)
Net increase (decrease) in cash and cash equivalents		(232,862)	193,057
Cash and cash equivalents at the beginning of the year	8	662,477	441,921
Effect of exchange rate changes on cash and cash equivalents		12,306	21,423
Cash and cash equivalents at the end of the year		441,921	656,403
Cash and cash equivalents reclassified to assets held for sale	12	–	(9,222)
Cash and cash equivalents at the end of the year (Consolidated statement of financial position)	8	441,921	647,180

## Notes to the Consolidated Financial Statements

### 1. Reporting Entity

Daiichi Sankyo Company, Limited (the “Company”) is a public company domiciled in Japan. The addresses of its registered head office and principal business locations are disclosed on the Company’s website (<https://www.daiichisankyo.co.jp>). The Company and its subsidiaries (collectively the “Group”) are engaged in manufacturing and marketing of pharmaceutical products.

The Group’s consolidated financial statements for the year ended March 31, 2024 were approved on June 17, 2024 by Hiroyuki Okuzawa, Representative Director, President and CEO.

### 2. Basis of Preparation

#### (1) Compliance with International Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) under Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements, as the Group meets the criteria of a “Specified Entity” defined under Article 1-2 of this ordinance.

#### (2) Basis of Measurement

The Group’s consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and other items as described in Note 3 “Material Accounting Policies.”

#### (3) Functional Currency and Presentation Currency

The Group’s consolidated financial statements are presented in Japanese Yen (“JPY”), which is the functional currency of the Company. All financial information presented in JPY has been rounded down to the nearest million JPY.

#### (4) Changes in Accounting Policies

The Material Accounting Policies adopted in preparing the consolidated financial statements of the Group have not changed from the prior year.

#### (5) Changes in Presentation

(Consolidated Statement of Financial Position)

"Contract liabilities", which was included in "Trade and other payables" under current liabilities and "Other non-current liabilities" under non-current liabilities in the previous consolidated fiscal year, is disclosed separately from the current fiscal year, since the monetary significance has increased.

To reflect this change in presentation, the consolidated statement of financial position as of March 31, 2023 has been reclassified on a consistent basis.

As a result, a portion of the amounts reported in "Trade and other payables" under current liabilities and "Other non-current liabilities" under non-current liabilities as of March 31, 2023 amounting to JPY28,867 million and JPY292,245 million, respectively, has been reclassified as "Contract liabilities" under current liabilities and non-current liabilities.

(Consolidated Statement of Cash Flows)

The “Increase (decrease) in contract liabilities”, which was included in “Increase (decrease) in trade and other payables” and “Others, net” under cash flows from operating activities, is disclosed separately from the current fiscal year, since the monetary significance has increased.

To reflect this change in presentation, the Consolidated Statement of Cash Flows for year ended March 31, 2023, has been reclassified on a consistent basis.

As a result, a portion of the amounts reported in "Increase (decrease) in trade and other payables" and "Others, net" under cash flows from operating activities in the Consolidated Statement of Cash Flows for year ended March 31, 2023 amounting to JPY3,065 million and JPY83,734 million, respectively, has been reclassified as "Increase (decrease) in contract liabilities".

### 3. Material Accounting Policies

#### (1) Basis of Consolidation

##### a. Subsidiaries

A Subsidiary is an entity that is controlled by the Group. The Group controls an entity if the Group has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of its returns. Consolidation of a subsidiary begins from the date the Group obtains control of the subsidiary and ceases when the Group loses control of the subsidiary. Changes in a parent's ownership interest in a subsidiary that occur after obtaining the control over the subsidiary and that do not result in the parent losing control of the subsidiary are accounted for as equity transactions.

All intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

##### b. Associates

An associate is an entity over which the Group has significant influence but is not a subsidiary of the Group. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.

An investment is accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence over the investment.

When significant influence over an associate is lost, and if there is still remaining ownership interest, the remaining equity interest is measured at fair value. The difference between the fair value and the carrying value at the date on which the equity method is discontinued, is recognized in profit or loss.

Investment in associates includes acquired goodwill.

##### c. Joint arrangements

A joint arrangement is a contractual arrangement based on which two or more parties have joint control. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the activities that significantly affect the returns of the arrangement require the unanimous consent of the parties sharing control.

The Group classifies its involvement with a joint arrangement as a joint operation when the Group has rights to the assets and obligations for the liabilities relating to the arrangement, and accounts for its share of the assets, liabilities, revenue and expenses in relation to its interest in the joint operation.

#### (2) Business Combinations

Business combinations are accounted for using the acquisition method. The acquisition cost is measured as the sum of the consideration transferred, the amount of non-controlling interest in the acquiree, and in the case of an acquisition achieved in stages, the fair value of the previously held equity interest at the date of acquisition. The consideration transferred is measured at fair value at the date of acquisition. Non-controlling interests are measured either at fair value or at the proportionate share of the acquiree's identifiable net assets for each business combination.

The excess of the acquisition cost over the Group's share of the acquiree's identifiable assets, liabilities, and contingent liabilities at fair value is recognized as goodwill. When the aggregate amount of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the resulting gain is recognized in profit or loss on the date of acquisition. Acquisition related costs are recognized as expenses in the period they are incurred.

### (3) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign currency monetary assets and liabilities are translated into the functional currency using the exchange rates at the end of the reporting period and the exchange differences arising on the settlement of monetary items or on translating monetary items are generally recognized in profit or loss. However, exchange differences arising from the translation of financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into the presentation currency at the exchange rate at the end of the reporting period. Income and expenses of foreign operations are translated into the presentation currency at the average exchange rate for the period, except for the case that the exchange rates fluctuate significantly. When a subsidiary's functional currency is the currency of a hyperinflationary economy, adjustments are made to its separate financial statements to reflect current price levels, and income and expenses of the subsidiary are translated into the presentation currency at the exchange rate at the end of the reporting period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income after the date of transition to IFRS. On the disposal of the entire interest in a foreign operation, or on the partial disposal of the interest in a foreign operation that involves the loss of control of a subsidiary or loss of significant influence over an associate, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated as a separate component of equity, is reclassified to profit or loss as a part of gain or loss on disposal.

### (4) Financial Instruments

#### a. Non-derivative Financial Assets

##### i) Initial recognition and measurement

Financial assets are recognized on the contract date when the Group becomes a party to the contractual provisions of the instruments.

Financial assets, except for financial assets measured at fair value through profit or loss, are measured at fair value plus transaction costs that are attributable to the acquisition of the financial asset. However, trade receivables that do not contain a significant financing component are initially recognized at transaction price.

At initial recognition, financial assets are classified as (a) financial assets measured at amortized cost; (b) financial assets measured at fair value through other comprehensive income; or (c) financial assets measured at fair value through profit or loss.

##### (a) Financial assets measured at amortized cost

Financial assets are classified as financial assets 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 the financial asset in order to collect contractual cash flows: and
- 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.

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

Debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

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

For equity instruments measured at fair value, except for equity instruments held for trading which must be measured at fair value through profit or loss, the Group made an irrevocable election to present subsequent changes in fair value of certain equity instruments in other comprehensive income.

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

Financial assets, except for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through

profit or loss.

ii) Subsequent measurement

After initial recognition, financial assets are measured based on their classification as follows:

(a) Financial assets measured at amortized cost

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

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

Changes in the fair value of debt instruments classified as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gain and losses, which are recognized in profit or loss, and the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when debt instruments are derecognized.

Changes in the fair value of equity instruments designated as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, and the accumulated amount of other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decrease in fair value compared to acquisition cost is significant.

(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 any changes in fair value are recognized in profit or loss.

iii) Derecognition

Financial assets are derecognized when the contractual rights to the cash flows from the asset expire or are transferred in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred to another entity.

b. Impairment of Financial Assets

At the end of each reporting period, the Group evaluates whether the credit risk on financial assets measured at amortized cost has increased significantly since initial recognition, and a loss allowance for expected credit losses on such financial assets is recognized.

If the credit risk on financial assets has not increased significantly since initial recognition, a loss allowance is measured at an amount equal to 12-month expected credit losses. If the credit risk on financial assets has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses. However, a loss allowance for trade receivables that do not contain a significant financing component is measured at an amount equal to lifetime expected credit losses.

The Group considers, as a general rule, that there has been a significant increase in the credit risk when payments have not been made for more than 30 days passed contractual due date. The Group considers not only the information regarding due date but also other reasonable and supportable information when determining whether credit risk has increased significantly since initial recognition. The Group considers that there has not been a significant increase in the credit risk when the financial assets are determined to have low credit risk at the end of reporting period.

Expected credit losses on financial assets are measured in a way that reflects the following factors:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received. When expected credit losses are recognized, the carrying amount of the financial asset is reduced through use of a loss allowance for expected credit losses and expected credit losses are recognized in profit or loss. If, in a subsequent period, the amount of the expected credit losses decreases, the previously recognized credit losses are reversed by adjusting the loss allowance and the reversal is recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is reduced directly when they are expected to become uncollectible in the future and all collaterals are implemented

or transferred to the Group.

c. Non-derivative Financial Liabilities

i) Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortized cost or financial liabilities measured at fair value through profit or loss at initial recognition.

At initial recognition, financial liabilities are measured at fair value and, in the case of financial liabilities at amortized cost, the transaction costs that are directly attributable to the issue of the financial liabilities are deducted.

ii) Subsequent measurement

After initial recognition, financial liabilities are measured based on classification as follows:

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization using the effective interest method and gains or losses arising from termination of recognition are recognized in profit or loss.

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

Financial liabilities measured at fair value through profit or loss are measured at fair value through profit or loss.

iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, cancelled or expired.

d. Offsetting Financial Assets and Liabilities

Financial assets and financial liabilities are offset only when the Group has a legally enforceable right to offset the recognized amounts and intends to settle on a net basis or to realize the asset and settle the liability simultaneously.

e. Derivatives and Hedge Accounting

Derivatives are utilized to hedge foreign currency risk and interest rate risk. The derivatives primarily used by the Group include forward foreign exchange contracts and interest-rate swaps.

At the inception of the hedging relationship the Group formally designates and documents the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements.

The Group assesses at the inception of the hedging relationship, and on an ongoing basis, whether the hedging relationship meets the hedge effectiveness requirements. At a minimum, the Group performs the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes earlier.

Derivatives are initially recognized at fair value with transaction costs recognized in profit or loss when they are incurred. After initial recognition, derivatives are measured at fair value.

Hedges that meet the criteria for hedge accounting are accounted for as follows:

i) Fair value hedges

Changes in the fair value of the hedging instruments are recognized in profit or loss. Changes in the fair value of hedged items attributable to the hedged risks are recognized in profit or loss, adjusting the carrying amount of the hedged item.

ii) Cash flow hedges

The effective portion of changes in fair value of hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss. The cumulative amounts of changes in fair value of hedging instruments recognized in other comprehensive income are reclassified from equity to profit or loss in the same period or periods when the hedged forecast cash flows or hedged items affect profit or loss. If hedged items result in the recognition of non-financial assets or non-financial liabilities, the cumulative amounts recognized in other comprehensive income are accounted for as adjustments in the carrying amount of the non-financial assets or non-financial liabilities. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss. The Group discontinues hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised.

(5) Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, readily available bank deposits, and short-term, highly liquid investments having maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of changes in value.

(6) Inventories

Inventories are measured at the lower of cost and net realizable value. Costs of inventories comprise cost of raw materials, direct labor and other costs directly attributable to the inventories and cost of related production overheads. The cost of inventories is assigned by using the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(7) Property, Plant and Equipment

Property, plant and equipment is carried at cost less any accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment include any costs directly attributable to the acquisition of the asset, costs of dismantlement, removal and restoration as well as borrowing costs eligible for capitalization. An item of property, plant and equipment, except for land, is depreciated by the straight-line method based on the estimated useful life of the asset. The estimated useful lives of major items of property, plant and equipment are as follows:

- Buildings and structures: 15 to 50 years
- Machinery and vehicles: 4 to 8 years

The depreciation method, the residual value and the useful life of an item of property, plant and equipment are reviewed at least annually and adjusted as necessary.

## (8) Goodwill and Intangible Assets

### a. Goodwill

Goodwill is measured at cost less accumulated impairment loss and is not amortized. Goodwill arising from a business combination is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the synergies of the business combination.

### b. Intangible Assets

Among rights related to products or research and development acquired separately or through business combinations, those that are still in the research and development stage or those for which marketing approval has not yet been obtained from the regulatory authorities are recognised under intangible assets as "IPR&D."

The cost of a separately acquired intangible asset is measured at cost and the cost of an intangible asset acquired in a business combination is measured at its fair value at the acquisition date. After initial recognition, the Group applies the cost model and intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss.

Internally generated research expenditure is recognized as an expense when it is incurred. Internally generated development expenditure is recognized as an intangible asset if all the criteria for capitalization can be demonstrated. However, due to the uncertainties relating to the research and development duration and process, it is considered that the criteria for capitalization are not met until marketing approval from a regulatory authority is obtained. Therefore, internally generated development expenditure is recognized as an expense when it is incurred. Subsequent expenditure, including initial upfront and milestone payments to the third parties, on an acquired IPR&D is capitalised if, and only if, it is probable that the expected future economic benefits that are attributable to the asset will flow to the Group and the asset is identifiable.

An intangible asset recognised as IPR&D is not amortised because it is not yet available for use, but instead, it is tested for impairment annually at the same time each year or whenever there is an indication of impairment.

Once marketing approval from the regulatory authorities is obtained and the asset is available for use, IPR&D is transferred to Commercial rights.

Acquisition cost and development expenditure of software for internal use is recognized as an intangible asset if it can be demonstrated that the asset will generate probable future economic benefits.

Intangible assets with finite useful lives are amortized by the straight-line method based on the estimated useful life of the asset, beginning from when the assets are available for use. The estimated useful lives of major items of intangible assets are as follows:

- Commercial rights: 9 to 18 years

The amortization method, the residual value and the useful lives of intangible assets are reviewed at least annually and adjusted as necessary.

## (9) Leases

### a. As a lessee

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

A right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of tangible fixed assets. In addition, a right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate.

Lease payments are allocated to financial expenses and repayments of lease liabilities so that the interest expenses each period during the lease term will result in a constant interest rate on the outstanding lease liability. A lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When a lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been

reduced to zero.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

b. As a lessor

The Group determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, if the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset, then it is a finance lease; if not, then it is an operating lease.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately.

It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

(10) Impairment of Non-financial Assets

The Group assesses annually whether there is any indication that a non-financial asset or cash-generating unit that generates cash inflows may be impaired.

If there is any indication that an asset or cash-generating unit may be impaired, the recoverable amount of the asset is estimated. Goodwill, intangible assets with indefinite lives, and intangible assets not yet available for use are not amortized but are tested for impairment annually or at any time there is an indication that an asset may be impaired.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs of disposal and its value in use, which is calculated based on the risk-adjusted future cash flows discounted by an appropriate discount rate.

If the carrying amount of an asset or a cash-generating unit exceeds the recoverable amount, an impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.

An impairment loss recognized for goodwill is not reversed in a subsequent period. It is assessed whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, an impairment loss recognized in prior periods is reversed and the carrying amount of the asset is increased to the recoverable amount.

The reversal of the impairment loss is recognized in profit or loss. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior years.

(11) Non-current Assets Held for Sale and Discontinued Operations

A non-current asset, or disposal group comprising assets and liabilities, is classified as asset held for sale if its carrying amount will be recovered primarily through sale rather than continuing use. The asset or disposal group is classified as held for sale only if it is available for immediate sale in its present condition, and the sale is highly probable meaning that the appropriate level of management of the Group is committed to the sale and principally that the sale is expected to be completed within one year. After the asset or disposal group is classified as held for sale, it is measured at the lower of its carrying amount and fair value less costs to sell and is not depreciated or amortized.

Discontinued operations include a component of an entity that either has been disposed of or is classified as held-for-sale, and represents a separate major line of business or geographic area of operations.

(12) Employee Benefits

a. Post-employment Benefits

i) Defined benefit plans

The present value of defined benefit obligations and related current service cost and, where applicable, past service cost are determined using the projected unit credit method for each plan separately.

The discount rate is determined by reference to market yields at the end of the reporting period on high-rated corporate bonds, reflecting the estimated timing of benefit payments.

Past service costs are recognized in profit or loss as incurred.

Remeasurements of defined benefit plans are recognized in other comprehensive income in the period when they are incurred and transferred to retained earnings immediately.

ii) Defined contribution plans

The contributions to defined contribution plans are recognized as expenses when the related service is rendered by the employees.

b. Others

Short-term employee benefits are not discounted and are recognized as expenses when the related service is rendered by the employees. The expected costs of accumulating short-term compensated absences are recognized as liabilities when the Group has present legal or constructive obligations to pay as a result of past employee service and when reliable estimates of the obligation can be made.

