# The 18th Ordinary General Shareholders Meeting
# Other Matters regarding Electronic Provision Measure
# (Matters Omitted in the Documents to be Delivered)

Start of Measures for Electronic Provision: May 22, 2023

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**Daiichi Sankyo Company, Limited**

The above items are omitted from the document (Document stating Matters regarding Electronic Provision Measure) delivered to shareholders who have requested delivery of the document in accordance with the provisions of law and Article 16 of the Articles of Incorporation of the Company.

# Business Report for the 18th Fiscal Period
## (Matters Omitted in the Documents to be Delivered)

(From April 1, 2022 to March 31, 2023)

**Status of Subscription Rights to Shares**

| Name of Subscription Rights to shares (Date of resolution on issuance) | Number of shares subject to Subscription rights to shares (Class of shares) | Amount to be paid in for Subscription rights to shares per unit | Exercise price for Subscription rights to shares per unit | Exercisable period for Subscription rights to shares | Subscription Rights to shares held by the Company's Officers | |
|---|---|---|---|---|---|---|
| | | | | | Director (excluding Outside Director) | Audit & Supervisory Board Member (excluding Outside Audit & Supervisory Board Member) |
| No. 3 Subscription rights to shares (July 31, 2009) | Ordinary share of the Company 14,700 shares | JPY133,800 | JPY300 | From August 18, 2009 to August 17, 2039 | 49 units (1 Director) | |
| No. 4 Subscription rights to shares (July 30, 2010) | Ordinary share of the Company 14,700 shares | JPY119,700 | JPY300 | From August 20, 2010 to August 19, 2040 | 49 units (1 Director) | |
| No. 5 Subscription rights to shares (June 27, 2011) | Ordinary share of the Company 12,600 shares | JPY111,200 | JPY300 | From July 13, 2011 to July 12, 2041 | 42 units (1 Director) | |
| No. 6 Subscription rights to shares (June 22, 2012) | Ordinary share of the Company 16,800 shares | JPY88,400 | JPY300 | From July 10, 2012 to July 9, 2042 | 56 units (1 Director) | |
| No. 7 Subscription rights to shares (June 21, 2013) | Ordinary share of the Company 12,000 shares | JPY119,900 | JPY300 | From July 9, 2013 to July 8, 2043 | 40 units (1 Director) | |
| No. 8 Subscription rights to shares (June 23, 2014) | Ordinary share of the Company 31,500 shares | JPY136,100 | JPY300 | From July 9, 2014 to July 8, 2044 | 105 units (2 Directors) | |
| No. 9 Subscription rights to shares (June 22, 2015) | Ordinary share of the Company 29,400 shares | JPY185,800 | JPY300 | From July 8, 2015 to July 7, 2045 | 98 units (2 Directors) | |
| No. 10 Subscription rights to shares (June 20, 2016) | Ordinary share of the Company 41,700 shares | JPY196,000 | JPY300 | From July 6, 2016 to July 5, 2046 | 113 units (2 Directors) | 26 units (1 Audit & Supervisory Board Member) |

Notes: 1. Part of the Subscription rights to shares owned by Directors and Audit & Supervisory Board Members include Subscription rights to shares granted to Directors and Audit & Supervisory Board Members during their terms as Corporate Officers.

2. Conditions for exercise of Subscription rights to shares are as follows:

a. Persons to whom share options are granted (hereinafter referred to as "holders of Subscription rights to shares") may exercise their Subscription rights to shares until the last day of the last fiscal year that ends within 10 years from the following day of the day when they retired from their office as Director or Corporate Officer of the Company that they held when the Subscription rights to shares were granted (if the holders of Subscription rights to shares concurrently serve as Director and Corporate Officer, the day when they retired from office means the day when they retired from the office of Director, regardless of whether they continued to hold the position of Corporate Officer; and if the holders of Subscription rights to shares served as Corporate Officer when the Subscription rights to shares were granted and if they took office as Director upon their retirement from office as Corporate Officer, the day when they retired from office means the day when they retired from office as Director, not the day when they retired from office as Corporate Officer).

b. Holders of Subscription rights to shares may not dispose of the Subscription rights to shares by any means, including pledging.

c. When holders of Subscription rights to shares die, their heir may inherit the Subscription rights to shares that have not been exercised as of the day when the cause of their inheritance occurs, and may exercise the rights in accordance with the terms of the Agreement on Allotment of Subscription rights to shares, to be entered between the Company and holders of Subscription rights to shares.
d. When holders of Subscription rights to shares exercise their Subscription rights to shares, they may not partially exercise one Subscription rights to shares.
e. Other conditions are set forth in the Agreement on Allotment of Subscription rights to shares, to be entered between the Company and holders of Subscription rights to shares, in accordance with the resolution of Board of Directors (the Board).

3. Events and conditions for the acquisition of Subscription rights to shares are as follows:
    a. When holders of Subscription rights to shares can no longer exercise their rights pursuant to the provisions specified in the above-mentioned Note 2, the Company may acquire, free of charge, the said Subscription rights to shares held by the said holders of Subscription rights to shares on the day separately determined by the Board.
    b. When an absorption-type merger agreement, under which the Company is absorbed and disappears, is approved at a General Shareholders Meeting of the Company (a Board Meeting if a resolution of a General Shareholders Meeting is not required), or when a proposal on approval of a share exchange agreement, under which the Company will become a wholly-owned subsidiary company in the share exchange, or a proposal on approval for a share transfer plan, under which the Company will become a wholly-owned subsidiary company in the share transfer, is approved at a General Shareholders Meeting of the Company (a Board Meeting if a resolution of a General Shareholders Meeting is not required), the Company may acquire, free of charge, the Subscription rights to shares held by the holders of Subscription rights to shares on the day separately determined by the Board.
    c. When holders of Subscription rights to shares offer in writing to abandon all or part of their Subscription rights to shares, the Company may acquire, free of charge, the said Subscription rights to shares held by those holders of Subscription rights to shares on the day separately determined by the Board.
4. Since the Company conducted a share split with one ordinary share as three shares with October 1, 2020 as the effective date, the number of shares subject to Subscription rights to shares has been changed to 300 shares per a right.
5. The total number of shares subject to Subscription rights to shares that were unexercised as of the end of the fiscal year under review and their ratio to the total number of issued shares (excluding treasury shares) are as shown below.

| Total number of shares subject to unexercised Subscription rights to shares | Ratio to the total number of issued shares (excluding treasury shares) |
|---|---|
| 173,400 shares | 0.01% |

## Internal Control System

### 1) Basic Policy on Establishing Internal Control System

- Concerning systems for ensuring compliance with laws and ordinances and the Company's Articles of Incorporation in the execution of duties by Directors and other systems for securing appropriateness of duties, the Company has resolved the basic policies at the Board Meeting held on March 31, 2017, as follows.

a. Systems for Ensuring Compliance with Laws and Regulations and the Company's Articles of Incorporation in the Execution of Duties by Directors
  - The Company shall establish a compliance system by stipulating Daiichi Sankyo Group Corporate Conduct Charter, Daiichi Sankyo Group Employee Code of Conduct, etc. as the code of conduct for Directors and Audit & Supervisory Board Members and employees and setting up a meeting body, including outside experts.
  - The Company shall appoint Outside Directors for the strengthening and enhancing the function to supervise management.
  - Audit & Supervisory Board Members shall audit the execution of duties by Directors, process and contents of decision-making and the status of the establishment and implementation of internal control systems.

b. Systems regarding the Retention and Management of Information relating to the Execution of Duties by Directors
  - The Company shall establish information security systems, and properly store and manage information relating to the execution of duties by Directors, including the minutes of the Board, in accordance with laws, ordinances and internal regulations of the Company.

c. Rules and Other Systems for Risk Management
  - The Company shall stipulate various internal regulations to establish risk management systems.
  - The Internal Audit Department shall audit the status of operation of the systems mentioned above.

d. Systems for Ensuring the Efficient Execution of Duties by Directors
  - The Company shall form a Management Executive Meeting—consisting of Directors excluding Outside Directors, and executives appointed by the Chief Executive Officer (CEO) who are responsible for the main regions, corporate bodies and functions—which shall deliberate important matters for strategic decision-making by the CEO. The Company shall also set up an approval system as a means of decision-making.
  - The Company shall introduce a corporate officer system in consideration of speedy decision-making and execution of duties.

e. Systems for Ensuring Compliance with Laws and Ordinances and the Company's Articles of Incorporation in the Execution of Duties by Employees
  - The Company shall establish a compliance system by stipulating Daiichi Sankyo Group Corporate Conduct Charter, Daiichi Sankyo Group Employee Code of Conduct, etc. as the code of conduct for Directors and Audit & Supervisory Board Members and employees and setting up a meeting body, including outside experts.
  - Vice Presidents responsible for the main regions, corporate bodies and functions who receive orders from the CEO in accordance with the "Daiichi Sankyo Group Global Management Regulations" and persons in charge who receive orders from the President in accordance with the "Organizational Management Regulations" shall manage duties in their charge and supervise, manage and direct members of their business units.
  - Each of the functions related to the improvement of systems concerning personnel management, risk management, etc. shall convey policies to manage and guide each department.
  - The Internal Audit Department shall implement internal audit of the status of compliance with laws and ordinances, and the Articles of Incorporation and internal regulations.

f. Systems for Ensuring the Proper Operation of the Group, Consisting of the Company and Its Subsidiaries
  - The Company shall establish "Daiichi Sankyo Group Global Management Regulations" and "Internal Control System Establishment Regulations" to clarify the management control system of the Daiichi Sankyo Group, and transmit management policies, etc. to Group companies and set a system in place for receiving reports on management and financial results from the board of group companies.

- The Company shall establish “Daiichi Sankyo Group Group Company Management Regulations” to clarify responsibilities and authorities of each group company.
- The Company shall establish “Daiichi Sankyo Group Risk Management Promotion Regulations” to develop the Daiichi Sankyo Group risk management system.
- The Company shall establish Daiichi Sankyo Group Employee Code of Conduct, etc. to develop it to all Group companies and also arrange the Group’s compliance promotion system to keep all Group companies informed about it.
- The Company shall establish “Internal Control Regulations on Financial Reporting” and ensure the reliability of financial reporting by properly implementing those regulations.
- The Company shall establish “Internal Audit Regulations” and implement internal audit on Group companies.

g. Systems regarding Employees Assisting Duties of Audit & Supervisory Board Members, when Audit & Supervisory Board Members Ask to Appoint Such Employees
   - The Company shall appoint full-time staff members who assist with the duties of Audit & Supervisory Board Members.

h. Matters regarding the Independence of the Employees Specified in the Preceding Paragraph (g) from Directors and Ensuring of Effectiveness of Instructions by Audit & Supervisory Board Members
   - Full-time staff members assisting Audit & Supervisory Board Members shall be independent of Directors, and shall execute duties under the directions and orders from Audit & Supervisory Board Members.
   - Personnel changes, performance appraisal, etc. of full-time staff members assisting Audit & Supervisory Board Members shall require prior consent of Audit & Supervisory Board.