(13) Provisions

A provision is recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. The present value is determined by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent in the liabilities. The increase in the carrying amount of a provision reflecting the passage of time is recognized as a financial expense.

(14) Treasury Shares

Treasury shares are recognized as a deduction from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

(15) Share-based Payments

The Company and certain of its subsidiaries operate an equity-settled share-based payment plan and a cash-settled share-based payment plan as share-based payment plans.

a. Equity-settled share-based payment plan

The shares are measured at the fair value at the date of grant based on the fair value of the equity instrument granted, and recognized as expenses over the vesting period, with a corresponding increase in equity.

b. Cash-settled share-based payment plan

The fair value of the amount of payments is recognized as an expense with a corresponding liability. The change in the fair value of the liability at each reporting date is recognized in profit or loss until the liability is settled.

## (16) Revenue

Revenue from contracts with customers is recognized by applying the following five steps:

Step 1: Identify the contract with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

### i) Sales of finished goods and merchandise

Revenue from sale of finished goods and merchandise is recognized when the performance obligation is satisfied, considering the following indicators:

- the Group has a present right to payment for the asset;
- the customer has legal title to the asset;
- the Group has transferred physical possession of the asset; and
- the customer has accepted the asset.

Revenue is measured at the amount after deducting the impact of trade discounts, cash discounts, rebates and returns from the consideration promised in the contract.

### ii) License fee revenue

Revenue arising from license agreements is recognized at a point in time or over time depending on the content of performance obligation(s).

Variable consideration from contracts with customers are included in the transaction price only to the extent that is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

## (17) Government Grants

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

Government grants which are intended to compensate specific costs are recognized in profit or loss on a systematic basis over the period in which the Group recognizes the corresponding expenses.

Government grants related to assets are recognized as deferred revenue and recognized in profit or loss on a systematic basis over the estimated useful lives of the relevant assets.

#### (18) Income Taxes

Income taxes comprise current and deferred income taxes.

Current income taxes are measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period. They are recognized in profit or loss, except to the extent that the taxes arise from transactions or events which are recognized either in other comprehensive income or directly in equity, or the taxes arise from business combinations.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are recognized for temporary differences between the carrying amount of assets or liabilities for accounting purpose and the tax basis, and unused tax losses and tax credits.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which they can be utilized.

When uncertainties exist if the taxing authorities will accept a particular tax treatment, the said uncertainties are reflected when determining the taxable profit, the carrying amount for the tax basis, unused tax losses and tax credits, and the tax rate.

Deferred tax assets and liabilities are not recognized for temporary differences that arise from the initial recognition of goodwill or that arise from the initial recognition of assets or liabilities in transactions which are not business combinations and which do not give rise to equal taxable and deductible temporary differences at the time of the transaction and affect neither accounting profit nor taxable profit or tax loss.

Deferred tax liabilities for taxable temporary differences associated with investments in subsidiaries and associates are recognized, except to the extent that the Group is able to control the timing of the reversal of the temporary differences and that it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets for deductible temporary differences arising from investments in subsidiaries and associates are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

Deferred tax assets and deferred tax liabilities are offset if there is a legally enforceable right to offset current tax assets against current tax liabilities and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on the same taxable entity.

#### 4. Significant Accounting Judgments, Estimates and Assumptions

The preparation of these consolidated financial statements requires management of the Group to make judgments, estimates and assumptions that affect the amount of reported income, expenses, assets and liabilities as well as disclosure of contingent liabilities. However, due to uncertainty in the estimates and assumptions, it is possible that significant adjustments to carrying amounts of assets and liabilities may be required in future periods.

Significant items that required management to make estimates and judgments are as follows:

- Impairment of non-financial assets (Note 13. Property, Plant and Equipment, Note 14. Goodwill and Intangible Assets)
- Provisions (Note 19. Provisions)
- Measurement of defined benefit obligations (Note 20. Employee Benefits)
- Revenue recognition (Note 24. Revenue)
- Contingent liabilities (Note 36. Contingent Liabilities)

**5. Standards and Interpretations Issued but Not Yet Adopted**

The new and revised accounting standards and interpretations issued and to be adopted by the Group in the year ending March 31, 2025 are not expected to have a material impact on the consolidated financial statements. The Group is currently evaluating the impact on the consolidated financial statements of applying standards and interpretations which will be adopted by the Group in the year ending March 31, 2026 and thereafter, which is not yet estimable.

## 6. Operating Segment Information

### (1) Reportable Segments

Disclosure is omitted as the Group has a single segment, "Pharmaceutical Operation".

### (2) Information about products and services

Sales by products and services are as follows:

(Millions of JPY)

	Year ended March 31, 2023		Year ended March 31, 2024		Increase / (decrease)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Prescription drugs	1,205,939	94.3	1,523,410	95.1	317,470	26.3
Healthcare (OTC) products	70,331	5.5	75,895	4.7	5,564	7.9
Others	2,207	0.2	2,382	0.2	175	7.9
Total	1,278,478	100.0	1,601,688	100.0	323,210	25.3

### (3) Information by geographical area

Revenue and non-current assets by geographical area are as follows:

#### a. Revenue

(Millions of JPY)

	Japan	North America	Europe	Other regions	Consolidated
Year ended March 31, 2023	533,508	396,579	204,657	143,733	1,278,478
Year ended March 31, 2024	599,977	499,280	310,842	191,588	1,601,688

Note:

Revenue is classified according to the geographical location of customers.

#### b. Non-current assets

(Millions of JPY)

	Japan	North America	Europe	Other regions	Consolidated
As of March 31, 2023	301,766	212,166	85,337	7,581	606,852
As of March 31, 2024	318,143	237,429	130,670	12,247	698,491

Note:

Non-current assets are primarily presented based on the geographical location of assets, and are comprised of property, plant and equipment, goodwill and intangible assets.

### (4) Information on major customers

Customers for which sales were over 10% of total revenue in the Consolidated Statement of Profit or Loss are as follows:

(Millions of JPY)

Name of customer	Year ended March 31, 2023	Year ended March 31, 2024
Alfresa Holdings Corporation and its group companies	180,523	199,732
McKesson Corp	117,513	173,348
Cencora Inc	121,646	162,713

## 7. Business Combination

### (1) Significant business combination

Year ended March 31, 2023

#### Acquisition of HBT Labs, Inc.

##### a. Overview of Business Combination

###### i) Name and description of the acquiree

Name of the acquiree: HBT Labs, Inc.

Description of the business: Research, development, manufacturing, and sales of pharmaceutical products

###### ii) Reason for the business combination

HBT Labs, Inc. is a company that possesses advanced manufacturing technology and develops and sells generic pharmaceuticals in the fields of oncology and central nervous system disorders. American Regent, Inc., the Company's overseas subsidiary, aims for profit growth through iron deficiency anemia treatments and generic injectables etc., in its 5th 5-year Business Plan. Through this acquisition, American Regent, Inc. will expand its business into the oncology field and its product portfolio using synergies through HBT's advanced manufacturing technology and process.

###### iii) Acquisition date

August 17, 2022

###### iv) Percentage of voting rights acquired

100%

###### v) Process of gaining control over the acquired company

Acquisition of shares by American Regent, Inc., the Company's wholly owned subsidiary, with an upfront payment, future milestone payments, and royalty payments over a certain period based on sales of the development pipeline.

##### b. Fair value of assets acquired and liabilities assumed at the acquisition date, and breakdown of the consideration paid

(Millions of JPY)

	Amount
Cash and cash equivalents	2,379
Trade and other receivables	3,204
Inventories	831
Property, plant and equipment	1,409
Intangible assets	22,564
Trade and other payables	(3,262)
Deferred tax liabilities	(1,914)
Goodwill	9,260
Total amount	34,473
Cash	32,341
Contingent consideration	2,131
Total consideration	34,473

We reported provisional amounts until the previous third quarter reporting period because the verification was not completed. However, the verification process was completed in the previous consolidated fiscal year, and the main adjustments from the initial provisional amounts were a decrease of JPY4,432 million in intangible assets and JPY1,745 million in deferred tax liabilities, and an increase of JPY2,587 million in goodwill.

The goodwill mainly arises from a reasonable estimate of expected future excess earning power. This goodwill is not deductible for tax purposes.

Acquisition-related costs of JPY410 million for the business combination have been recorded under "Selling, general and administrative expenses".

c. Net cash outflow on the acquisition of the subsidiary

(Millions of JPY)	
	Amount
Total consideration	34,473
Contingent consideration included in the total consideration	(2,131)
Cash and cash equivalents in the acquired subsidiary	(2,379)
Net cash outflow resulting from the acquisition of the subsidiary	29,962

d. Impact on the Group's Performance

Profit or loss information related to the business combination after the acquisition date and profit or loss information assuming that the business combination took place at the beginning of the reporting period are omitted because the impact on the consolidated statement of profit or loss is not material.

Profit or loss information assuming the business combination took place at the beginning of the reporting period has not been audited by the Company's independent auditor.

Year ended March 31, 2024

There were no significant business combinations for the year ended March 31, 2024.

(2) Contingent consideration

The "contingent consideration" arises from the business combinations of Ambit Biosciences Corp. and HBT Labs, Inc.

The contingent consideration for the business combination of Ambit Biosciences Corp. is the commercial milestone for the treatment of Acute Myeloid Leukemia (generic name: Quizartinib, development code: AC220), which was partially settled during the fiscal year ended March 31, 2024. Excluding the portion that has already been settled, the total future payments that the Company may be required to make under the contingent consideration agreement are JPY7,214 million (before discount). This liability is not recorded considering the possibility of payment.

The contingent consideration for the business combination with HBT Labs, Inc. is the estimated amount of future milestone payments and royalty payments over a certain period based on sales of the development pipeline, taking into account the time value of money.

The total amount of future payments that the Company may be required to make for all future milestones under the contingent consideration agreement is JPY3,028 million (before discount). There is no upper limit on the royalty payments to be made based on future sales of the development pipeline, and the estimated payment amounts are calculated based on future forecast sales. The exposure to foreign currency exchange risks at the reporting date is 15,868 thousand U.S. dollar. The impact of a 1% appreciation in the Yen against the U.S. dollar on profit before tax is JPY24 million at the reporting date.

The fair value hierarchy level for this contingent consideration is Level 3. The fair value change of contingent consideration is recognized in "Financial income" and "Financial expenses" The fair value hierarchy is summarized in Note 30 "Financial Instruments."

Reconciliation of the movement in the contingent consideration which is classified as Level 3 from the opening balances to the ending balances is as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Balance at the beginning of the year	4,873	7,506
Increase arising from business combination	2,131	-
Changes in fair value during the period	70	1,009
Settlement during the period	-	(6,746)
Exchange differences	430	633
Balance at the end of the year	7,506	2,402

## 8. Cash and Cash Equivalents

Details of “Cash and cash equivalents” are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Cash and bank deposits	334,825	415,264
Short-term investments	107,096	231,916
Total	441,921	647,180

Note:

“Cash and cash equivalents” are classified as financial assets measured at amortized cost.

## 9. Trade and Other Receivables

Details of “Trade and other receivables” in the consolidated statement of financial position are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Notes and accounts receivable - trade	281,360	345,765
Accounts receivable - other	22,027	27,698
Advance payments	32,819	70,292
Other receivables	13,582	11,397
Allowance for doubtful accounts	(679)	(965)
Total	349,111	454,188

Note:

“Notes and accounts receivable - trade” and “Accounts receivable - other” are classified as financial assets measured at amortized cost.

## 10. Other Financial Assets

### (1) Breakdown of Other Financial Assets

Breakdown of “Other financial assets” in the consolidated statement of financial position is as follows:

#### a. Current Assets

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Financial assets measured at amortized cost:		
Bank deposits	216,806	347,075
Loans receivable	134	18
Bonds	165,642	229,384
Others	41	301
Financial assets measured at fair value through profit or loss:		
Derivative assets	580	261
<b>Total</b>	<b>383,205</b>	<b>577,040</b>

#### b. Non-current Assets

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Financial assets measured at amortized cost:		
Loans receivable	41	-
Others	37,950	34,281
Financial assets measured at fair value through profit or loss:		
Derivative assets	512	549
Bonds	671	761
Others	19,737	29,231
Financial assets measured at fair value through other comprehensive income:		
Equity securities	70,214	81,649
Others	1,266	1,433
<b>Total</b>	<b>130,393</b>	<b>147,906</b>

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

Details of financial assets measured at fair value through other comprehensive income are as follows:

(Millions of JPY)

Equity Securities	Fair Value	
	As of March 31, 2023	As of March 31, 2024
Listed		
Shizuoka Financial Group, Inc.	7,908	9,852
Ultragenyx Pharmaceutical Inc.	6,661	8,793
MatsukiyoCocokara & Co.	8,331	8,698
Suzuken Co.,Ltd.	3,186	4,419
Sumitomo Mitsui Financial Group, Inc.	3,017	4,228
Alfresa Holdings Corporation	5,436	4,012
Cuorips Inc. (note 2)	-	3,695
MS&AD Insurance Group Holdings, Inc.	1,964	3,509
Kissei Pharmaceutical Co.,Ltd.	2,411	3,227
Qol Holdings Co.,Ltd	1,513	2,304
Others	16,610	15,409
Unlisted	14,440	14,933

Notes:

1. Equity securities are held to reinforce transactions and business relationships. These securities are designated as financial assets measured at fair value through other comprehensive income.
2. Cuorips Inc. was an associate accounted for using the equity method but due to decrease in the Company's ownership percentage resulting from the listing and issuance of new shares during the year ended March 31, 2024, the Company has designated its investment as a financial asset measured at fair value through other comprehensive income.

(3) Derecognition of Financial Assets Measured at Fair value through Other Comprehensive Income

In the years ended March 31, 2023 and 2024, the Group disposed and derecognized some financial assets measured at fair value through other comprehensive income to improve the efficiency of assets by reassessing the business relationships.

Their fair value and accumulated gains and losses at the time of disposal are as follows:

(Millions of JPY)

	Year ended March 31, 2023		Year ended March 31, 2024	
	Fair value	Accumulated gains (losses)	Fair value	Accumulated gains (losses)
Equity securities	2,058	1,366	12,462	9,831
Others	56	39	23	(19)

Note:

When financial assets measured at fair value through other comprehensive income are derecognized, gains and losses accumulated in other comprehensive income are reclassified to retained earnings.

## 11. Inventories

Details of “Inventories” in the consolidated statement of financial position are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Merchandise and finished goods	167,516	219,503
Work in process	29,224	24,639
Raw materials	104,867	193,968
Total	301,608	438,111

Notes:

1. Inventories recognized as expenses and included in “Cost of sales” in the consolidated statement of profit or loss for the years ended March 31, 2023 and 2024 are JPY297,208 million and JPY354,831 million, respectively.
2. Write-down of inventories recognized during the period and included in “Cost of sales” in the consolidated statement of profit or loss for the years ended March 31, 2023 and 2024 are JPY10,110 million and JPY12,064 million, respectively.

## 12. Liabilities Directly Associated with Assets Held for Sale

The Company approved at the Board of Directors meeting held on May 16, 2023 to transfer all shares of its subsidiary, Daiichi Sankyo Espha Co., Ltd. (“DSEP”), to Qol Holdings Co., Ltd (“Qol”). The Company signed a stock transfer agreement on the same date. As a result, it became certain that the Company would lose control over DSEP and the Company has classified the assets and liabilities of DSEP as "Assets held for sale" and "Liabilities directly associated with assets held for sale," respectively.

Additionally, in March 2024, the Company decided to sell the land and buildings owned by one of its subsidiaries and has entered into a real estate sales contract. Accordingly, the Company has classified the related assets and liabilities as "Assets held for sale" and "Liabilities directly associated with assets held for sale," respectively.

Details of “Assets held for sale” and “Liabilities directly associated with assets held for sale” in the consolidated statement of financial position are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Assets held for sale		
Cash and cash equivalents	-	9,222
Intangible assets	-	8,681
Others	-	6,599
Total	-	24,503
Liabilities directly associated with assets held for sale		
Trade and other payables	-	8,786
Others	-	2,698
Total	-	11,484

On October 1, 2023, based on the stock transfer agreement concluded with Qol on May 16, 2023, the Company transferred 30% of the total issued shares of DSEP held by the Company, to Qol. As the stock transfer agreement includes the phased transfer of all shares in DSEP, the Company also transferred 21% of the total issued shares of DSEP held by the Company on April 1, 2024 as stated in “Note 39. Subsequent Events”.