i. Systems of Reporting to Audit & Supervisory Board Members of the Company by Directors and Employees of the Company and Subsidiaries and Other Systems regarding Reporting to Audit & Supervisory Board Members of the Company
   - The Company shall establish a system under which when Directors find facts that could badly hurt the Company, they shall immediately report the facts to Audit & Supervisory Board Members.
   - Audit & Supervisory Board Members of the Company shall receive reports on the status of execution of duties from executives and employees of the Company as well as executives and employees of Group companies.
   - Audit & Supervisory Board Members of the Company shall attend the Management Executive Meeting and other important meetings.
   - To verify process and details of approvals, the Company shall establish Audit & Supervisory Board Members as permanent recipients of approval document notification.

j. Other Systems for Ensuring the Effective Audit by Audit & Supervisory Board Members
   - Audit & Supervisory Board Members of the Company shall have meetings with Representative Directors on a regular basis to check management policies and exchange views concerning important issues related to auditing.
   - Audit & Supervisory Board Members of the Company shall exchange information with Audit & Supervisory Board Members of the Group companies and closely cooperate with them.
   - Audit & Supervisory Board Members of the Company shall coordinate and exchange views with external auditors and the Internal Audit Department.
   - The Company shall not treat unfairly any person who reports under the second item in the preceding paragraph (i) or any person who reports according to Daiichi Sankyo Group Employee Code of Conduct, etc. because of the fact of such reporting.
   - The Company shall bear expenses that may be occurred in executing the duties of Audit & Supervisory Board Members.

k. Basic Ideas About and Systems for Eliminating Antisocial Forces
   - The Company shall take a firm stance toward antisocial forces and organizations that threaten the order and safety of civil society. To prevent antisocial forces and organizations from being involved in the Company’s management activities and to stop such forces and organizations from harming the Company, the Company shall stipulate, as its basic policy, in the Daiichi Sankyo Group Corporate Conduct Charter, etc. that it shall thoroughly forbid relations with antisocial forces and organizations. In addition, the Company shall establish an organizational structure to that end, and strive to eliminate

relations with antisocial forces and organizations through means such as collecting information in cooperation with the police and other bodies, and conducting activities to train Directors and other Officers, and employees.

**2) Overview of Status for Implementing Internal Control Structure**

[Matters regarding Risk Management]

- The Group defines risks as those factors that will prevent the Group from attaining its organizational goals and targets. The Group has established the “Daiichi Sankyo Group Risk Management Promotion Regulations,” and is promoting risk management through such means as taking steps to address risks inherent in corporate activities and rationally controlling the potential impacts should risks actualize. In this manner, we seek to minimize the adverse impacts of risks on people, society, and the Group.
- Chief Financial Officer (CFO) oversees group-wide risk management as the chief risk management officer, promotes risk management education, and operates the risk management system. The Company takes precautions to prevent the actualization of risks with the potential to significantly impact the management of the Company and to minimize their damage. At meetings of the Board and Management Executive Meetings, etc. we identify such risks and regularly monitor and assess the status of them. Moreover, the heads of divisions formulate countermeasures through coordination with the chief risk management officer.
- The Group defines “Crisis Management” as implementations of measures and responses to minimize the impact and damage in the event of a crisis. The Group establishes the system in which we can rapidly and appropriately respond to crises, by assigning the Crisis Management Officer and Initial Crisis Management Officer and defining the reporting routes and rules in advance.
- In the business continuity plan (BCP), which is part of crisis management, for the purpose to adapt to diversification and intensification of external risk factors and globalization of supply chains, the “Daiichi Sankyo Group BCP Policy and Regulations” have been established to take inventory of priority risk items in supply chains and to design both measures to prevent actualization and countermeasures for early recovery in cases when such risks materialize.

[Matters regarding Compliance]

- The Group has defined the “Daiichi Sankyo Group Corporate Conduct Charter” and the “Daiichi Sankyo Group Employee Code of Conduct” as global principle and code of conduct for all executives and employees of the Group. The progress of promoting compliance is annually reported to Representative Directors and the Corporate Ethics Committee (including an outside specialist; the same shall apply hereafter) and, if there is an issue, a system is in place to make a proposal for implementing measures to resolve such issue.
- The Company has set up a whistle-blowing hotline in the Legal Department and the entrusted external specialist firm that employees of domestic and overseas Group companies and business partners, etc. can use. Overseas Group companies have also set up similar hotlines, and material compliance violations will be reported to the Corporate Ethics Committee, etc.
- The Company has established a Global Compliance Advisory Committee as an advisory organ to the Corporate Ethics Committee, which consists of compliance officers of overseas Group companies, in order to ensure the effectiveness of the global compliance system.

[Matters regarding Corporate Governance and Group Business Management]

- Among the nine Directors of the Company, four are Outside Directors. Since June 2020, an Outside Director has been appointed chairperson of the Board. Outside Directors are elected in accordance with the Directors Regulations, including the Criteria for Independence, from individuals with expertise, experience and insight in a variety of fields. The Nomination Committee and the Compensation Committee are established as advisory bodies to the Board, constituted of four Outside Directors. Outside Directors demonstrate and strengthen the Company's decision-making function based on diverse perspectives and supervisory function over business execution, as well as the realization of greater transparency in management, through their statements made at the Board Meetings, the Nomination Committee, and the Compensation Committee.
- Based on the “Daiichi Sankyo Group Management Committee Policy,” the Company holds Management Executive Meetings as appropriate to deliberate on important matters and make decisions related to the strategy, policy, and execution of group management. In addition, the “approval policy” is established regarding matters to be decided by the CEO and the delegation of authorities on business executions concerning the Group’s strategy and policy to each head of organization; and by appropriately implementing this policy, the Company realizes smooth and speedy business operation.
- The Company follows “Daiichi Sankyo Group Global Management Policy” and “Organizational Management

Regulations," and other rules; Vice Presidents responsible for the main regions, corporate bodies and functions who receive orders from the CEO, and persons in charge supervise, manage and direct members of their business units, while conveying company-wide policies to them on a regular basis, as well as receiving reports on the management and results from them.