As these share transfer transactions are intended to achieve a smooth transfer of the generic operations of DSEP, the Company has determined that it is appropriate to account for the two stock transfer transactions leading to the loss of control as a single transaction as stated in “Note 39. Subsequent Events”.

As of March 31, 2024, the difference of JPY7,573 million between the transfer consideration and the transferred assets and liabilities is recorded as "Trade and other payables." This amount will be recognized as a gain in the consolidated statement of profit or loss for the fiscal year ending March 31, 2025 when control over DSEP is lost.

### 13. Property, Plant and Equipment

#### (1) Reconciliation of carrying amount

Reconciliation of the carrying amount and details of acquisition cost, accumulated depreciation and accumulated impairment loss of “Property, plant and equipment” in the consolidated statement of financial position are as follows:

##### a. Acquisition cost

(Millions of JPY)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2022	427,138	201,017	104,679	52,161	784,996
Individual acquisitions	30,507	12,437	10,379	67,960	121,284
Acquisition through business combinations	894	1,305	83	22	2,305
Sales or disposals	(10,790)	(10,200)	(6,585)	-	(27,576)
Exchange differences	6,003	3,040	1,668	2,525	13,238
Decrease related to deconsolidation	(5,230)	(4,621)	(174)	(1)	(10,028)
Other increases and decreases	(7,651)	(58)	21	(42,863)	(50,552)
Balance as of March 31, 2023	440,871	202,919	110,071	79,805	833,667
Individual acquisitions	39,751	17,238	13,229	82,059	152,279
Sales or disposals	(2,262)	(6,836)	(3,457)	(2)	(12,557)
Reclassification to assets held for sale	(2,388)	(317)	(103)	(0)	(2,809)
Exchange differences	11,962	6,652	3,114	4,794	26,524
Other increases and decreases	312	(328)	(121)	(54,093)	(54,231)
Balance as of March 31, 2024	488,246	219,328	122,734	112,563	942,872

b. Accumulated depreciation and accumulated impairment loss

(Millions of JPY)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2022	241,730	153,039	86,155	-	480,926
Depreciation	17,292	11,631	7,322	-	36,246
Impairment loss	35	0	1	-	37
Reversal of impairment loss	(3,238)	-	-	-	(3,238)
Acquisition through business combinations	277	577	41	-	896
Sales or disposals	(8,544)	(9,836)	(6,464)	-	(24,845)
Exchange differences	2,349	1,856	1,282	-	5,487
Decrease related to deconsolidation	(3,651)	(3,805)	(151)	-	(7,608)
Other increases and decreases	(2,750)	(190)	(206)	-	(3,146)
Balance as of March 31, 2023	243,499	153,273	87,981	-	484,754
Depreciation	18,610	12,401	8,694	-	39,706
Impairment loss	107	354	57	-	518
Sales or disposals	(2,207)	(5,985)	(3,453)	-	(11,646)
Reclassification to assets held for sale	(1,279)	(314)	(62)	-	(1,656)
Exchange differences	3,931	3,880	2,117	-	9,929
Other increases and	18	(354)	(88)	-	(425)
Balance as of March 31, 2024	262,680	163,255	95,244	-	521,180

c. Carrying amounts

(Millions of JPY)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2022	185,407	47,977	18,523	52,161	304,070
Balance as of March 31, 2023	197,371	49,645	22,090	79,805	348,912
Balance as of March 31, 2024	225,566	56,072	27,489	112,563	421,692

Note:

Depreciation of property, plant and equipment is included in “Cost of sales,” “Selling, general and administrative expenses,” and “Research and development expenses” in the consolidated statement of profit or loss.

(2) Impairment of Property, Plant and Equipment

The Group performed impairment testing for certain property, plant and equipment for which indicators of potential impairment were identified.

As a result of the impairment testing, impairment loss of JPY37 million and JPY518 million were recognized for the year ended March 31, 2023 and 2024, respectively, and recorded in “Cost of sales”, “Selling, general and administrative expenses” in the consolidated statement of profit or loss.

(3) Reversal of impairment loss for Property, Plant and Equipment

For the year ended March 31, 2023, a reversal of impairment loss was recognized for property, plant and equipment owned by Plexxikon Inc. A reversal of impairment loss of JPY3,238 million for "Land, buildings and structures" was recognized due to an increase in the recoverable amount because of the Group entered into rental agreements for the year ended March 31, 2023, which was recorded in "Research and development expenses" in the consolidated statement of profit or loss.

#### 14. Goodwill and Intangible Assets

##### (1) Reconciliation of Carrying Amount

Reconciliation of the carrying amount and details of acquisition cost, accumulated amortization and accumulated impairment loss of “Goodwill” and “Intangible assets” in the consolidated statement of financial position are as follows:

##### a. Acquisition cost

(Millions of JPY)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 2022	83,555	46,597	310,288	27,512	384,398
Individual acquisitions	-	925	16,476	2,157	19,559
Acquisition through business combinations	9,260	2,686	20,464	-	23,150
Sales or disposals	-	(8,918)	(26,170)	(5,718)	(40,807)
Exchange differences	5,515	2,703	17,473	1,446	21,624
Decrease related to deconsolidation	-	-	-	(117)	(117)
Other increases and decreases	-	(1,410)	1,399	(825)	(835)
Balance as of March 31, 2023	98,330	42,583	339,933	24,455	406,972
Individual acquisitions	-	1,079	21,382	10,959	33,421
Sales or disposals	-	-	(28,548)	(6,451)	(35,000)
Reclassification to assets held for sale	-	(20)	(25,233)	(25)	(25,279)
Exchange differences	10,167	4,720	30,514	1,649	36,883
Other increases and decreases	-	(34,321)	34,382	(5,356)	(5,295)
Balance as of March 31, 2024	108,498	14,041	372,430	25,231	411,702

b. Accumulated amortization and accumulated impairment loss

(Millions of JPY)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 2022	-	830	196,328	23,355	220,514
Amortization	-	-	29,891	1,552	31,444
Impairment loss	-	8,088	14,184	-	22,273
Sales or disposals	-	(8,918)	(26,143)	(5,717)	(40,779)
Exchange differences	-	-	12,606	1,386	13,993
Decrease related to deconsolidation	-	-	-	(68)	(68)
Other increases and decreases	-	-	(11)	(1)	(12)
Balance as of March 31, 2023	-	-	226,856	20,506	247,363
Amortization	-	-	18,056	1,568	19,625
Impairment loss	-	307	-	-	307
Sales or disposals	-	-	(24,609)	(6,450)	(31,059)
Reclassification to assets held for sale	-	-	(16,590)	(7)	(16,597)
Exchange differences	-	-	22,119	1,516	23,635
Other increases and decreases	-	-	125	1	127
Balance as of March 31, 2024	-	307	225,959	17,134	243,401

c. Carrying amounts

(Millions of JPY)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trademarks	Software	Total
Balance as of April 1, 2022	83,555	45,767	113,959	4,157	163,884
Balance as of March 31, 2023	98,330	42,583	113,076	3,949	159,609
Balance as of March 31, 2024	108,498	13,733	146,471	8,096	168,300

Note:

Amortization of intangible assets is included in “Cost of sales”, “Selling, general and administrative expenses” and “Research and development expenses” in the consolidated statement of profit or loss.

## (2) Significant Goodwill and Intangible Assets

The Group allocated major goodwill to two groups of cash-generating units, the prescription drug business and the healthcare (OTC) products business. The carrying amount of goodwill allocated to each group as of March 31, 2023 and 2024 are JPY68,394 million and JPY76,697 million to the prescription drug business, respectively, and JPY16,000 million to the healthcare (OTC) products business.

The carrying amount of intangible assets mainly consists of:

- commercial rights of Bempedoic Acid owned by Daiichi Sankyo Europe GmbH are JPY29,707 million and JPY48,925 million at March 31, 2023 and 2024, respectively, which are amortized based on the straight-line method and the remaining amortization period as of March 31, 2024 is 8 years. Commercial rights related to Quizartinib owned by Ambit Biosciences Corporation are JPY1,248 million and JPY31,417 million at March 31, 2023 and 2024, respectively, which are amortized based on the straight-line method and the remaining amortization period as of March 31, 2024 is 9 years. Additionally, commercial rights related to Paclitaxel owned by American Regent, Inc. are JPY18,940 million and JPY19,979 million at March 31, 2023 and 2024, respectively, which are amortized based on the straight-line method and the remaining amortization period as of March 31, 2024 is 13 years.
- in-process research and development of Quizartinib owned by Ambit Biosciences Corporation of JPY32,621 million and JPY4,051 million as of March 31, 2023 and 2024, respectively.

## (3) Research and Development Expenditure

Research expenditure and development expenditure which do not meet the criteria for capitalization are expensed when incurred. The amount of expensed research and development expenditure is JPY341,570 million and JPY365,169 million for the years ended March 31, 2023 and 2024, respectively.

## (4) Impairment of Goodwill

The Group performs impairment testing for goodwill annually and at any time there is an indication that goodwill may be impaired. Impairment tests for goodwill were performed as follows:

### a. Prescription drug business

The recoverable amount was estimated based on value in use using the mid-term plan through fiscal 2025, which was approved by management, and the valuation included a terminal value assuming a growth rate of 0% after fiscal 2025.

The value in use was calculated using a pre-tax discount rate and exceeded the carrying amount, therefore no impairment loss was recognized for the year ended March 31, 2024. The pre-tax discount rate for the year ended March 31, 2023 and 2024 were 6.8% and 6.9%, respectively. The value in use exceeded the carrying amount, and the Group determined that the possibility of the value in use becoming lower than the carrying amount is remote, even if the discount rate were to increase within a reasonable range.

### b. Healthcare (OTC) products business

The recoverable amount was estimated based on value in use using the mid-term plan through fiscal 2025, which was approved by management, and the valuation included a terminal value assuming a growth rate of 0% after fiscal 2025.

The value in use was calculated using a pre-tax discount rate and exceeded the carrying amount, therefore no impairment loss was recognized for the year ended March 31, 2024. The pre-tax discount rate for the years ended March 31, 2023 and 2024 was 7.0%. The value in use exceeded the carrying amount, and the Group determined that the possibility of the value in use becoming lower than the carrying amount is remote, even if the discount rate were to increase within a reasonable range.

## (5) Impairment of Intangible Assets

The Group performs impairment testing for intangible assets which indicate potential impairment at all such times and for intangible assets not yet available for use annually and at any time there is an indication that an asset may be impaired.

The recoverable amount of an intangible asset is the higher of its fair value less costs of disposal and its value in use, which is calculated based on risk-adjusted future cash flows discounted by an appropriate discount rate. If the carrying amount of an intangible asset exceeds the recoverable amount, an impairment loss is recognized in profit or

loss and the carrying amount is reduced to the recoverable amount.

For measurement of the value in use, the Group considers the possibility that the manufacturing and marketing of new products are approved, sales forecasts of products and other factors. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments in the amount of intangible assets may be required in the consolidated financial statements for the year ending March 31, 2025.

As a result of the impairment testing, impairment losses of JPY22,273 million and JPY307 million were recognized for the years ended March 31, 2023 and 2024, respectively, and recorded in “Cost of sales” and “Research and development expenses” in the consolidated statement of profit or loss.

The impairment loss for the year ended March 31, 2023 mainly arises from the commercial rights related to TURALIO and in-process research and development related to DS-5141. Impairment indications were identified for the commercial rights related to TURALIO due to factors such as the decline in future sales forecasts influenced by competitive products. As a result, the Group recognized an impairment loss of JPY14,184 million and reduced the carrying amount of the asset to the recoverable amount. The recoverable amount was measured using the value in use, with a pre-tax discount rate of 12.0% applied, resulting in a value in use of JPY7,710 million. Regarding the in-process research and development related to DS-5141, since the Group decided not to continue the development, an impairment loss of JPY6,299 million was recognized. The recoverable amount was also measured using the value in use, resulting in a recoverable amount of zero.

#### 15. Investments Accounted for Using the Equity Method

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

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Carrying amounts of investments in associates	1,306	608

Financial information of associates accounted for using the equity method is as follows.

These amounts are after adjustment for the Group’s ownership ratio.

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Profit for the year	(19)	184
Other comprehensive income	-	-
Total comprehensive income for the year	(19)	184

## 16. Income Taxes

### (1) Deferred Tax Assets and Liabilities

Sources of “Deferred tax assets” and “Deferred tax liabilities” are as follows:

Year ended March 31, 2023

(Millions of JPY)

	Balance as of April 1, 2022	Recognized in profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2023
<b>Deferred tax assets</b>					
Prepaid outsourced research expenses and co-development expenses	17,668	1,641	-	-	19,310
Depreciation and amortization	4,418	1,393	-	(129)	5,682
Unrealized gain and valuation loss of inventories	48,633	40	-	-	48,674
Unused tax losses	46,031	(11,178)	-	3,152	38,006
Accrued expenses	26,151	11,342	-	-	37,494
Valuation loss of securities	939	328	-	-	1,268
Impairment loss	5,415	(860)	-	-	4,555
Lease liabilities	12,730	(302)	-	-	12,428
Capitalization research expenses	-	31,612	-	-	31,612
Others	29,874	8,799	-	0	38,674
<b>Total</b>	<b>191,865</b>	<b>42,817</b>	<b>-</b>	<b>3,023</b>	<b>237,706</b>
<b>Deferred tax liabilities</b>					
Intangible assets	12,609	(7,129)	-	4,926	10,406
Financial assets measured at fair value through other comprehensive income	16,462	-	(1,422)	-	15,039
Post-employment benefit assets	4,336	(606)	2,036	-	5,767
Reserve for advanced depreciation of property, plant and equipment	5,762	(996)	-	-	4,766
Right-of-use assets	10,519	(32)	-	-	10,487
Others	16,445	7,168	177	-	23,790
<b>Total</b>	<b>66,136</b>	<b>(1,596)</b>	<b>790</b>	<b>4,926</b>	<b>70,257</b>
<b>Net balance</b>	<b>125,729</b>	<b>44,414</b>	<b>(790)</b>	<b>(1,903)</b>	<b>167,449</b>

Notes:

1. The difference between the total amounts recognized in profit or loss and other comprehensive income in the table above and the total deferred income taxes in profit or loss and total income taxes recognized through other comprehensive income, respectively, relates to income tax expenses associated with foreign currency translation differences.
2. For the recognition of deferred tax assets related to unused tax losses, the Group considers the estimated amount and timing of generation of future taxable profit based on future business plans. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments may be required in the consolidated financial statements for the year ended March 31, 2024.
3. Capitalized research expenses are the research expenses that have been made eligible for capitalization and amortization for tax purposes due to tax reform in the United States.
4. The Company has adopted amendments to IAS12 “Deferred Tax related to Assets and Liabilities arising from a Single Transaction” from the year ended March 31, 2024 and retrospectively applied to comparative information. There is no material effect on the consolidated financial statements.

Year ended March 31, 2024

(Millions of JPY)

	Balance as of April 1, 2023	Recognized in profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2024
Deferred tax assets					
Prepaid outsourced research expenses and co-development expenses	19,310	1,433	-	-	20,743
Depreciation and amortization	5,682	29,721	-	-	35,403
Unrealized gain and valuation loss of inventories	48,674	28,601	-	-	77,275
Unused tax losses	38,006	(33,901)	-	-	4,105
Accrued expenses	37,494	6,725	-	-	44,220
Valuation loss of securities	1,268	32	-	-	1,300
Impairment loss	4,555	(374)	-	-	4,180
Lease liabilities	12,428	1,211	-	-	13,639
Capitalization research expenses	31,612	40,634	-	-	72,247
Others	34,375	22,765	101	-	57,243
<b>Total</b>	<b>233,408</b>	<b>96,849</b>	<b>101</b>	<b>-</b>	<b>330,359</b>
Deferred tax liabilities					
Intangible assets	10,406	2,050	-	-	12,457
Financial assets measured at fair value through other comprehensive income	15,039	-	6,041	(2,993)	18,088
Post-employment benefit assets	5,767	(1,053)	7,140	-	11,854
Reserve for advanced depreciation of property, plant and equipment	4,766	(531)	-	-	4,235
Right-of-use assets	10,487	1,269	-	-	11,757
Others	19,492	16,156	355	(532)	35,471
<b>Total</b>	<b>65,958</b>	<b>17,892</b>	<b>13,538</b>	<b>(3,526)</b>	<b>93,863</b>
<b>Net balance</b>	<b>167,449</b>	<b>78,957</b>	<b>(13,436)</b>	<b>3,526</b>	<b>236,496</b>

Notes:

1. The difference between the total amounts recognized in profit or loss and other comprehensive income in the table above and the total deferred income taxes in profit or loss and total income taxes recognized through other comprehensive income, respectively, relates to income tax expenses associated with foreign currency translation differences.
2. Capitalized research expenses are the research expenses that have been made eligible for capitalization and amortization for tax purposes in the United States.