[Matters regarding Audit by the Internal Audit Department]

- The Company has established the Internal Audit Department as an internal audit department independent from departments engaging in business execution, which comprises a certain number of staff members with special qualifications, including a certified internal auditor, and the Company maintains a system in which effective internal control is ensured by having the Internal Audit Department perform monitoring from a fair and independent position and report on risks and issues to management.
- With the purpose of contributing to the effective achievement of management targets, internal audits are performed to evaluate the business activities of organizations covered in the audits from various perspectives, including the effectiveness and efficiency of business operations and compliance, and the results of audits are reported to CEO, Board, Audit & Supervisory Board and other relevant parties.
- Audits of the Company are based on a comprehensive auditing approach and cover the entire organization, including Group companies, and the Internal Audit Department decides where and what to audit based on its risk assessment, risks recognized by management, audit intervals and other factors, and performs audits by organization or audits across the organization by issue.
- The Internal Audit Department receives reports of audit results from Group companies that have an audit organization and identifies risks and issues of the Group.
- The Internal Audit Department continually conducts self-evaluations of audit quality, as well as receiving evaluations of audit quality by an external specialist institution on a regular basis as part of its efforts to enhance the quality of audits.

[Matters regarding Audit by Audit & Supervisory Board Members]

- Directors and employees of the Company, as well as executives and employees of Group companies, report the status of the execution of operations to Audit & Supervisory Board Members of the Company as necessary. The Company has a system in place, under which when Directors of the Company find facts that could seriously damage the Company, they can immediately report the facts to Audit & Supervisory Board Members of the Company.
- Audit & Supervisory Board Members of the Company hold regular meetings for opinion exchanges with Directors, including the Representative Director of the Company, while attending important meetings and reviewing important documents. They also coordinate closely with the Internal Audit Department and accounting auditors of the Company, and secure a system under which Audit & Supervisory Board Members can conduct an audit effectively.
- Full-time Audit & Supervisory Board Members of the Company concurrently serve as part-time Audit & Supervisory Board Members of major domestic Group companies, and they attend the Board Meetings and Management Executive Meetings of those companies and check those companies' status of the establishment and implementation of its internal control system.
- The Company has Office of Audit & Supervisory Board Members, with full-time staff independent of the execution of business operations, to provide assistance in the execution of the duties of Audit & Supervisory Board Members.

**Matters regarding Accounting Auditors**

**1) Name of Accounting Auditor (Independent Auditor)**

KPMG AZSA LLC

**2) Amount of Fees and Others to Accounting Auditors for the Current Fiscal Year**

(Millions of JPY)

| Category | Previous Fiscal Year | | Current Fiscal Year | |
|---|---|---|---|---|
| | Fees for audit and attestation services | Fees for non-auditing services | Fees for audit and attestation services | Fees for non-auditing services |
| The Company | 230 | 4 | 237 | 4 |
| Consolidated subsidiaries | 43 | – | 46 | 2 |
| Total | 273 | 4 | 283 | 6 |

Notes:
1. "Fees for audit and attestation services" of the amount of fees and others for the current fiscal year represents the sum of the amount of remunerations for auditing services in accordance with the Companies Act and the amount of remunerations for auditing services in accordance with the Financial Instruments and Exchange Act, since the two kinds of remunerations are not clearly divided under the audit contract entered between the Company and Accounting Auditors and they cannot be divided practically.
2. Audit & Supervisory Board approves fees and others of Accounting Auditors as provided in Article 399, Paragraph 1 of the Companies Act by comparing the audit plan of Accounting Auditors for the prior year with actual results, checking any change in audit hours and amount of fees, and judging the reasonableness of estimated audit hours and amount of fees in the fiscal year under review in a comprehensive manner.
3. Overseas subsidiaries of the subsidiaries listed on "1) Status of Material Subsidiaries" of "(7) Status of Material Subsidiaries, etc." of "1. Status of Daiichi Sankyo Group" are audited by audit firms other than KPMG AZSA LLC.

**3) Details of Non-Auditing Services**

- The Company entrusts accounting auditors with services other than service as provided in Article 2, Paragraph 1 of the Certified Public Accountants Law (non-auditing services), including advisory services concerning the English-version financial results reports (Kessan Tanshin) and pays such fees accordingly.

**4) Policy on Decision to Dismiss or not to Reappoint Accounting Auditor**

- In accordance with the "Accounting Auditors Assessment Standards" of the Company, Audit & Supervisory Board shall assess the accounting auditors in a comprehensive manner and, when deemed necessary to change the accounting auditors, it shall decide a proposal for dismissing or not reappointing the accounting auditors to be submitted to a General Shareholders Meeting.
- When accounting auditors meet any of the items of Article 340, Paragraph 1 of the Companies Act, and it is considered reasonable to dismiss them, Audit & Supervisory Board shall, with the consent of all Audit & Supervisory Board Members, dismiss the accounting auditors.
- The "Accounting Auditors Assessment Standards" of the Company stipulate that the Company shall select a candidate for accounting auditor by assessing the reasonableness of the respective assessment items such as legal compliance structure, audit quality management structure, audit results, independence from the Company, knowledge and experience of pharmaceutical industry, global audit framework, and audit fees, and it shall assess the reasonableness of additional assessment items including reporting to Audit & Supervisory Board Members, communicating with corporate representative, and verifying status of audit when deliberating dismissal or non-reappointment of the accounting auditors.