### (2) Unrecognized Deferred Tax Assets

Deductible temporary differences, unused tax losses (detail by expiry) and unused tax credits (detail by expiry) for which deferred tax assets are not recognized in the consolidated statement of financial position are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Deductible temporary differences	70,651	48,778
Unused tax losses		
Within 1 year	-	1,320
Over 1 year within 5 years	-	6,184
Over 5 years	38,781	41,180
Total	38,781	48,686
Unused tax credits		
Within 1 year	111	-
Over 1 year within 5 years	2,337	-
Over 5 years	2,936	2,947
Total	5,386	2,947

### (3) Unrecognized Deferred Tax Liabilities

The total temporary differences associated with equity investments in subsidiaries and associates for which deferred tax liabilities are not recognized are JPY162,108 million and JPY234,610 million as of March 31, 2023 and 2024, respectively. When the Group can control the timing of the reversal of the temporary differences and it is not probable that the temporary differences will be reversed in the foreseeable future, deferred tax liabilities are not recognized.

### (4) Income Taxes Recognized through Profit or Loss

Details of income taxes recognized through profit or loss are as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Current period income taxes	63,498	107,911
Deferred income taxes		
Origination and reversal of temporary differences	(46,675)	(65,962)
Change in income tax rate or imposition of new taxation	(236)	1,814
Adjustments and reversals of deferred tax assets	1,079	(7,545)
Total	(45,832)	(71,693)
Total income tax expenses	17,666	36,217

## (5) Income Taxes Related to Items in Other Comprehensive Income

Details of income taxes recognized through other comprehensive income are as follows:

(Millions of JPY)

	Year ended March 31, 2023			Year ended March 31, 2024		
	Before tax effect	Tax effect	After tax effect	Before tax effect	Tax effect	After tax effect
Financial assets measured at fair value through other comprehensive income	(3,792)	993	(2,798)	21,156	(6,041)	15,114
Remeasurements of defined benefit plans	7,977	(2,044)	5,932	23,401	(7,174)	16,226
Exchange differences on translation of foreign operations	36,312	-	36,312	75,512	-	75,512
Cash flow hedges	580	(177)	403	832	(253)	578
Total	41,078	(1,228)	39,850	120,901	(13,470)	107,431

## (6) Reconciliation of Effective Tax Rate

Major sources of differences between the statutory tax rate and effective tax rate are as follows:

	Year ended March 31, 2023	Year ended March 31, 2024
Statutory tax rate	30.5%	30.5%
Permanent non-deductible expenses such as entertainment expenses	2.0%	1.2%
Permanent non-taxable income such as dividends received	(0.7%)	(0.1%)
Changes in unrecognized deferred tax assets	0.9%	(0.2%)
Effect of different tax rates in foreign jurisdictions	(9.7%)	0.3%
Tax credit for research and development expenses	(6.3%)	(11.3%)
Other Tax credits	(9.1%)	(5.7%)
Adjustment to period-end deferred tax assets due to change in tax rate	0.0%	(0.1%)
Foreign withholding tax on dividends from foreign subsidiaries	2.8%	0.0%
Others	3.5%	0.7%
Effective tax rate	13.9%	15.3%

Notes:

- The Company is subject to corporate tax, inhabitant tax, and enterprise tax, which is tax deductible against taxable income for corporate tax purposes when paid. The applicable tax rate based on these taxes is 30.5% for the years ended March 31, 2023 and 2024. The statutory tax rate used for the calculation of deferred tax assets and liabilities is 30.5% for the years ended March 31, 2023 and 2024. Overseas operations are subject to income taxes of the jurisdictions in which they are located.
- Tax credit for research and development expenses mainly arises in Japan and the United States.

## (7) Global Minimum Tax

In Japan, a corporate tax corresponding to the global minimum tax was established in the 2023 tax reform (hereinafter referred to as “Japan’s Global Minimum Tax”), and the Tax Reform Act (“Act for Partial Revision of the Income Tax Act, etc.” (Act No. 3 of 2023)) (hereinafter referred to as the “Revised Corporation Tax Act”), together with provisions related to it, was enacted on March 28, 2023. The Revised Corporation Tax Act introduced the Income Inclusion Rule (IIR), which is one of the BEPS Global Minimum Tax rules (hereinafter referred to as “Pillar Two model rules”). Applicable from business years starting on or after April 1, 2024, an additional tax will be imposed on parent companies located in Japan up to the minimum tax rate (15%) for the taxes borne by their subsidiaries, etc. of those parent companies located in Japan. The Group has applied the temporary exemption set forth in “IAS 12 Income Taxes” and has not recognized deferred tax assets and liabilities related to income taxes

arising from tax law enacted or substantively enacted to implement the Pillar Two model rules (hereinafter referred to as “Pillar Two income taxes”), also has not included such amounts in the financial statement disclosures. Assuming the application of Japan's Global Minimum Tax in the year ended March 31, 2024, the Company has evaluated the impact of Pillar Two income taxes on the consolidated financial statements of the Group and has determined that it would not be material.

## 17. Trade and Other Payables

Details of “Trade and other payables” in the consolidated statement of financial position are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Notes and accounts payable - trade	80,385	88,739
Accounts payable - other	157,546	203,196
Others	157,236	265,195
Total	395,169	557,131

Notes:

- “Contract Liabilities”, which was included in “Others” in the previous consolidated fiscal year, is disclosed separately in the consolidated statement of financial position from the current fiscal year since the monetary significance has increased. Accordingly, comparative information has been reclassified.
- “Notes and accounts payable - trade” and “Accounts payable - other” are classified as financial liabilities measured at amortized cost.

## 18. Bonds and Borrowings, and Other Financial Liabilities

### (1) Breakdown of Bonds and Borrowings

Breakdown of “Bonds and borrowings” in the consolidated statement of financial position is as follows:

#### a. Current Liabilities

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Financial liabilities measured at amortized cost:		
Unsecured corporate bonds	20,000	-
Unsecured bank loans	21,000	-
Other borrowings	396	399
Total	41,396	399

#### b. Non-current Liabilities

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Financial liabilities measured at amortized cost:		
Unsecured corporate bonds	99,670	99,691
Other borrowings	2,021	1,622
Total	101,692	101,314

(2) Breakdown of Other Financial Liabilities

Breakdown of “Other financial liabilities” in the consolidated statement of financial position is as follows:

a. Current Liabilities

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Financial liabilities measured at fair value through profit or loss:		
Derivative liabilities	151	334
Lease liabilities	10,929	12,441
Total	11,080	12,775

b. Non-current Liabilities

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Financial liabilities measured at amortized cost:	2,808	4,380
Lease liabilities	38,839	41,848
Total	41,647	46,229

(3) Terms of Bonds

Terms of bonds are as follows:

(Millions of JPY)

Company name	Name of bond	Date of issuance	As of March 31, 2023	As of March 31, 2024	Interest rate	Maturity date
Daiichi Sankyo Company Limited	4 <sup>th</sup> Unsecured corporate bonds	September 18, 2013	20,000	-	0.85%	September 15, 2023
Daiichi Sankyo Company Limited	5 <sup>th</sup> Unsecured corporate bonds	July 25, 2016	75,000	75,000	0.81%	July 25, 2036
Daiichi Sankyo Company Limited	6 <sup>th</sup> Unsecured corporate bonds	July 25, 2016	25,000	25,000	1.20%	July 25, 2046
Total	-	-	120,000	100,000	-	-

(4) Terms of Borrowings

Terms of borrowings are as follows:

(Millions of JPY)

Category	As of March 31, 2023	As of March 31, 2024	Average interest rate	Repayment period
Current portion of long-term borrowings	21,000	-	0.08%	-
Other borrowings	2,418	2,021	-	-
Total	23,418	2,021	-	-

Note:

Average interest rate is calculated using the ending balance of the borrowings and the interest rates as of March 31, 2023.

## 19. Provisions

### (1) Movement in provisions

Details of the movement in “Provisions” in the consolidated statement of financial position by class of provision are as follows:

Year ended March 31, 2023

(Millions of JPY)

	Restructuring	Environmental measures	Others	Total
Balance as of April 1, 2022	5,556	16,032	3,498	25,086
Increase during the period	4	-	5,174	5,178
Utilized	(216)	-	(1,090)	(1,306)
Reversed unused	(3,976)	-	(1,760)	(5,737)
Interest cost due to unwinding of discount	4	-	7	12
Exchange differences	462	-	129	591
Other increases and decreases	-	-	178	178
Balance as of March 31, 2023	1,834	16,032	6,136	24,003
Current liabilities	1,103	964	5,559	7,626
Non-current liabilities	731	15,068	577	16,376
Total	1,834	16,032	6,136	24,003

Year ended March 31, 2024

(Millions of JPY)

	Restructuring	Environmental measures	Others	Total
Balance as of April 1, 2023	1,834	16,032	6,136	24,003
Increase during the period	75	4,829	7,584	12,489
Utilized	(164)	(1,220)	(4,137)	(5,522)
Reversed unused	(1,287)	(0)	(909)	(2,197)
Interest cost due to unwinding of discount	-	-	12	12
Exchange differences	168	-	437	605
Other increases and decreases	-	-	23	23
Balance as of March 31, 2024	626	19,639	9,147	29,414
Current liabilities	376	6,624	8,435	15,435
Non-current liabilities	250	13,015	712	13,978
Total	626	19,639	9,147	29,414

## (2) Summary of Provisions and Expected Timing of Economic Benefits Outflow

Provisions are calculated based on management's best estimate of the future outflows of economic benefits as of the reporting dates. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments may be required in the consolidated financial statements for the year ending March 31, 2025.

The summary of provisions recorded by the Group and the periods in which the outflow of economic benefits is expected to occur are as set out below. There were no significant asset retirement obligations as of March 31, 2023 and 2024.

### a. Restructuring

Provisions for restructuring are recognized at the estimated amount of losses for planned restructurings mainly in relation to reduction of the number of employees in Japan, North America and Europe. Provisions for restructuring are recognized when the Group has a detailed formal plan and has raised a valid expectation in those affected that it is certain that the Group will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

The timing of payments will be affected by the progress of the future restructuring of business operations.

### b. Environmental measures

Provisions for environmental measures are recognized at the estimated amount of losses for countermeasures against contaminated soil mainly on the site of the former Yasugawa Plant.

Regarding the removal work and related costs of a. Removal of contaminated soil storage facilities on the site of the former Yasugawa Plant, during the fiscal year ended March 31, 2024, an additional provision of JPY2,270 million was recorded based on the best estimate of the costs to be incurred at the time, while JPY1,006 million was utilized due to payment of removal costs, resulting in a total provision of JPY3,196 million in "Provision for environmental measures" at March 31, 2024.

Regarding countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank, during the fiscal year ended March 31, 2024, an additional provision of JPY1,861 was recorded based on the current best estimate for the construction costs required for the finalized construction plan, while JPY11 million was utilized due to payment of construction design costs, resulting in a total provision of JPY15,949 million in "Provision for environmental measures" at March 31, 2024.

The timing of payments will be affected by the work plan decided in the discussions with the government.

## 20. Employee Benefits

The Company and its domestic subsidiaries mainly adopt the Group's joint defined benefit corporate pension plan and defined contribution plan.

Under the joint defined benefit corporate pension plan, upon retirement, employees enrolled in the plan for longer than a specified vesting period can elect to receive either a pension or lump-sum payment, and employees not fulfilling the vesting period requirement can receive a lump sum payment. In either case the benefits are based on 80% of points accumulated by the time of retirement. This pension plan is operated by a corporate pension fund independent of the Group, and the Group contributes to the plan the amount calculated based on the monthly points assigned for each participant. The fund is to be operated using the contributed amounts to ensure stable benefits to participants. The Group has introduced a risk reserve contribution which contributes in advance in case of future financial risks. In addition, the Company has established a retirement benefit trust for the joint defined benefit corporate pension plan and contributed marketable securities owned by the Company as trust assets.

Under the defined contribution plan, the Group contributes to a respective employee's individual account in the amount of the monetary value of monthly points, based on 20% of the accumulated points an employee accumulates to retirement, and does not owe a legal or constructive obligation to contribute more than this amount.

The Group may also pay additional, discretionary retirement lump-sum benefits, in addition to the employee benefits plans described above.

Certain overseas components have defined benefit and defined contribution plans.

### (1) Present Value of Defined Benefit Obligations

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

(Millions of JPY)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2022	143,698	18,848	162,546
Current service cost	5,371	948	6,319
Interest cost	1,291	360	1,651
Benefits paid	(6,044)	(1,077)	(7,122)
Employee contributions	-	325	325
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	544	247	792
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	(9,119)	(3,869)	(12,989)
Past service cost	-	5	5
Exchange differences	-	1,019	1,019
Other increases and decreases	-	(600)	(600)
Balance as of March 31, 2023	135,742	16,206	151,948
Current service cost	4,899	596	5,486
Interest cost	1,897	578	2,475
Benefits paid	(5,866)	(1,035)	(6,922)
Employee contributions	-	819	819
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	(595)	(50)	(645)
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	(3,363)	636	(2,727)
Past service cost	-	129	129
Exchange differences	-	2,033	2,033
Other increases and decreases	-	(138)	(138)
Balance as of March 31, 2024	132,682	19,774	152,457

Note:

Expenses related to employee benefits are reported in Note “25. Major Expenses by Nature.”

## (2) Fair Value of Plan Assets

Changes in fair value of plan assets are as follows:

(Millions of JPY)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2022	176,780	18,605	195,386
Interest income	1,591	384	1,975
Benefits paid	(5,813)	(754)	(6,568)
Employer contributions	6,007	1,055	7,062
Employee contributions	-	325	325
Remeasurement – Return on plan assets	(2,962)	(616)	(3,578)
Exchange differences	-	1,104	1,104
Other increases and decreases	-	(51)	(51)
Balance as of March 31, 2023	175,603	20,053	195,656
Interest income	2,458	771	3,230
Benefits paid	(5,529)	(1,581)	(7,110)
Employer contributions	4,519	470	4,990
Employee contributions	-	819	819
Remeasurement – Return on plan assets	19,730	(282)	19,448
Exchange differences	-	2,473	2,473
Other increases and decreases	-	-	-
Balance as of March 31, 2024	196,782	22,725	219,508

Note:

The Group expects to contribute JPY4,146 million to defined benefit pension plans for the year ending March 31, 2025.

## (3) Fair Value of Plan Assets by Class

Breakdown of fair value of the plan assets by class is as follows:

(Millions of JPY)

	Plans in Japan			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2023	As of March 31, 2024	As of March 31, 2023	As of March 31, 2024
Equity securities	60,108	81,955	-	-
Bonds	60,042	64,846	-	-
Real estate	-	-	16,355	17,091
Life insurance general accounts	-	-	19,301	13,237
Others	3,449	2,408	16,346	17,242
Total	123,600	149,210	52,002	47,571

(Millions of JPY)

	Overseas plans			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2023	As of March 31, 2024	As of March 31, 2023	As of March 31, 2024
Equity securities	-	-	-	-
Bonds	2,845	3,194	-	-
Others	4,343	4,506	12,863	15,025
Total	7,189	7,700	12,863	15,025

## (4) Asset Ceiling

Changes in the effect of asset ceiling are as follows:

(Millions of JPY)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2022	-	-	-
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	-	640	640
Exchange differences	-	21	21
Balance as of March 31, 2023	-	661	661
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	-	(550)	(550)
Exchange differences	-	56	56
Balance as of March 31, 2024	-	167	167

(5) Breakdown of Post-employment Benefit Liabilities

Breakdown of “Post-employment benefit liabilities” in the consolidated statement of financial position is as follows:

As of March 31, 2023

(Millions of JPY)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	135,742	16,206	151,948
Fair value of plan assets	(175,603)	(20,053)	(195,656)
Funding deficit	(39,861)	(3,846)	(43,707)
Impact of asset ceiling	-	661	661
Post-employment benefit assets	40,039	4,092	44,132
Others	224	-	224
Post employment benefit liabilities	403	907	1,310

As of March 31, 2024

(Millions of JPY)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	132,682	19,774	152,457
Fair value of plan assets	(196,782)	(22,725)	(219,508)
Funding deficit	(64,099)	(2,951)	(67,050)
Impact of asset ceiling	-	167	167
Post-employment benefit assets	64,297	3,709	68,006
Others	203	-	203
Post-employment benefit liabilities	401	925	1,327

Note:

Post-employment benefit assets are included in "Other non-current assets" on the consolidated statement of financial position. As of March 31, 2024, JPY2,181 million of the post-employment benefit assets is included in "Assets held for sale" and JPY35 million of the post-employment benefit liabilities is included in "Liabilities directly associated with assets held for sale". For further details, please refer to Note “12. Liabilities directly associated with assets held for sale”.

(6) Significant Assumptions and Other Information for Defined Benefit Plans

a. Significant actuarial assumptions

Significant actuarial assumptions are as follows:

	As of March 31, 2023	As of March 31, 2024
Discount rate		
Plans in Japan	1.4%	1.6%
Overseas plans	1.2%~10.6%	1.2%~23.8%

b. Sensitivity Analysis

Effect of a 0.5% change in actuarial assumptions on the defined benefit obligations is as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Discount rate		
Effect on defined benefit obligations of 0.5% increase	(9,326)	(9,054)
Effect on defined benefit obligations of 0.5% decrease	10,152	9,867

c. Sensitivity Analysis Method, Assumptions and Limitations

The results of the sensitivity analysis show how a 0.5% increase or decrease in the discount rate would lead to a decrease or increase in the defined benefit obligations as of the reporting date. The effect of the notional discount rate is calculated as an approximation provided by the logarithmic interpolation method, which reflects a conceptual average discount period, based on the notional balances of the defined benefit obligations provided by multiple discount rates.

d. Investment Policy and Management of Plan Assets

The Group manages the plan assets to secure necessary mid-to long-term returns and to build adequate high quality plan assets within acceptable risk levels, in order to ensure future payments of pension benefits and lump-sum payments.

A target rate of return is set using the result of Asset-liability management (“ALM”) analysis, aiming to maintain sound funding of pension financing into the future. Each individual asset is targeted to earn a rate of return exceeding the market rate for each investment category. In aggregate, a target rate of return is set aiming to exceed the combined market rate which is correlated to an investment portfolio for the market in each investment category.

To meet the target returns, the Group defines and pursues strategic asset allocation, which is designed to continue maximizing returns in the future (“the strategic asset mix”) with consideration of expected returns, standard deviations or risks and correlation of each of the investments. The strategic asset mix is determined through the assessment process, including the ALM analysis and the fund’s maturation assessment, from medium-term and long-term perspectives. The strategic asset mix is reviewed every three years, or as needed when there is a significant change in the investment environment.

e. Funding Policy and Rules Affecting Future Contributions

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

The Company and its domestic subsidiaries, which have adopted the joint corporate pension fund, are required to make additional required contributions when the amount of the fund reserve as of the year-end falls below the minimum base amount. They are also required to make a contribution necessary to cover the cost associated with the payments of benefits for the fiscal year in case the reserve is expected to be depleted by the year-end.

In addition, the Group makes a risk reserve contribution in consideration of future financial risks.

f. Maturity Analysis of Defined Benefit Obligations

The weighted average duration of the defined benefit obligations are 13.2 years and 12.7 years as of March 31, 2023 and 2024, respectively.

(7) Defined Contribution Plans

Expenses related to defined contribution plans, which are mainly employer contributions were JPY20,825 million and JPY25,037 million for the years ended March 31, 2023 and 2024, respectively.

## 21. Government Grants

### (1) Government grants related to assets

Amounts of government grants related to assets which are recognized as deferred revenue and recorded in “Trade and other payables” and “Other non-current liabilities” in the consolidated statement of financial position are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Trade and other payables	1,364	1,399
Other non-current liabilities	5,973	9,412

Note:

Government grants were received mainly to acquire property, plant and equipment related to the establishment of development and production systems for COVID-19 vaccines. There are no unfulfilled conditions and other contingencies attached to the government grants presented above.

### (2) Government grants related to income

Government grants related to income were received mainly related to the establishment of development and production systems for COVID-19 vaccines. When relevant expenditure is incurred, a grant of the same amount is recognized in profit or loss, and JPY13,947 million and JPY11,801 million were deducted from “Research and development expenses” for the years ended March 31, 2023 and 2024, respectively. There are no unfulfilled conditions and other contingencies attached to these government grants.

## 22. Capital and Other Components of Equity

### (1) Share Capital and Capital Surplus

The number of authorized shares and details of fully paid issued shares are as follows:

#### a. Number of Authorized Shares

(Thousands of shares)

	Number of ordinary shares
April 1, 2022	8,400,000
March 31, 2023	8,400,000
March 31, 2024	8,400,000

#### b. Details of Fully Paid Issued Shares

	Number of issued shares (Thousands of shares)	Share Capital (Millions of JPY)	Capital surplus (Millions of JPY)
April 1, 2022	1,947,034	50,000	-
Increase and decrease during the period	-	-	-
March 31, 2023	1,947,034	50,000	-
Increase and decrease during the period	-	-	1,962
March 31, 2024	1,947,034	50,000	1,962

Notes:

The shares issued by the Company are ordinary shares with no par value which have no restrictions on any rights.

## (2) Treasury Shares

The number and amount of treasury shares are as follows:

	Number of treasury shares (Thousands of shares)	Amount (Millions of JPY)
April 1, 2022	30,247	37,482
March 31, 2023	29,690	36,808
March 31, 2024	29,531	36,629

Notes:

1. All treasury shares are owned by the Company.
2. The Company operates stock option plans and uses its treasury shares to settle the rights under these plans. Details of the stock option plans are presented in Note 29 “Share-based payments”.
3. The Company operates restricted share-based remuneration plans and uses its treasury shares to settle the rights under these plans.

## (3) Other Components of Equity

### a. Subscription Rights to Shares

The Company operates stock option plans and subscription rights to shares are issued in accordance with the Japanese Companies Act.

### b. Exchange Differences on Translation of Foreign Operations

Exchange differences arise from translating financial statements of foreign operations.

### c. Cash Flow Hedges

The effective portion of changes in fair value of hedging instruments in a cash flow hedge.

### d. Financial Assets Measured at Fair Value through Other Comprehensive Income

Changes in fair value of financial assets measured at fair value through other comprehensive income.

### e. Remeasurements of Defined Benefit Plans

Remeasurements of defined benefit liabilities and assets.

### 23. Dividend

#### (1) Amount of Dividend Paid

Year ended March 31, 2023

Resolution	Class of shares	Total amount of dividend (Millions of JPY)	Dividend per share (JPY)	Record date	Effective date
General shareholders' meeting held on June 27, 2022	Ordinary shares	25,876	13.5	March 31, 2022	June 28, 2022
Board of Directors' meeting held on October 31, 2022	Ordinary shares	28,755	15.0	September 30, 2022	December 1, 2022

Year ended March 31, 2024

Resolution	Class of shares	Total amount of dividend (Millions of JPY)	Dividend per share (JPY)	Record date	Effective date
General shareholders' meeting held on June 19, 2023	Ordinary shares	28,760	15.0	March 31, 2023	June 20, 2023
Board of Directors' meeting held on October 31, 2023	Ordinary shares	38,349	20.0	September 30, 2023	December 8, 2023

#### (2) Dividend with Record Date in the Year but whose Effective Date is in the Following Year

Year ended March 31, 2023

Resolution	Class of shares	Total amount of dividend (Millions of JPY)	Dividend per share (JPY)	Record date	Effective date
General shareholders' meeting held on June 19, 2023	Ordinary shares	28,760	15.0	March 31, 2023	June 20, 2023

Year ended March 31, 2024

Resolution	Class of shares	Total amount of dividend (Millions of JPY)	Dividend per share (JPY)	Record date	Effective date
General shareholders' meeting held on June 17, 2024	Ordinary shares	57,525	30.0	March 31, 2024	June 18, 2024

## 24. Revenue

### (1) Goods and service

The main business of the Group is manufacturing and marketing of pharmaceutical products, and the promised goods or services to be transferred to customers are as follows:

#### a. Sales of finished goods and merchandise

The promised goods or services to be transferred to customers are mainly the sales of prescription drugs and healthcare (OTC) products. Regarding this type of sale, the Group recognizes revenue when finished goods and merchandise are transferred to and accepted by customers, because control of finished goods and merchandise is transferred and the performance obligation is satisfied at that time. The Group receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

The Group is obliged to take trade discounts, cash discounts, rebates and returns depending on the conditions of contracts. In this case, the transaction price is measured at the amount after deducting the estimated amounts of those items from the consideration promised in the contract with customers, and the amount of consideration expected to be returned to customers is recorded as a refund liability. The estimation of refund liabilities is based on the contractual conditions and/or historical experience.

#### b. License fee revenue

The Group receives consideration for upfront payments, milestone revenue and running royalties by entering into agreements to grant rights to third parties for the research and development of products, manufacturing and marketing of products, and usage of technologies.

Revenue from upfront payments is recognized at the time of granting a license if the performance obligation is satisfied at a point in time, and milestone revenue is recognized when a milestone agreed among parties such as application for approval to regulatory agencies is achieved, considering a possibility that significant reversal of revenue might occur subsequently. If a performance obligation is not satisfied at a point in time, its consideration is accounted for as a contract liability and recognized as revenue over a period in accordance with satisfaction of the performance obligation such as manufacturing service, supply service and research and development cooperation related to individual contracts. Running royalties are measured based on sales of counterparties or other indexes and recognized as revenue considering the timing of occurrence.

The Group receives consideration approximately within 3 months from the timing of satisfaction of the receipt requirements, and there are no significant financing components.

### (2) Disaggregation of revenue

Breakdown of revenue of the Group is as follows:

Year ended March 31, 2023

(Millions of JPY)

		Region				
		Japan	North America	Europe	Other regions	Total
Sales of finished goods and merchandise	Prescription drugs	458,944	333,408	187,612	135,267	1,115,232
	Healthcare (OTC) products	69,881	-	-	361	70,242
	Total	528,826	333,408	187,612	135,628	1,185,475
License fee revenue		147	49,396	12,670	2,350	64,564
Others		4,534	13,774	4,374	5,755	28,438
Total		533,508	396,579	204,657	143,733	1,278,478

Note:

Revenue mainly consists of revenue recognized from contracts with customers and the amount of revenue recognized from other sources is not significant.

Year ended March 31, 2024

(Millions of JPY)

		Region				
		Japan	North America	Europe	Other regions	Total
Sales of finished goods and merchandise	Prescription drugs	519,567	438,105	289,363	169,371	1,416,408
	Healthcare (OTC) products	75,691	-	-	204	75,895
	Total	595,258	438,105	289,363	169,575	1,492,304
License fee revenue		80	58,639	15,181	5,917	79,820
Others		4,638	2,534	6,296	16,094	29,564
Total		599,977	499,280	310,842	191,588	1,601,688

Note:

Revenue mainly consists of revenue recognized from contracts with customers and the amount of revenue recognized from other sources is not significant.

### (3) Contract balances

The balances of accounts receivable arising from contracts with customers and contract liabilities are as follows:

(Millions of JPY)

	As of April 1, 2022	As of March 31, 2023	As of March 31, 2024
Accounts receivable arising from contracts with customers	214,575	280,699	344,811
Contract liabilities	234,174	321,112	737,602

Notes:

1. Accounts receivable arising from contracts with customers are included in "Trade and other receivables" in the consolidated statement of financial position.
2. "Contract liabilities", which was included in "Trade and other payables" under current liabilities and "Other non-current liabilities" under non-current liabilities in the previous consolidated fiscal year, is disclosed separately from the current fiscal year, since the monetary significance has increased.
3. The main contract liabilities are consideration received from customers prior to satisfaction of performance obligations regarding license fee revenue.
4. The amount of revenue recognized for the years ended March 31, 2023 and 2024 out of the balance of contract liabilities as of April 1, 2022 and 2023 were JPY23,896 million and JPY29,438 million, respectively.
5. The amount of revenue in accordance with performance obligations satisfied or partially satisfied in prior periods for the years ended March 31, 2023 and 2024 were JPY36,407 million and JPY37,354 million, respectively, which were mainly related to milestone revenue and running royalties.

(4) Transaction prices allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations were mainly related to license fee revenue, and the period in which revenue will be recognized are as set out in the table below.

The disclosure of contracts for which the initial expected period is within one year is omitted applying the practical expedient.

In addition, among consideration from contracts with customers, there is no significant amount that is not included in transaction price.

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Within 1 year	28,734	57,430
Over 1 year within 5 years	105,881	226,029
Over 5 years	186,363	454,136
Total	320,980	737,597

**25. Major Expenses by Nature**

Information related to expenses included in “Cost of sales”, “Selling, general and administrative expenses” and “Research and development expenses” by nature is as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Advertisement and promotional expenses	188,841	292,112
Salaries and bonuses	243,455	272,909
Statutory benefits	24,293	35,525
Post-employment benefits	27,773	31,347
Other employee benefit expenses	6,489	7,184
Rent and leases	7,343	8,162
Depreciation and amortization	67,789	59,646
Loss on disposal of property, plant and equipment	1,520	1,404
Impairment loss	19,083	826
Provisions for environmental measures (note)	-	4,571
Restructuring costs	(948)	(412)

Note:

Summary of “Provisions for environmental measures” is disclosed in Note 19. “Provisions”

## 26. Other Income and Other Expenses

### (1) Other Income

Breakdown of “Other income” is as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Gain on sale of property, plant and equipment	12,750	194
Gain on transfer of subsidiaries and associates	5,907	-
Gain on legal settlement	-	26,389
Others	442	894
Total	19,101	27,477

Notes:

1. In the year ended March 31, 2023, the “Gain on sale of property, plant and equipment” includes a gain of JPY8,071 million realized from the sale of the Daiichi Sankyo Kyushu branch building.
2. The “Gain on transfer of subsidiaries and associates” in the year ended March 31, 2023, results from the transfer of all the equity interests of Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.
3. The "Gain on legal settlement" in the fiscal year ended March 31, 2024 represents the receipt of a payment from Novartis for a patent infringement lawsuit filed by the Company’s US subsidiary, Plexxicon Inc.

### (2) Other Expenses

Breakdown of “Other expenses” is as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Loss on sale of property, plant and equipment	2	88
Loss on transfer of subsidiaries and associates	677	-
Total	680	88

## 27. Financial Income and Financial Expenses

### (1) Financial Income

Breakdown of “Financial income” is as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Interest income		
Financial assets measured at amortized cost:		
Bank deposits	4,189	11,353
Loans receivable	4	47
Bonds	4,218	9,989
Others	(135)	11
Financial assets measured at fair value through profit or loss	43	-
Dividend income		
Financial assets measured at fair value through other comprehensive income:		
Dividend income from financial assets held at the end of the year	1,353	1,381
Dividend income from financial assets derecognized during the year	56	161
Gain from change in fair value and realized gain		
Financial assets and liabilities measured at fair value through profit or loss:		
Equity securities	-	878
Derivatives	-	412
Others	3,978	6,017
Net foreign exchange gains	617	428
Others	445	806
<b>Total</b>	<b>14,773</b>	<b>31,487</b>

### (2) Financial Expenses

Breakdown of “Financial expenses” is as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Interest expenses		
Financial liabilities measured at amortized cost:		
Borrowings	285	44
Bonds	1,076	984
Others	32	46
Lease liabilities	698	873
Others	29	90
Loss on change in fair value and realized loss		
Financial assets and liabilities measured at fair value through profit or loss:		
Derivatives	670	81
Others	5,043	1,750
Others	642	2,154
<b>Total</b>	<b>8,480</b>	<b>6,026</b>

Note:

“Others” in Financial Expenses for the year ended March 31, 2024 mainly includes the amount of the change in fair value of the contingent consideration for Ambit Biosciences Corporation.

## 28. Earnings Per Share

### (1) Basis for calculation of Basic Earnings per Share

	Year ended March 31, 2023	Year ended March 31, 2024
a. Profit Attributable to owners of the Company		
Profit attributable to owners of the Company (Millions of JPY)	109,188	200,731
Profit not attributable to owners of the Company (Millions of JPY)	-	-
Profit used to calculate basic earnings per share (Millions of JPY)	109,188	200,731
b. Weighted-average Number of Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	1,917,034	1,917,426
c. Basic Earnings per Share		
Basic earnings per share (JPY)	56.96	104.69

### (2) Basis for calculation of Diluted Earnings per Share

	Year ended March 31, 2023	Year ended March 31, 2024
a. Diluted Profit Attributable to owners of the Company		
Profit used to calculate basic earnings per share (Millions of JPY)	109,188	200,731
Adjustments to profit (Millions of JPY)	-	-
Profit used to calculate diluted earnings per share (Millions of JPY)	109,188	200,731
b. Weighted-average Number of Diluted Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	1,917,034	1,917,426
Potential effect of issue of subscription right to shares (Thousands of shares)	1,553	1,229
Weighted-average number of ordinary shares (diluted) (Thousands of shares)	1,918,587	1,918,655
c. Diluted Earnings per Share		
Diluted earnings per share (JPY)	56.91	104.62

## 29. Share-based Payments

The Company operates stock option plans, restricted share-based remuneration plans and medium-term performance-based share compensation plan. In addition, some subsidiaries issue share appreciation rights as cash-settled share-based payments and operate a trust-type share grant system as an equity-settled share-based payment plan.