# Consolidated Statement of Changes in Equity
## (From April 1, 2022 to March 31, 2023)

(Millions of JPY)

| | Equity attributable to owners of the Company | | | | | |
|---|---|---|---|---|---|---|
| | | | Other components of equity | | | |
| | Share capital | Treasury shares | 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, 2022** | 50,000 | (37,482) | 822 | 132,103 | – | 35,221 |
| Profit for the year | – | – | – | – | – | – |
| Other comprehensive income for the year | – | – | – | 36,312 | 403 | (2,798) |
| **Total comprehensive income for the year** | – | – | – | 36,312 | 403 | (2,798) |
| Purchase of treasury shares | – | (24) | – | – | | – |
| Disposal of treasury shares | – | 698 | (213) | – | | – |
| Dividend | – | – | – | – | | – |
| Transfer from other components of equity to retained earnings | – | – | – | – | | (976) |
| Others | – | – | – | – | – | – |
| **Total transactions with owners of the Company** | – | 674 | (213) | – | – | (976) |
| **Balance as of March 31, 2023** | 50,000 | (36,808) | 608 | 168,415 | 403 | 31,446 |

| | Equity attributable to owners of the Company | | | | Total equity |
|---|---|---|---|---|---|
| | Other components of equity | | | | |
| | 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** | – | 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 | 5,932 | 39,850 | – | 39,850 | 39,850 |
| **Total comprehensive income for the year** | 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 | – | – | (54,632) | (54,632) | (54,632) |
| Transfer from other components of equity to retained earnings | (5,932) | (6,909) | 6,909 | – | – |
| Others | – | – | 309 | 309 | 309 |
| **Total transactions with owners of the Company** | (5,932) | (7,123) | (47,607) | (54,056) | (54,056) |
| **Balance as of March 31, 2023** | – | 200,874 | 1,231,788 | 1,445,854 | 1,445,854 |

Note: Figures are rounded down to the nearest million Japanese yen.

# Notes to Consolidated Financial Statements

1. Basis of Preparation of Consolidated Financial Statements

(1) Basis of Preparation of Consolidated Financial Statements

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") pursuant to the provisions of Article 120, Paragraph 1 of the Corporate Accounting Rules. These consolidated financial statements omit certain disclosure items required under IFRS in accordance with the provisions in the latter part of that Paragraph.

(2) Scope of Consolidation

- Number of consolidated subsidiaries: 49
- Major consolidated subsidiaries:

Domestic:
Daiichi Sankyo Espha Co., Ltd., Daiichi Sankyo Healthcare Co., Ltd., Daiichi Sankyo Propharma Co., Ltd., Daiichi Sankyo Chemical Pharma Co., Ltd., Daiichi Sankyo Biotech Co., Ltd., Daiichi Sankyo RD Novare Co., Ltd., Daiichi Sankyo Business Associe Co., Ltd.

Overseas:
Daiichi Sankyo U.S. Holdings, Inc., Daiichi Sankyo Inc., American Regent, Inc., Daiichi Sankyo Europe GmbH, Daiichi Sankyo (China) Holdings Co., Ltd., Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd.

- Change in the number of consolidated subsidiaries
  Increase: 2 companies (increase due to acquisition)
  Decrease:2 companies (decrease due to business sale)

(3) Application of the Equity Method

- Number of associates which are accounted for under the equity method: 2
- Major Associates: Hitachi Pharma Information Solutions, Ltd.

(4) Significant Accounting Policies

1) Basis and Method of Valuation of Significant Assets

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 financial assets 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 financial assets: 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 recognised 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.

f. 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.

2) Depreciation and Amortization of Significant Depreciable Assets

a. Property, Plant and Equipment
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.

b. Intangible Assets

Intangible assets with finite useful lives are amortized by the straight-line method based on the estimated useful life of the asset. 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.

c. Right-of-use Assets

Right-of-use assets are depreciated using the straight-line method from the commencement date of the lease 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 the self-owned property, plant and equipment.

3) Method of Accounting for Significant 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.

4) Method of Accounting for Revenue and Expenses

The main business of the Group is the 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 the possibility that a 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 the satisfaction of the performance obligation related to individual contracts, such as research and development collaborations. 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 performance obligation, and there are no significant financing components.

5) 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.
Actuarial gains and losses 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.

6) 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 closing 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 closing 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.

(5) Matters Related to 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.

(6) Changes in Presentation

Consolidated Statement of Profit or Loss

In order to appropriately present the results of the business activities resulting in gains and losses generated from transactions such as asset sales, the Group has changed its method of presentation and now presents these amounts in “Other income” and “Other expenses” from the fiscal year ending March 31, 2023.
As a result, “Cost of sales”, “Selling, general and administrative expenses” and “Research and development expenses” of JPY72 million, JPY4,147 million, and JPY97 million, respectively, in the Consolidated Statement of Profit or Loss for the ended March 31, 2022, have been reclassified as “Other income” and “Other expenses” of JPY4,321 million and JPY3 million, respectively.

## 2. Notes Concerning Accounting Estimates

Items which are recognized in the consolidated financial statements as of March 31, 2023 based on accounting estimates and could have a significant impact on the consolidated financial statements for the next fiscal year ending March 31, 2024 are as follows:

### (1) Valuation of Intangible Assets

1) Amount recorded in the consolidated financial statements as of March 31, 2023: Intangible assets JPY159,609 million

2) Information regarding the content of accounting estimates

Intangible assets of the Group comprise commercial rights related to pharmaceutical products, in-process research and development and other 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 next fiscal year ending March 31, 2024.

### (2) Valuation of Deferred Tax Assets

1) Amount recorded in the consolidated financial statements as of March 31, 2023: Deferred tax assets JPY180,096 million

2) Information regarding the content of accounting estimates

Deferred tax assets are measured at the tax rates that are expected to apply to the period when the asset is realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized for temporary differences, the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which they can be utilized.
Deferred tax assets of the Group include unused tax losses for which deferred tax assets are only partially recognized. 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 next fiscal year ending March 31, 2024.