(1) Details of Restricted Share-based Remuneration Plans, the Number of Shares Granted During the Year, and their Fair Values

Details of restricted share-based remuneration plans, the number of shares granted during the year, and their fair values are as follows:

	Year ended March 31, 2023	Year ended March 31, 2024
Grant date	July 26, 2022	July 18, 2023
Granted (Shares)	87,304	64,444
Fair value (JPY)	3,312	4,836

Notes:

1. Restricted shares are granted to members of the Company's Board of Directors and Corporate Officers, excluding external Board members ("holders of subscription rights to restricted shares").
2. The transfer restriction period is the period extending to the time immediately after resignation or retirement of the positions that are a Director of the Company or its Corporate Officer not concurrently serving as a Director. The restriction is cancelled when the transfer restriction period expires on the condition that holders of subscription rights to restricted shares continuously served as either a member of the Company's Board of Directors or as a Corporate Officer who does not concurrently serve as a member of the Company's Board of Directors throughout the period of service.
3. The Company forms a restricted share allotment agreement with the holders of subscription rights to restricted shares which prohibits them from transferring, creating any security interest on, or otherwise disposing of the Company's ordinary shares that have been received by allotment under the agreement for a specified period. The agreement also includes the Company's right to acquire the said ordinary shares without contribution in the case where specified events happen.

## (2) Details of Stock Option Plans and Unexercised Balances as of March 31, 2024

Details of stock option plans and unexercised balances as of March 31, 2024 are as follows:

	Number of stock options		Grant date	Exercise period of granted options
	Granted (Shares)	Unexercised (Shares)		
1 <sup>st</sup> issuance subscription rights to shares (as stock options)	305,700	9,000	February 15, 2008	From February 16, 2008 to February 15, 2038
2 <sup>nd</sup> issuance subscription rights to shares (as stock options)	516,600	15,000	November 17, 2008	From November 18, 2008 to November 17, 2038
3 <sup>rd</sup> issuance subscription rights to shares (as stock options)	692,400	45,300	August 17, 2009	From August 18, 2009 to August 17, 2039
4 <sup>th</sup> issuance subscription rights to shares (as stock options)	711,300	102,300	August 19, 2010	From August 20, 2010 to August 19, 2040
5 <sup>th</sup> issuance subscription rights to shares (as stock options)	698,400	104,100	July 12, 2011	From July 13, 2011 to July 12, 2041
6 <sup>th</sup> issuance subscription rights to shares (as stock options)	886,200	156,000	July 9, 2012	From July 10, 2012 to July 9, 2042
7 <sup>th</sup> issuance subscription rights to shares (as stock options)	578,400	157,500	July 8, 2013	From July 9, 2013 to July 8, 2043
8 <sup>th</sup> issuance subscription rights to shares (as stock options)	435,000	181,500	July 8, 2014	From July 9, 2014 to July 8, 2044
9 <sup>th</sup> issuance subscription rights to shares (as stock options)	356,100	153,900	July 7, 2015	From July 8, 2015 to July 7, 2045
10 <sup>th</sup> issuance subscription rights to shares (as stock options)	405,600	244,500	July 5, 2016	From July 6, 2016 to July 5, 2046
Total	5,585,700	1,169,100	-	-

## Notes:

1. The stock option plans are equity-settled.
2. Stock options are granted to members of the Company's Board of Directors and Corporate Officers, excluding external Board members.

3. Persons to whom stock options are granted (“holders of subscription rights to shares”) may exercise their subscription rights to shares until the end of the fiscal year that ends within 10 years from the day following their resignation from the office as a Member of the Board of Directors or as a Corporate Officer of the Company which they held when the subscription rights to shares were granted. If the holders of subscription rights to shares concurrently serve as a Member of the Board of Directors and Corporate Officer, the day of resignation from the office is the day they retire from the office as a Member of the Board of Directors, regardless of whether they continued to hold the position of a Corporate Officer. If the holders of subscription rights to shares served as a Corporate Officer when the subscription rights to shares were granted and if they took office as a Member of the Board of Directors upon their resignation as a Corporate Officer, the day when they resigned from the office is the day when they resign from the office as a Member of the Board of Directors, and not the day when they retire as a Corporate Officer.
4. There are no vesting conditions for the stock options.
5. Number of stock options represents the number of ordinary shares that would be issued upon exercise of the stock options.
6. Effective October 1, 2020, the Company implemented a three-for-one share split of its ordinary shares. Therefore, “Granted” and “Unexercised” are converted into the amounts after the share split.

(3) Movement in the Number of Stock Options and the Exercise Prices

Movement in the number of stock options and the exercise prices are as follows:

	Year ended March 31, 2023		Year ended March 31, 2024	
	Number of stock options (Shares)	Weighted average exercise price (JPY)	Number of stock options (Shares)	Weighted average exercise price (JPY)
Unexercised balance at the beginning of the year	1,745,400	1	1,269,300	1
Granted	-	-	-	-
Exercised	(476,100)	1	(100,200)	1
Expired	-	-	-	-
Unexercised balance at the end of the year	1,269,300	1	1,169,100	1
Options outstanding	1,269,300	1	1,169,100	1
Range of exercise prices	1 Yen		1 Yen	
Weighted average remaining contractual life	20.56years		19.50years	

Notes:

1. Number of stock options represents the number of ordinary shares that would be issued upon exercise of the stock options.
2. Weighted average share price at the exercise date for the stock options which were exercised during the period is JPY4,102 and JPY4,444 for the years ended March 31, 2023 and 2024, respectively.

(4) Fair Value Measurement of Stock Options Granted During the Period

No stock options were granted in the year ended March 31, 2023 and 2024.

(5) Share-based Payment Expenses

Breakdown of share-based payment expenses is as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Equity-settled	289	2,024
Cash-settled	21,522	3,477
Total	21,811	5,501

Notes:

1. Equity-settled share-based payment transactions relate to the restricted share-based remuneration plans that the Company has adopted and the trust-type share grant system that the Company's US subsidiaries has adopted.
2. Although the trust for the trust-type share grant system of the Company's US subsidiaries, which is a trust-type and share-based compensation plan that uses share delivery trust, has not been established yet, as points for the trust-type share grant system are granted based on the already established share delivery rules, the Company's US subsidiaries recorded expenses in the year ended March 31, 2024. Such expenses are included in equity-settled in the table above.
3. Cash-settled share-based payment transaction consists of Stock Appreciation Right ("SAR") and Restricted Stock Unit ("RSU"), which some consolidated subsidiaries grant to specific employees.  
For a SAR, the Company pays cash based on the difference between the stock price on the grant date and the exercise date, and rights are vested three years after the grant date and are exercisable within the following seven years.  
RSU rights are vested three years after the grant date, and the Company pays cash based on the stock price as of the date the rights are vested and applicable dividends.
4. Although the trust for the medium-term performance-based compensation, which is a trust-type and share-based compensation plan that uses share delivery trust, has not been established yet, as points for the medium-term performance-based compensation are awarded based on the already established share delivery rules, the Company expensed the amount of future payments for medium-term performance-based share compensation in the year ended March 31, 2023 and the year ended March 31, 2024. Such expenses are included in cash-settled in the table above.
5. Liabilities arising from cash-settled share-based payment transactions are JPY28,682 million and JPY28,275 million as of March 31, 2023 and 2024, respectively. The intrinsic value of the liabilities for which the right had vested by the end of each period was JPY6,246 million as of March 31, 2023, and JPY5,907 million as of March 31, 2024.

### 30. Financial Instruments

#### (1) Risk Management

The Group is exposed to credit risks, foreign currency exchange risks, interest rates risks, market price fluctuation risks and liquidity risks arising from operating and financing activities. The Group uses derivative instruments only to hedge these risks, and the Group's policy is not to enter into speculative derivative transactions. Each group company's finance department executes and manages derivative transactions. A derivative transaction management policy is established, which states limitation of authorities and transaction amounts. Derivative transactions are executed and managed in accordance with this policy and are reported to the Board of Directors.

#### a. Credit Risk

Trade receivables, such as notes receivables and accounts receivable- trade, are exposed to the credit risk of the customers. The Company's Sales Administration Department periodically monitors the condition of major customers and controls outstanding balances and due dates for each individual customer in accordance with the credit management policy to identify collectability issues at an early stage in an effort to mitigate the credit risks. Consolidated subsidiaries also perform the same controls in accordance with the Company's credit management policy.

The Group is exposed to credit risks of financial institutions holding deposits and issuers of bonds. The Group executes transactions only with highly rated counterparties within credit limits, which are determined for each of the counterparties in accordance with the fund management policy to minimize concentration risk.

Derivative transactions are exposed to credit risks of counterparties. The Group executes transactions only with highly rated financial institutions in order to mitigate the counterparties' credit risk.

The Group deems that there is debt default if the following events occur because it is considered that all or a part of accounts receivable cannot be collected or it is extremely difficult to collect, and measures expected credit losses for each account receivable as a financial asset with high credit risk. Financial assets which are individually immaterial are grouped by similarity of the nature of risks, and impairment is assessed as a whole.

- Critical financial difficulty of counterparty
- Uncollectable accounts receivable, or delay of collection against repeated demand for payment
- Bankruptcy of counterparty, or increase in possibility that counterparty needs financial reform

#### i) Movement in Allowance for Doubtful Accounts

The movement in allowance for doubtful accounts is as follows:

(Millions of JPY)

	Recorded at an amount equal to 12-month expected credit losses	Recorded at an amount equal to lifetime expected credit losses		Total
		Trade receivable	Credit impaired financial assets	
Balance as of April 1, 2022	1	923	1	926
Increase during the period	17	43	0	61
Utilized	-	(92)	-	(92)
Reversed unused	(0)	(278)	-	(278)
Others (including exchange differences)	0	63	-	64
Balance as of March 31, 2023	18	660	1	680
Increase during the period	9	249	-	259
Utilized	-	(53)	-	(53)
Reversed unused	(18)	(0)	(0)	(18)
Others (including exchange differences)	1	97	-	99
Balance as of March 31, 2024	10	954	1	966

ii) Credit Risk Exposure

Ageing analysis of trade receivable that are past due at the end of reporting period is as set out in the table below.  
There was no material past due items or credit risk exposure in financial assets other than trade receivable.

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Before due	265,414	313,937
Past due by 30 days	13,326	28,693
Past due by 31-60 days	1,492	560
Past due by 61-90days	424	662
Past due by more than 90 days	702	1,913
Total	281,360	345,765

The Group has securities and other assets as collaterals for accounts receivables from wholesalers. There is no material effect on the allowance for doubtful accounts due to these collaterals.

b. Foreign Currency Exchange Risks

Trade receivables, trade payables denominated in foreign currencies, which arise from the Company's global operations, are exposed to foreign currency exchange risks.

i) Exposure to Foreign Currency Exchange Risks

Net exposure to foreign currency exchange risks is as set out below. The amount does not include exposure to foreign currency exchange risks that is hedged by derivatives.

	As of March 31, 2023	As of March 31, 2024
U.S. dollar (Thousands of USD)	(370,413)	497,684
Euro (Thousands of EUR)	835,050	860,511

ii) Foreign Exchange Sensitivity Analysis

The impact of a 1% appreciation in the Yen against the U.S. dollar and Euro on profit before tax for the financial instruments held by the Group at each year-end is as set out below. This analysis is based on the assumption that other factors remain constant. The exposure to fluctuations of all foreign currencies other than U.S. dollar and Euro is not significant.

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
U.S. dollar	494	(753)
Euro	(1,216)	(1,405)

c. Interest Rate Risks

Borrowings with variable interest rates are exposed to interest rate risks. The Group uses interest rates swaps to hedge interest rate risks.

d. Market Price Fluctuation Risk

The Group holds bonds and shares issued by companies including business partners which are exposed to market price fluctuation risks. The Group regularly monitors the fair value of the instruments and financial condition of the issuers (business partners) and continuously reconsiders composition of holdings of securities to manage market price fluctuation risks.

Some subsidiaries use cash-settled share-based payment transactions based on the Company's shares, which are exposed to share price fluctuation risks.

e. Liquidity Risk

Liquidity risk is the risk that the Group is not able to meet the obligations associated with its financial liabilities as they become due. The Group continuously monitors cash flow planning and actual results to manage liquidity risks. The Group also has commitment line contracts with financial institutions and maintains credit lines which are useable to manage liquidity risks.

Outstanding balances by due date of major financial liabilities are as follows:

As of March 31, 2023

(Millions of JPY)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Trade and other payables	319,250	319,250	319,250	-	-	-	-	-
Unsecured Corporate bonds	119,670	135,335	20,992	907	907	907	907	110,713
Unsecured bank loans	21,000	21,007	21,007	-	-	-	-	-
Other borrowings	2,418	2,473	412	412	412	412	412	412
Lease liabilities	49,768	53,100	11,273	8,746	6,845	5,014	3,315	17,904
Derivative liabilities	151	153	153	-	-	-	-	-
Total	512,260	531,321	373,089	10,065	8,165	6,334	4,635	129,030

As of March 31, 2024

(Millions of JPY)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Trade and other payables	417,980	417,980	417,980	-	-	-	-	-
Unsecured Corporate bonds	99,691	114,343	907	907	907	907	907	109,806
Unsecured bank loans	-	-	-	-	-	-	-	-
Other borrowings	2,021	2,061	412	412	412	412	412	-
Lease liabilities	54,290	56,918	12,879	10,661	7,253	4,794	4,245	17,085
Derivative liabilities	334	334	334	-	-	-	-	-
Total	574,318	591,639	432,514	11,981	8,572	6,113	5,564	126,891

(2) Fair Value of Financial Instruments

a. Fair value and carrying amount of financial instruments

Comparison between fair value and carrying amount of financial instruments is as follows. The fair values of financial assets and financial liabilities, other than those listed below, approximate their carrying amounts.

(Millions of JPY)

	As of March 31, 2023		As of March 31, 2024	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	119,670	114,538	99,691	91,342
Borrowings	23,418	23,421	2,021	2,021

b. Measurement of Fair Values

Measurement methods of fair values are as follows:

i) Other Financial Assets and Other Financial Liabilities

For financial instruments traded in an active market, the fair value is determined by reference to the quoted market price. When there is no active market, the fair value of the financial instruments is measured by using appropriate valuation methods. The fair value of derivatives is measured by reference to quotes obtained from financial institutions which are contractual counterparties.

ii) Bonds

The fair value of bonds is determined by reference to the observable market price. The bonds are categorized as Level 2 in the fair value hierarchy.

iii) Borrowings

The fair value of borrowings with variable interest rates reflects the market rate in the short-term and therefore approximates the carrying value. Fair value of borrowings with fixed interest rates is discounted using an expected market interest rate based on the assumption that the total principal amount is newly borrowed on the same terms and conditions. The borrowings are categorized as Level 2 in the fair value hierarchy.

Fair value of all other financial assets and liabilities approximates carrying amounts.

### (3) Fair Value Hierarchy

#### a. Fair Value Hierarchy

The fair value hierarchy of financial instruments is categorized in the following three levels based on the observability and significance of the inputs in making the measurements.

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly

Level 3: Unobservable inputs for the asset or liability

Transfers of financial instruments among these levels are recognized at the end of each quarter of the year.

As of March 31, 2023

(Millions of JPY)

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets measured at fair value through profit or loss:				
Derivative assets	-	580	512	1,092
Bonds	-	671	-	671
Others	18,426	582	728	19,737
Financial assets measured at fair value through other comprehensive income:				
Equity securities	57,039	-	13,174	70,214
Others	-	-	1,266	1,266
<b>Total</b>	<b>75,466</b>	<b>1,833</b>	<b>15,681</b>	<b>92,981</b>
<b>Financial liabilities</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	-	151	-	151
Contingent consideration	-	-	7,506	7,506
<b>Total</b>	<b>-</b>	<b>151</b>	<b>7,506</b>	<b>7,657</b>

#### Notes:

1. There were no transfers of financial instruments between the levels.
2. The fair value of financial instruments categorized as Level 2 is measured using the quoted price obtained from the financial institutions.
3. The fair value of unlisted shares is categorized as Level 3 and measured at fair value using comparable peer company analysis and other valuation models, such as the net asset method. Since unobservable inputs, such as EBITDA, are used in these valuation models, the fair value of these shares is categorized as Level 3. To measure fair value, EBITDA ratio in the range of 0.5 ~ 8.9 is used based on the corresponding comparable peer companies. When the EBITDA ratio increases, the fair value also increases.
4. "Contingent consideration" under "Financial liabilities measured at fair value through profit or loss" is included in "Other current liabilities" and "Other non-current liabilities" in the consolidated statement of financial position.

As of March 31, 2024

(Millions of JPY)

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
Financial assets measured at fair value through profit or loss:				
Derivative assets	-	261	549	811
Bonds	-	761	-	761
Others	27,802	612	816	29,231
Financial assets measured at fair value through other comprehensive income:				
Equity securities	68,149	-	13,499	81,649
Others	-	-	1,433	1,433
<b>Total</b>	<b>95,951</b>	<b>1,635</b>	<b>16,299</b>	<b>113,886</b>
<b>Financial liabilities</b>				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	-	334	-	334
Contingent consideration	-	-	2,402	2,402
<b>Total</b>	<b>-</b>	<b>334</b>	<b>2,402</b>	<b>2,736</b>

Notes:

1. There were no transfers of financial instruments between the levels.
2. The fair value of financial instruments categorized as Level 2 is measured using the quoted price obtained from the financial institutions.
3. The fair value of unlisted shares is categorized as Level 3 and measured at fair value using comparable peer company analysis and other valuation models, such as the net asset method. Since unobservable inputs, such as EBITDA, are used in these valuation models, the fair value of these shares is categorized as Level 3. To measure fair value, EBITDA ratio in the range of 1.9 ~ 7.9 is used based on the corresponding comparable peer companies. When the EBITDA ratio increases, the fair value also increases.
4. “Contingent consideration” under “Financial liabilities measured at fair value through profit or loss” is included in “Other non-current liabilities” in the consolidated statement of financial position.

b. Reconciliation of Level 3 Fair Values

The following table shows reconciliation from the opening balances to the ending balances for Level 3 fair values.

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Balance at the beginning of the year	19,340	15,681
Gain (Loss)	(6)	125
Profit or loss	(4,951)	(690)
Other comprehensive income		
Purchase	1,459	1,214
Sale and settlement	(160)	(31)
Others	-	-
Balance at the end of the year	15,681	16,299

Note:

The above table does not include contingent consideration arising from business combinations, which is included in Note 7 “Business Combination.”

(4) Derivatives and Hedge Accounting

Regarding the application of hedge accounting, the existence of an economic relationship between the hedged item and the hedging instrument is primarily confirmed through a qualitative assessment. This assessment evaluates whether the significant terms of the hedged item and the hedging instrument match or closely match. This process aims to verify that changes in the fair value or cash flows of the hedged item due to the hedged risk are offset by changes in the fair value or cash flows of the hedging instrument. In addition, an appropriate hedge ratio is set based on the economic relationship between the hedging instrument and the hedged item, and the risk management strategy.

a. Cash Flow Hedges

The Group uses forward foreign exchange contracts to hedge movements of cash flows associated with future business transactions denominated in foreign currencies. When criteria for hedge accounting are met, they are designated as cash flow hedges. The effective portion of changes in fair value related to hedging instruments is recognized in other comprehensive income, and the ineffective portion of changes in fair value is recognized in profit or loss. The accumulated amount recognized in equity through other comprehensive income is reclassified to profit or loss when the hedged transaction affects profit or loss. For the years ended March 31, 2023 and 2024, there is no ineffective portion and no reclassification to profit or loss.

The details of hedging instruments designated as cash flow hedges and the impact of hedge accounting on financial position and performance are as follows:

As of March 31, 2023

Hedged risk Hedging instrument	Contract amount	Contract amount over one year	Average rate	Carrying amounts (Millions of JPY)		Account presented in Consolidated Statement of Financial Position
				Assets	Liabilities	
Foreign currency exchange risk Forward foreign exchange contracts	180 million CHF	-	142.79 JPY/CHF	580	-	Other financial assets (current assets)

As of March 31, 2024

Hedged risk Hedging instrument	Contract amount	Contract amount over one year	Average rate	Carrying amounts (Millions of JPY)		Account presented in Consolidated Statement of Financial Position
				Assets	Liabilities	
Foreign currency exchange risk Forward foreign exchange contracts	245 million CHF	-	168.75 JPY/CHF	-	334	Other financial liabilities (current assets)

Changes in the cash flow hedge reserve are as follows:

For the year ended March 31, 2023

(Millions of JPY)

Hedged risk	Balance at the beginning of the year	Change for the year	Amount transferred to non-financial assets and similar items	Amount transferred to profit or loss	Tax effects	Balance at the end of the year
Foreign currency exchange risk	-	580	-	-	(177)	403

For the year ended March 31, 2024

(Millions of JPY)

Hedged risk	Balance at the beginning of the year	Change for the year	Amount transferred to non-financial assets and similar items	Amount transferred to profit or loss	Tax effects	Balance at the end of the year
Foreign currency exchange risk	403	832	(1,746)	-	278	(232)

b. Derivatives Not Designated as Hedging Instruments

The Group uses derivatives when economically reasonable even if the hedging arrangement does not meet the criteria for hedge accounting.

The Group uses the following derivatives which are not designated as hedging instruments:

- Forward foreign exchange contracts to hedge foreign currency exchange risk; and
- Interest rates swaps to hedge fluctuations of variable interest rates for borrowings.

The Group does not hold derivatives for speculative purposes.

c. Fair Values of Derivatives

Fair values of derivatives are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Derivative assets		
Currency related	580	261
Others	512	549
Total	1,092	811
Derivative liabilities		
Interest related	80	-
Currency related	71	334
Total	151	334

## (5) Offsetting Financial assets and Financial liabilities

Details of offsetting financial assets and financial liabilities with the same counterparty are as follows:

Year ended March 31, 2023

(Millions of JPY)

Financial assets	Transaction type	Total amount of financial asset already recognized	Total amount of financial liability already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial asset presented in Consolidated Statement of Financial Position
Cash and cash equivalents	Notional pooling	99,822	85,723	14,099

(Millions of JPY)

Financial liabilities	Transaction type	Total amount of financial liability already recognized	Total amount of financial asset already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial liability presented in Consolidated Statement of Financial Position
Bonds and borrowings	Notional pooling	85,723	85,723	-

Year ended March 31, 2024

(Millions of JPY)

Financial assets	Transaction type	Total amount of financial asset already recognized	Total amount of financial liability already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial asset presented in Consolidated Statement of Financial Position
Cash and cash equivalents	Notional pooling	63,546	49,273	14,273

(Millions of JPY)

Financial liabilities	Transaction type	Total amount of financial liability already recognized	Total amount of financial asset already recognized and offset in Consolidated Statement of Financial Position	Net amount of financial liability presented in Consolidated Statement of Financial Position
Bonds and borrowings	Notional pooling	49,273	49,273	-

(6) Capital Management

The Group recognizes the necessity of securing liquidity and fund raising capacity to enable flexible investments to enhance shareholder returns as well as to achieve sustainable growth.

Therefore, the Group monitors movement in mid-to-long term liquidity, credit ratings which demonstrate the soundness of financial condition, and the appropriate capital structure.

In addition, one of the Group's objectives is to achieve ROE of 16% or more and DOE of 8% or more in the year ended March 31, 2026 in order to accomplish its 2030 Vision.

The major indicators the Group employs for capital management are as follows:

	(Millions of JPY)	
	As of March 31, 2023	As of March 31, 2024
Cash plus marketable securities (note 1)	824,370	1,223,640
Bonds and borrowings	143,089	101,713
Net cash	681,281	1,121,926
Total shareholder return ratio (note 2)	52.7%	47.8%

Notes:

1. "Cash plus marketable securities" includes cash and cash equivalents, and securities with original maturities of more than three months.
2. "Total shareholder return ratio" is calculated based on (Dividend plus total acquisition costs of treasury shares) / Profit attributable to owners of the Company.

There are no significant capital adequacy requirements applicable to the Group.

### 31. Lease Transactions

#### (1) Lessee

The Group has entered into rental agreements mainly for real estate and machinery, and determines that a contract that transfers the right to control the use of specified assets for a certain period of time in exchange for consideration is a lease or contains a lease. As such, the Group recognizes the right-of-use assets and lease liabilities at the commencement date. However, for short-term leases or leases of low-value underlying assets, the Group expenses lease payments related to these leases over the lease term on a straight-line basis.

Mainly for contracts that are related to real estate, the lessee's options to extend leases are granted with a view to securing flexibility of substituting assets, reducing administrative tasks for asset management and enhancing efficiency etc.

Options to extend a lease period will be exercised when the Group determines necessary, comprehensively considering the necessity of the subject assets in carrying out businesses, the difficulty in acquiring alternative assets and the costs incurred to manage the assets. If the Group determines that it is reasonably certain that an extension option will be exercised at the commencement date, it includes the extended period in the lease term and includes the lease payments for that period in the measurement of lease liabilities. The lease extendable period by exercising the option and lease payments related to the extendable period are generally commensurate with or approximate to the original lease term and lease payments.

In addition, leases of real estate can be canceled without paying any penalty by submitting the notice of termination to the lessor within a certain period of time prior to the termination.

The Group presents the right-of-use assets as "property, plant and equipment" in the consolidated statement of financial position.

The movement and the details of right-of-use assets are as follows:

(Millions of JPY)

	Land, building and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 2022	35,155	2,771	38	37,966
Individual acquisitions	4,000	2,935	217	7,153
Depreciation	(6,943)	(1,911)	(88)	(8,943)
Reversal of impairment losses	3,238	-	-	3,238
Sales or disposals	(72)	(243)	-	(316)
Sales or disposals	(311)	-	(0)	(311)
Other increases and decreases (note 1)	(2,916)	227	108	(2,580)
Balance as of March 31, 2023	32,150	3,778	276	36,206
Individual acquisitions	5,837	4,632	16	10,486
Depreciation	(7,237)	(2,520)	(169)	(9,928)
Sales or disposals	-	(654)	(0)	(654)
Other increases and decreases (note 2)	3,007	568	29	3,604
Balance as of March 31, 2024	33,758	5,804	151	39,714

Notes:

1. Mainly due to the derecognition of right-of-use assets resulting from the conclusion of sublease contracts.

2. Mainly due to the exchange differences on translation of foreign operations.

The following shows the expenses and cash outflows related to leases, and increase in the right-of-use assets:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Depreciation costs of the right-of-use assets		
Land, building and structures	6,943	7,237
Machinery and vehicles	1,911	2,520
Tools, furniture and fixtures	88	169
Total	8,943	9,928
Interest expenses for lease liabilities	698	873
Expenses for short-term leases	775	846
Expenses for leases of low-value underlying assets	4,107	4,320
Cash outflows related to leases	19,460	20,713
Increase in right-of-use assets	7,153	10,486

For the maturity analysis of lease liabilities, see Note 30 “Financial instruments.”

(2) Lessor

The Group rents houses to its employees. Additionally, some of the subsidiaries rent out real estate for the effective utilization of right-of-use assets. These arrangements are subleases, and the lease term of the sublease is the same as, or a significant part of, the lease term of the head lease. Therefore, the Group classifies these subleases as finance leases. The amounts of revenue and lease receivable related to these finance leases are not significant.

**32. Other Comprehensive Income**

Reclassification adjustments related to “Other comprehensive income” are as follows:

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Other comprehensive income that are or may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Change for the year	37,468	75,512
Reclassification adjustments	(1,155)	-
Subtotal	36,312	75,512
Cash flow hedges		
Change for the year	580	832
Reclassification adjustments	-	-
Subtotal	580	832
Other comprehensive income, before adjustments for tax effects	36,892	76,344
Tax effects	(177)	(253)
Total	36,715	76,090

### 33. Cash Flow Information

#### (1) Changes in Liabilities Arising from Financing Activities

Changes in liabilities arising from financing activities are as follows:

(Millions of JPY)

	Borrowings	Bonds	Lease liabilities	Total
Balance as of April 1, 2022	43,812	119,649	50,154	213,616
Changes from financing cash flows	(20,394)	-	(14,560)	(34,955)
Non-cash changes				
Acquisitions	-	-	11,420	11,420
Exchange differences	-	-	2,721	2,721
Others	-	21	32	54
Balance as of March 31, 2023	23,418	119,670	49,768	192,857
Changes from financing cash flows	(20,912)	(20,000)	(15,545)	(56,457)
Non-cash changes				
Acquisitions	-	-	12,960	12,960
Exchange differences	-	-	4,518	4,518
Others	(484)	21	2,588	2,124
Balance as of March 31, 2024	2,021	99,691	54,290	156,004

#### (2) Proceeds from sale of subsidiaries

Year ended March 31, 2023

The breakdown of main assets and liabilities of subsidiaries at the time when control was lost by the Group, and the relationship between proceeds and net proceeds from such sale, were as follows:

(Millions of JPY)

	Year ended March 31, 2023
Breakdown of assets and liabilities at the time when the Group lost control of the subsidiaries	
Current assets	2,419
Non-current assets	3,223
Non-current liabilities	2,181

(Millions of JPY)

	Year ended March 31, 2023
Proceeds from sale received in cash	8,397
Cash and cash equivalents assets excluded at the time when the Group lost control of the subsidiaries	(95)
Net proceeds from sale of subsidiaries	8,302

Year ended March 31, 2024

The Company has transferred 30% of the issued shares of Daiichi Sankyo Espha Co., Ltd. held by the Company to Qol Holdings Co., Ltd. and has received JPY 7,500 million as consideration for the transfer.

### 34. Related Parties

#### (1) Transactions with Related Parties

Transactions with related parties are on the same terms as the normal course of business. There were no material transactions with related parties for the years ended March 31, 2023 and 2024.

#### (2) Remuneration of Key Management Personnel

(Millions of JPY)

	Year ended March 31, 2023	Year ended March 31, 2024
Remuneration and bonuses	958	1,082
Restricted share-based remuneration	99	110
Medium-term performance-based share compensation	189	162
Total	1,247	1,355

### 35. Commitments

Total contractual amounts of commitments for acquisition of assets after the end of each year are as follows:

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Property, plant and equipment	114,358	181,263
Intangible assets	139,181	55,302
Total	253,539	236,565

Note:

The commitments for intangible assets mainly relate to the acquisitions of sales licenses for technology introduction and represent the milestone payments based on the achievement of milestones associated with the medical research and development objectives. The amounts presented above represent the maximum payments if all milestones are achieved and may differ from the actual amounts paid.

### 36. Contingent Liabilities

#### (1) Loan Guarantees

The Company provides loan guarantees in relation to its employees' borrowings from financial institutions as shown below. In the event that the employees are unable to repay their debt, the Company will need to bear the unpaid amounts.

(Millions of JPY)

	As of March 31, 2023	As of March 31, 2024
Employees (housing and other loans)	180	137

#### (2) Litigations

Lawsuit relating to Seagen Inc.'s U.S. patent

In October 2020, Seagen Inc. filed a patent infringement lawsuit in the U.S. District Court of Eastern District of Texas, alleging that the Company's ADCs, including ENHERTU, infringed a U.S. patent 10,808,039 held by Seagen Inc. A jury trial was held in April 2022, and the verdict confirmed that ENHERTU infringed the patent. The jury has determined that Seagen Inc.'s damages amount between October 2020 and March 2022 prior to the jury trial was USD41.8 million, and found that there was willful infringement of Seagen Inc.'s U.S. patent. In July 2022, despite the jury's finding of willfulness, the court decided under the totality of the circumstances that enhancement of damages was not warranted, and therefore did not enhance the damages award. In October 2023, the court dismissed the Company's post-trial motions challenging the judgment issued in July 2022, and rendered a first-instance judgment ordering the payment of USD41.8 million in damages as determined by the said judgment, as well as an 8% royalty on ENHERTU's US sales from April 1, 2022, until the expiration of Seagen Inc.'s US patent on November 4, 2024. In November 2023, the Company filed an appeal to the United States Court of Appeals for the Federal Circuit against the first-instance judgment rendered in October 2023. If compensation will be paid to Seagen Inc., it will be split equally between the Company and AstraZeneca UK Limited based on the agreement for joint development and sales alliance of ENHERTU.