(3) Provisions and Contingent Liabilities

1) Amount recorded in the consolidated financial statements as of March 31, 2023: Provisions JPY24,003 million

2) Information regarding the content of accounting estimates

A provision is recognized when there is a present obligation (legal or constructive) as a result of a past event and 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 it is not probable that an outflow of resources embodying economic benefits will be required or the amount of the outflow of resources cannot be estimated with sufficient reliability, the Group discloses it as a contingent liability.
Provisions are calculated and contingent liabilities are assessed based on the best estimate of the timing and the amount 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 next fiscal year ending March 31, 2024

## 3. Notes to Consolidated Statement of Financial Position

(1) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables ········· JPY679 million

Other financial assets ········· JPY1 million

(2) Accumulated depreciation and accumulated impairment losses on property, plant and equipment ········· JPY488,116 million

(3) Contingent Liabilities

1) Loan guarantees

The Company provides loan guarantees in relation to its employees' borrowings from financial institutions as follows:

Employees (housing and other loans) ········· JPY180 million

2) Litigations

a. Judgement Action Related to Proprietary Antibody Drug Conjugate Technology with Seagen Inc. (formerly Seattle Genetics, Inc.)

In November 2019, the Company filed a declaratory judgment action in the U.S. District Court of Delaware against Seagen Inc. related to the ADC joint research with Seagen Inc. conducted from 2008 to 2015, alleging that certain intellectual property rights related to the Company's ADC technology belong to Seagen Inc. In response, in November 2019, Seagen Inc. filed an arbitration with the American Arbitration Association (AAA) regarding the claim, but the AAA rendered an award denying Seagen Inc.'s claim in its entirety in August 2022.
In the future, there is no possibility of an outflow of economic benefits related to this matter.

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

Seagen Inc. filed a patent infringement lawsuit in the U.S. District Court of Eastern District of Texas in October 2020, claiming the Company's proprietary ENHERTU and other ADCs infringed the U.S. patent held by Seagen Inc. In April 2022, a trial was conducted in the same district court and a jury decided that ENHERTU infringes said patent. The jury awarded Seagen Inc. approximately US$42 million in damages for the period leading up to trial and found that there was willful infringement of said patent. In July 2022, the Court entered a judgment confirming the aforementioned jury verdict, but while the jury found willful infringement, it did not increase the amount of damages based on the totality of the circumstances. As for the order to pay royalties on future sales of ADCs, such as ENHERTU, from April 2022 to November 2024, when the patent expires, the court has not yet made a judgement on this matter. The Company disagrees with the Court's judgment and has filed a Post-trial Motion. 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.

Meanwhile, in December 2020, the Company and relevant parties filed a petition with the U.S. Patent Office for post-grant review (PGR) contesting the patentability of said US patent of Seagen Inc., but, in June 2021, it was decided that a trial examination for such PGR shall not commence. Upon the decision the Company and relevant parties filed a request for rehearing with the U.S. Patent and Trademark Office in July 2021, and filed an administrative lawsuit in the District Court for the Eastern District of Virginia in August. As a result, in April 2022, the U.S. Patent and Trademark Office granted the above request for rehearing and decided to initiate the PGR. In July 2022, the U.S. Patent and Trademark Office granted Seagen Inc.'s request for rehearing and decided not to proceed with the PGR, but in February 2023, it granted the Company's request for rehearing and decided to resume the PGR.

Regardless of the outcome of the first instance of the patent infringement lawsuit, the Company believes that Seagen Inc.'s U.S. patent is likely to be judged invalid in the appeal court and is also likely to be judged invalid in the PGR at the USPTO. The Company believes that it is unlikely that it will be ordered to pay compensation, and therefore did not record any provision for compensation for the alleged patent infringement.

## 4. Notes to Consolidated Statement of Changes in Equity

### (1) Matters Related to the Total Number of Issued Shares

| Class of shares | Number of shares at April 1, 2022 | Increase in number of shares during the year | Decrease in number of shares during the year | Number of shares at March 31, 2023 |
|---|---|---|---|---|
| Ordinary shares | 1,947,034 thousand shares | - | - | 1,947,034 thousand shares |

### (2) Matters Related to Class and Number of Treasury Shares

| Class of shares | Number of shares at April 1, 2022 | Increase in number of shares during the year | Decrease in number of shares during the year | Number of shares at March 31, 2023 |
|---|---|---|---|---|
| Ordinary shares | 30,247 thousand shares | 6 thousand shares | 563 thousand shares | 29,690 thousand shares |

Notes:

1. The increase in the number of treasury shares was due to purchases of 6 thousand shares of less than one unit.
2. The decrease in the number of treasury shares was due to sale of 0 thousand shares to meet top-up demands for shares of less than one unit, a decrease of 476 thousand shares as a result of exercise of subscription rights to shares and a decrease of 87 thousand shares by granting restricted stocks.

### (3) Matters Related to Dividend from Surplus

1) Amount of dividend paid

a. Dividend based on a resolution made at the 17th Ordinary General Shareholders Meeting held on June 27, 2022

- Total amount of dividend: JPY25,876 million
- Dividend per share: JPY13.50
- Record date: March 31, 2022
- Effective date: June 28, 2022

b. Dividend based on a resolution made at the Board Meeting held on October 31, 2022

- Total amount of dividend: JPY28,755million
- Dividend per share: JPY15.00
- Record date: September 30, 2022
- Effective date: December 1, 2022

2) Dividend for which the record date is in the current fiscal year, but the effective date is in the following fiscal year

The following shall be referred to the 18th Ordinary General Shareholders Meeting, which will be held on June 19, 2023.

- Total amount of dividend: JPY28,760 million
- Resource of dividend: Retained earnings
- Dividend per share: JPY15.00
- Record date: March 31, 2023
- Effective date: June 20, 2023

(4) Matters Related to Subscription Rights to Shares

| Issuer | Grant of subscription rights to shares | Class of shares to be converted | Number of shares to be converted |
|---|---|---|---|
| The Company | No. 1 Subscription Rights to Shares granted in February 2008 (Share remuneration-type stock option) | Ordinary shares | 9 thousand shares |
| The Company | No. 2 Subscription Rights to Shares granted in November 2008 (Share remuneration-type stock option) | Ordinary shares | 15 thousand shares |
| The Company | No. 3 Subscription Rights to Shares granted in August 2009 (Share remuneration-type stock option) | Ordinary shares | 45 thousand shares |
| The Company | No. 4 Subscription Rights to Shares granted in August 2010 (Share remuneration-type stock option) | Ordinary shares | 102 thousand shares |
| The Company | No. 5 Subscription Rights to Shares granted in July 2011 (Share remuneration-type stock option) | Ordinary shares | 104 thousand shares |
| The Company | No. 6 Subscription Rights to Shares granted in July 2012 (Share remuneration-type stock option) | Ordinary shares | 165 thousand shares |
| The Company | No. 7 Subscription Rights to Shares granted in July 2013 (Share remuneration-type stock option) | Ordinary shares | 204 thousand shares |
| The Company | No. 8 Subscription Rights to Shares granted in July 2014 (Share remuneration-type stock option) | Ordinary shares | 186 thousand shares |
| The Company | No. 9 Subscription Rights to Shares granted in July 2015 (Share remuneration-type stock option) | Ordinary shares | 172 thousand shares |
| The Company | No. 10 Subscription Rights to Shares granted in July 2016 (Share remuneration-type stock option) | Ordinary shares | 264 thousand shares |

5. Notes Concerning Tax Effect Accounting

Sources of deferred tax assets and liabilities are as follows:

| Deferred tax assets | (Millions of JPY) |
|---|---|
| Prepaid outsourced research expenses and co-development expenses | 19,310 |
| Depreciation and amortization | 5,682 |
| Unrealized gain and valuation loss of inventories | 48,674 |
| Unused tax losses | 38,006 |
| Accrued expenses | 37,494 |
| Valuation loss of securities | 1,268 |
| Impairment loss | 4,555 |
| Lease liabilities | 12,428 |
| Capitalization research expenses | 31,612 |
| Others | 34,375 |
| Total deferred tax assets | 233,408 |
| Deferred tax liabilities | |
| Intangible assets | (10,406) |
| Financial assets measured at fair value through other comprehensive income | (15,039) |
| Post-employment benefit assets | (5,767) |
| Reserve for advanced depreciation of property, plant and equipment | (4,766) |
| Right-of-use assets | (10,487) |
| Others | (19,492) |
| Total deferred tax liabilities | (65,958) |
| Net deferred tax assets (liabilities) | 167,449 |

Notes:

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.

## 6. Notes Concerning Financial Instruments

### (1) Matters Related to Financial Instruments

The Group raises funds through the issuance of bonds payable and loans from financial institutions. Regarding investments, the Group selects the safest and most secure financial products.
To reduce credit risks relating to trade and other receivables, the Group has established mandatory credit management guidelines. Other financial assets are mostly short-term financial instruments and stocks.
The Finance and Accounting Department prepares and updates funding plans based on reports submitted by each department to manage liquidity risks related to trade and other payables.
The funds raised from bonds and borrowings are intended to be used for purchase of treasury shares and refinancing. To respond to the interest rates risk of some of the long-term borrowings, the Group obtains fixed interest through interest swap transactions. In accordance with transaction management policy, derivative trading is limited to commercial needs.

### (2) Matters Related to Fair Value of Financial Instruments

Carrying amounts of the financial instruments on the consolidated statement of financial position, the fair values of each type of financial instruments and the difference as of March 31, 2023, are as follows:

(Millions of JPY)

| | Amount recorded in consolidated statement of financial position | Fair value | Difference |
|---|---|---|---|
| (1) Cash and cash equivalents | 441,921 | 441,921 | – |
| (2) Trade and other receivables | 349,111 | 349,111 | – |
| (3) Other financial assets | 513,598 | 513,593 | (5) |
| (4) Trade and other payables | (424,036) | (424,036) | – |
| (5) Bonds and borrowings | (143,089) | (137,959) | 5,129 |
| (6) Other financial liabilities | (52,728) | (52,728) | – |
| (7) Contingent consideration | (7,506) | (7,506) | – |

Note: 1. Liabilities are shown in parentheses.
2. Contingent consideration is included in "Other current liabilities" and "Other non-current liabilities" in the consolidated statement of financial position.

Notes: Measurement method of fair values of financial instruments

(1) Cash and cash equivalents, (2) Trade and other receivables, and (4) Trade and other payables

Fair values of these instruments approximate carrying amounts as they are settled in a short period.

(3) Other financial assets, and (6) 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.

(5) Bonds and borrowings

The fair value of bonds is determined by reference to the observable market price and is classified as Level 2. 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, and is classified as Level 2.

(3) Matters Related to Fair Value Hierarchy

Fair Value Hierarchy

The fair value hierarchy of financial instruments is summarized as follows:

Level 1: Fair value measured at quoted prices in active markets for identical assets or liabilities
Level 2: Fair value measured using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Fair value measured by appropriate valuation methods using inputs that are not based on observable market data

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

As of March 31, 2023

(Millions of JPY)

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets | | | | |
| 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 |
| Total | 75,466 | 1,833 | 15,681 | 92,981 |
| Financial liabilities | | | | |
| Financial liabilities measured at fair value through profit or loss: | | | | |
| Derivative liabilities | - | 151 | - | 151 |
| Contingent consideration | - | - | 7,506 | 7,506 |
| Total | - | 151 | 7,506 | 7,657 |

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. The "Contingent consideration" classified as "Financial liabilities measured at fair value through profit or loss" 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). The amount is calculated considering the time value of money. The total future payments that the

Company may be required to make under the contingent consideration agreement are JPY12,726 million (before discount).
The contingent consideration for the business combination of HBT Labs, Inc. is detailed in Note 10. "Notes to Business Combinations" (2) Fair value of assets acquired and liabilities assumed at the acquisition date, and breakdown of the consideration paid.