In relation to this matter, in December 2020, the Company and relevant parties claimed that Seagen Inc.'s U.S. patent is invalid and filed a petition with the United States Patent and Trademark Office ("USPTO") for Post Grant Review ("PGR") to examine the validity of Seagen Inc.'s U.S. patent. However, in June 2021, the USPTO decided that PGR would not be initiated. In response to this decision, in July 2021, the Company and relevant parties filed a request for rehearing of the decisions denying institution with the USPTO, and in August 2021, filed an administrative litigation in the U.S. District Court for the Eastern District of Virginia. As a result, in April 2022, the USPTO approved the request for rehearing and decided to initiate PGR. In July 2022, the USPTO granted Seagen Inc.'s request for rehearing and decided not to proceed with the PGR process. However, in February 2023, in response to the Company's request for rehearing, the USPTO granted its request to re-initiate PGR. In January 2024, the USPTO issued a decision declaring Seagen Inc.'s U.S. patent invalid. In February 2024, Seagen Inc. filed a request for a Director Review against the USPTO's decision made in January 2024. However, in March 2024, the USPTO dismissed the said request.

The said U.S. patent is the only patent that Seagen Inc. is relying on as the basis for their appeal in the ongoing patent infringement lawsuit at the United States Court of Appeals for the Federal Circuit. The Company believes that it is unlikely that the said U.S. patent is valid and considers the likelihood of paying compensation to be low, and therefore did not record any provision for compensation for the alleged patent infringement.

The Group estimates the possible outflow of economic benefits due to settlement of contingent liabilities by using all available inputs at the reporting date. Except for the items noted above, there are no contingent liabilities that could have a significant impact on the Group's operations in future periods.

### 37. Major Consolidated Subsidiaries and Associates

Major consolidated subsidiaries and associates as of March 31, 2024 are as follows:

There were no significant changes in percentage of voting rights from March 31, 2023 except in relation to consolidated subsidiary as explained in Note 1.

#### Consolidated Subsidiaries

Company	Location	Function	Percentage of voting rights (%)
Daiichi Sankyo Espha Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	70.0
Daiichi Sankyo Healthcare Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Propharma Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Chemical Pharma Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Biotech Co., Ltd.	Kitamoto, Saitama, Japan	Pharmaceuticals	100.0
Daiichi Sankyo RD Novare Co., Ltd.	Edogawa-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Business Associe Co., Ltd.	Chuo-ku, Tokyo, Japan	Other	100.0
Daiichi Sankyo U.S. Holdings, Inc.	New Jersey, United States	Pharmaceuticals	100.0
Daiichi Sankyo Inc.	New Jersey, United States	Pharmaceuticals	100.0
American Regent, Inc.	New York, United States	Pharmaceuticals	100.0
Daiichi Sankyo Europe GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo France SAS	Rueil-Malmaison, France	Pharmaceuticals	100.0
Daiichi Sankyo Deutschland GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo Italia S.p.A.	Rome, Italy	Pharmaceuticals	100.0
Daiichi Sankyo España S.A.	Madrid, Spain	Pharmaceuticals	100.0
Daiichi Sankyo UK Ltd.	Buckinghamshire, United Kingdom	Pharmaceuticals	100.0
Daiichi Sankyo (China) Holdings Co., Ltd.	Shanghai, China	Pharmaceuticals	100.0
Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd.	Shanghai, China	Pharmaceuticals	100.0
Daiichi Sankyo Taiwan Ltd.	Taipei, Taiwan	Pharmaceuticals	100.0
Daiichi Sankyo Korea Co., Ltd.	Seoul, South Korea	Pharmaceuticals	100.0
Daiichi Sankyo Brasil Farmacêutica LTDA.	Sao Paulo, Brazil	Pharmaceuticals	100.0

#### Associate accounted for using the equity method

Company	Location	Function	Percentage of voting rights (%)
Hitachi Pharma Information Solutions, Ltd.	Chiyoda-ku, Tokyo, Japan	Other	27.2

Note:

- On October 1, 2023, the Company transferred shares equivalent to 30% of the total shares issued by Daiichi Sankyo Espha Co., Ltd. that were held by the Company to Qol Holdings Co., Ltd. based on the share transfer agreement with Qol Holdings Co., Ltd. As a result, the Company has 70.0% of the voting rights as of March 31, 2024 (100.0% as of March 31, 2023). On April 1, 2024, the Company transferred shares equivalent to 21% of the total shares issued by Daiichi Sankyo Espha Co., Ltd. to Qol Holdings Co., Ltd., thereby completing transfer of shares equivalent to 51% of the total shares issued and removed Daiichi Sankyo Espha Co., Ltd. from the scope of consolidation.
- Due to research and development structure restructuring, the functions of Daiichi Sankyo RD Novare Co., Ltd. were transferred to the Company and Daiichi Sankyo RD Novare Co., Ltd. ceased its operations on March 31, 2024.

### 38. Joint Development and Joint Sales Promotion

The Group has entered into joint development and joint sales promotion agreements with partner companies for multiple products and products under development.

The Group has the right to receive, or is obligated to pay upfront payments, milestone revenue and running royalties, from/to the partner companies as consideration for these contracts.

In the context of joint development and joint sales promotion activities, where costs and profits are shared with the partner companies, the income from or expenditure to partner companies is recorded or reversed as revenue, cost of sales, selling, general and administrative expenses, or research and development expenses, in accordance with the specific contract terms and transaction details.

#### Joint development and sales alliance with AstraZeneca regarding ENHERTU

On March 29, 2019, the Company entered into a global development and commercialization agreement with AstraZeneca for Trastuzumab Deruxtecan (T-DXd/DS-8201, HER2-directed ADC, product name: ENHERTU, hereinafter referred to as "the medicine 1"), which is owned by the Company, for multiple HER2 expressing cancers including breast cancer, gastric cancer, non-small cell lung and colorectal cancer.

The Company and AstraZeneca will jointly develop and commercialize the medicine 1 as a monotherapy or a combination therapy worldwide, except in Japan where the Company holds exclusive rights. The Company will be solely responsible for manufacturing and supply of the medicine 1.

Under the terms of the agreement, the Company received an upfront payment of USD1.35 billion. Additionally, the Company has the right to receive development milestones and sales milestones. Total payments under the agreement have the potential to reach up to USD6.90 billion if all development and sales milestones are achieved.

The Company and AstraZeneca will share equally development and commercialization costs as well as profits from the medicine 1 worldwide, except in Japan where the Company holds exclusive rights. Revenue from sales of the medicine 1 is recorded by the Company in Japan, U.S., and the countries and regions in Asia, Europe, and South America where the Company has a subsidiary. In other countries and regions, including China, Hong Kong, Australia, Canada, and Russia, AstraZeneca will record the revenue.

The upfront payments and development milestones received by the Company will be recognized as revenue over the period of satisfaction of the contractual performance obligations.

#### Joint development and sales alliance with AstraZeneca regarding Dato-DXd

On July 27, 2020, the Company entered into a global development and commercialization agreement with AstraZeneca for Datopotamab Deruxtecan (Dato-DXd/DS-1062, TROP2-directed ADC, hereinafter referred to as "the medicine 2"), which is owned by the Company.

The Company and AstraZeneca will jointly develop and commercialize the medicine 2 as a monotherapy or a combination therapy worldwide, except in Japan where the Company holds exclusive rights. The Company will be solely responsible for manufacturing and supply of the medicine 2.

Under the terms of the agreement, AstraZeneca paid the Company an upfront payment of USD1 billion. Additionally, the Company has the right to receive development milestones and sales milestones. Total payments under the agreement have the potential to reach up to USD6 billion if all development and sales milestones are achieved.

The Company and AstraZeneca will share equally development and commercialization costs as well as profits from the medicine 2 worldwide, except in Japan where the Company holds exclusive rights. Revenue from sales of the medicine 2 is recorded by the company in Japan, U.S., and the countries and regions in Asia, Europe, and South America where the Company has a subsidiary. In other countries and regions, including China, Hong Kong, Australia, Canada, and Russia, AstraZeneca will record the revenue.

The upfront payments and development milestones received by the Company will be recognized as revenue over the period of satisfaction of the contractual performance obligations.

#### Joint development and sales alliance with Merck & Co., Inc., Rahway, N.J., USA regarding three Daiichi Sankyo DXd-ADCs.

On October 20, 2023, the Company and Merck & Co., Inc., Rahway, N.J., USA ("Merck") entered into a global development and commercialization agreement for for three products utilizing the Company's DXd ADC technology : Patritumab deruxtecan (HER3-DXd /U3-1402: HER3-directed ADC), Ifinatamab deruxtecan (I-DXd/DS-7300: B7-H3-directed ADC) and DS-6000 (CDH6-directed ADC) ("the three products").

The Company and Merck will jointly develop and commercialize the three products worldwide, except in Japan where the Company holds exclusive rights. The Company will be solely responsible for manufacturing and supply of the three products.

Under the terms of the agreement, Merck paid the Company upfront payments of USD1.5 billion for Ifinatamab deruxtecan and USD750 million each for Patritumab deruxtecan and DS-6000 on execution, and will pay USD750 million for Patritumab deruxtecan one year later and USD750 million for DS-6000 two years after execution.

Furthermore, the Company is entitled to receive sales milestones for each product. When combined with the additional refundable upfront payment of USD1 billion described below, total potential consideration across the three products is up to USD22 billion if all sales milestones across the three products are achieved.

Merck may opt out of the collaboration for Patritumab deruxtecan and DS-6000 and elect not to pay the two continuation payments of USD750 million each that are due after 12 months and 24 months, respectively. If Merck opts out of the programs for Patritumab deruxtecan and/or DS-6000, the Company will retain the upfront payments already paid and rights related to such DXd-ADCs will be returned to the Company.

The Company received an additional upfront payment of USD1 billion as future development expenses from Merck (USD500 million each for Patritumab deruxtecan and Ifinatamab deruxtecan), a portion of which may be refundable in the event of early termination of development with respect to each program. For DS-6000, Merck will be responsible for 75% of the first USD2 billion of R&D expenses. Except as outlined above with respect to R&D expenses, the companies will equally share expenses as well as profits worldwide, and the Company will generally book revenue worldwide.

The upfront payments received by the Company, excluding those received as development costs, will be recognized as revenue over the period of satisfaction of the contractual performance obligations.

### 39. Subsequent Events

#### (1) Partial Transfer of Shares of Daiichi Sankyo Espha Co., Ltd.

On April 1, 2024, the Company transferred 21% of the issued shares of Daiichi Sankyo Espha Co., Ltd. (“DSEP”) held by the Company based on the provisions of the stock transfer agreement with Qol Holdings Co., Ltd. signed on May 16, 2023. The stock transfer agreement includes the phased transfer of all shares in DSEP. Since 30% of the total issued shares were already transferred on October 1, 2023, the Company’s ownership interest decreased to 49%, and the Company lost its control over DSEP.

As these share transfer transactions are intended to achieve a smooth transfer of the generic operations of DSEP, the Company has determined that it is appropriate to account for the two stock transfer transactions leading to the loss of control as a single transaction.

As a result, the Company will record approximately JPY 16.0 billion as “Gain on transfer of subsidiaries and associates” (Other income) in the Consolidated Statement of Profit or Loss for the year ending March 31, 2025.

As of March 31, 2024 (the consolidated financial statement date for the current fiscal year), the assets and liabilities of DSEP are classified as "Assets held for sale" and "Liabilities directly associated with assets held for sale", respectively.

#### (2) Purchase and cancellation of treasury shares

The Company approved at the Board of Directors (“BOD”) meeting held on April 25, 2024 to purchase its own shares as treasury shares based on the provisions of Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to the provisions of Article 165, Paragraph 3 of the same act. In addition, the Company approved at the same BOD meeting to cancel the purchased treasury shares based on the provisions of Article 178 of the Companies Act.

##### 1) Reason for the Purchase and Cancellation of Treasury Shares

To enhance capital efficiency and to improve shareholder returns.

##### 2) Details of Purchase

- a. Class of Shares to be Purchased  
Ordinary shares of the Company
- b. Total Number of Shares to be Purchased  
Maximum of 55,000,000 shares representing 2.87% of issued shares (excluding treasury shares)
- c. Aggregate amount of purchase cost  
Maximum of JPY200,000 million
- d. Purchasing Period  
From April 26, 2024 to January 15, 2025
- e. Purchasing Method  
Purchase on the Tokyo Stock Exchange

##### 3) Details of Cancellation

- a. Class of Shares to be Cancelled  
Ordinary shares of the Company
- b. Total Number of Shares to be Cancelled  
Total number of treasury shares purchased pursuant to 2) above
- c. Planned Cancellation Date  
January 31, 2025



# Independent auditor's report

**To the Board of Directors of Daiichi Sankyo Company, Ltd.:**

## **Report on the Audit of the Consolidated Financial Statements**

### **Opinion**

We have audited the accompanying consolidated financial statements of Daiichi Sankyo Company, Ltd. (“the Company”) and its 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 to the consolidated financial statements.

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.

### **Emphasis of Matter**

We draw attention to Note 39, “Subsequent Events, (2) Purchase and cancellation of treasury shares” to the consolidated financial statements. The Company approved at the Board of Directors meeting held on April 25, 2024 to purchase its own shares as treasury shares and to cancel the purchased treasury shares.

Our opinion is not modified in respect of this matter.

### **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.

**Appropriateness of the recognition of revenue related to the global development and commercialization agreement with Merck & Co., Inc., Rahway, N.J., USA for three DXd-ADC products**

The key audit matter	How the matter was addressed in our audit
<p>In the consolidated statement of financial position as of March 31, 2024, DAIICHI SANKYO COMPANY, LIMITED (“the Company”) recognized contract liabilities of JPY57,435 million and JPY680,166 million in current liabilities and non-current liabilities, respectively. These amounts primarily relate to non-refundable upfront payments amounting to USD3 billion, which the Company received based on the global development and commercialization agreement (“the Agreement”) entered into with Merck &amp; Co., Inc., Rahway, N.J., USA (“Merck”) for three products utilizing the DXd-ADC technology (“the three products”) in the fiscal year ended March 31, 2024, as described in Note 38, “Joint Development and Joint Sales Promotion” to the consolidated financial statements. In accordance with the Agreement, the Company and Merck will jointly develop and commercialize the three products, while the Company will solely manufacture and supply them.</p> <p>The Company determined that, in accordance with the Agreement, the licensing of the three products to Merck, and the service of manufacturing and supplying each of the three products, each constitute a single performance obligation. Therefore, the Company recognized revenue for the non-refundable upfront payments, which it received in accordance with the Agreement, as license fee revenue over time.</p> <p>In recognizing revenue from the upfront payments received based on the Agreement, the Company considered the five steps applied when recognizing revenue in accordance with IFRS 15, “Revenue from Contracts with Customers.” In particular, the assessment of whether the licensing and the service of manufacturing and supplying each of the three products each constitute a single performance obligation and the reasonableness of the estimated period of satisfaction of the performance obligations involved subjective management judgment.</p> <p>We, therefore, determined that the assessment of the appropriateness of the recognition of revenue related to the Agreement was of most significance in our audit of the consolidated financial statements for the fiscal year ended March 31, 2024, and accordingly, a key audit matter.</p>	<p>The primary procedures we performed to assess the appropriateness of the recognition of revenue related to the Agreement included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to revenue recognition. In this assessment, we focused our testing on controls designed to appropriately identify performance obligations and reasonably estimate the period of satisfaction of the performance obligations based on the understanding of agreements.</p> <p>(2) Assessment of the appropriateness of revenue recognition</p> <p>In order to assess whether the recognition of revenue related to the Agreement was appropriate, we:</p> <ul style="list-style-type: none"> <li>● reviewed the Agreement and relevant materials for the board of directors’ meetings to understand the content of the Agreement and examined that the performance obligations were appropriately identified in accordance with the Agreement;</li> <li>● reviewed relevant materials to consider the accounting treatment developed by the Finance and Accounting Department of the Company, and examined whether the determination that the licensing and the service of manufacturing and supplying each of the three products each constitute a single performance obligation was in accordance with relevant accounting standards; and</li> <li>● inquired to management and the Intellectual Property Department personnel responsible for the estimate, reviewed and recalculated relevant documents used for these estimates, and examined the reasonableness of the estimation method for the period of satisfaction of the performance obligations for each of the three products and the accuracy of the calculations.</li> </ul>

## Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited 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 the Audit and Supervisory Board and its Members 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.

The Audit and Supervisory Board and its Members 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 the Audit and Supervisory Board and its Members 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 the Audit and Supervisory Board and its Members 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 the Audit and Supervisory Board and its Members, 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 JPY845 million and JPY214 million, respectively.

## Interest required to be disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Company and its subsidiaries which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Kanako Ogura  
Designated Engagement Partner  
Certified Public Accountant

Hiroshi Tani  
Designated Engagement Partner  
Certified Public Accountant

Yusuke Matsumoto  
Designated Engagement Partner  
Certified Public Accountant

KPMG AZSA LLC  
Tokyo Office, Japan  
June 17, 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.