7. Notes Concerning Revenue Recognition

(1) 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 |

(2) Basic information to understand the Company's revenue

The information is provided in "1. Basis of Preparation of Consolidated Financial Statements, (4) Significant Accounting Policies, 4) Method of Accounting for Revenue and Expenses."

(3) Information to understand the amount of the Company's revenue for the year ended March 31, 2023 and following years

1) Contract balances

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

(Millions of JPY)

| | Year Ended March 31, 2023 |
|---|---|
| Accounts receivable arising from contracts with customers | 280,699 |
| Contract liabilities | 321,112 |

Note: The main contract liabilities are consideration received from customers prior to satisfaction of performance obligations regarding license fee revenue, which is reclassified to revenue as the performance obligations are satisfied.

2) 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.

(Millions of JPY)

| | Year Ended March 31, 2023 |
|---|---|
| Within 1 year | 28,734 |
| Over 1 year within 5 years | 105,881 |
| Over 5 years | 186,363 |
| Total | 320,980 |

8. Notes Concerning Per Share Information

| | |
|---|---|
| (1) Equity per share attributable to owners of the Company: | JPY754.09 |
| (2) Basic earnings per share: | JPY56.96 |
| (3) Diluted earnings per share: | JPY56.91 |

9. Notes Concerning Significant Subsequent Events

Not applicable.

10. Other Notes

Notes Concerning Provisions for environmental measures

Between 2006 and 2008, after the Yasugawa Plant was shut down, the Company had carried out cleanup, excavation and removal of contaminated soil on the site. Since then, the Company has been monitoring the quality of groundwater there through the observation wells installed around the site.

a. Removal of contaminated soil storage facilities

There are 2 storage facilities of contaminated soil on the site, which were built in 1993, one beneath a playground and the other beneath the plant building. The Company has managed the facilities and monitored the quality of groundwater there without any issues noted. However, 29 years have passed since the installment of the facilities and the perception toward “Safety and Security” has changed globally during that period. Therefore, considering the risk of unexpected events, the Company, which values environmental stewardship, decided to remove those facilities in the year ended March 31, 2020 in order to avoid any potential business risks and issues related to managing those facilities.

In order to remove the two storage facilities, the Company carried out a contamination study in compliance with the Soil Contamination Countermeasures Act of Japan, which was completed in March 2021, and provisions were recorded based on the work plan. Subsequently, the removal work for the storage facility beneath the playground began in September 2021 and is still ongoing. However, since new soil contamination that was not anticipated at the beginning of the removal work was discovered in some parts of the storage facility, additional costs for the removal work are expected. As the work is still in progress and the impact on the overall removal work cannot be fully assessed, no reliable estimate can be made in relation to the additional costs. Therefore, no provision has been recorded for the related costs, but the Company plans to conduct a further contamination study once it has an overall picture of the removal work, and will record an additional provision when it can be reliably estimated.

In addition, the work for the storage facility beneath the plant building will be carried out together with the countermeasures against contamination on the Yasu River bank as described in b. below as the facility is adjacent to the river bank.

b. Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site

From March 2018 to September 2019, the Company examined the soil and groundwater of the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, since POPs pesticide endrin exceeding the guideline value was continuously observed in some observation wells through monitoring. Consequently, the Company identified an area where POPs pesticide endrin is excessively distributed. Complying with the Soil Contamination Countermeasures Act of Japan, the Company performed an examination of the area which was completed in June 2021. Based on the examination results, the Company is continuing discussions with the government and other authorities regarding the countermeasure work plan, and the countermeasure work will be carried out as soon as the work plan is finalized. At this point in time, the Company has recorded provisions based on the assumed work plan. However, if the work plan is changed as a result of the discussions, the Company plans to record provisions based on the new work plan.

For the fiscal year ended March 31, 2023, the Company has recorded JPY6,558 million in “Provision for environmental measures” as the estimated cost of a. Removal of contaminated soil storage facilities on the site of the former Yasugawa Plant, and JPY9,474 million as the estimated cost of b. Countermeasures on the site of the former Yasugawa Plant and the Yasu River bank. As a result, the Provision for environmental measures at the current year end remains the same as the previous year at JPY16,032 million, of which JPY964 million is recorded as current liabilities and JPY15,068 million as non-current liabilities.

Notes Concerning impairment losses

The impairment losses for the fiscal year ended March 31, 2023 are mainly in relation to the commercial rights for TURALIO and the in-process research and development for DS-5141.

Regarding the commercial rights for TURALIO, impairment indications were observed, such as a decrease in future sales forecasts due to the impact of competitors’ products. As a result of measuring the recoverable amount, an impairment loss of JPY14,184 million was recorded in "Cost of sales" in the consolidated statement of profit or loss. The recoverable amount of JPY7,710 million was calculated based on the value in use using a pre-tax discount rate of 12.0%.

Regarding the in-process research and development for DS-5141, as it was decided not to continue the development, an impairment loss of JPY6,299 million was recorded in "Research and development expenses" in the consolidated statement of profit or loss. The recoverable amount based on the value in use was assessed to be nil.

Notes to Business Combinations

(1) Overview of Business Combination

1) 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

2) 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.

3) Acquisition date

August 17, 2022

4) Percentage of voting rights acquired

100%

5) 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.

(2) 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 |

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". The contingent consideration for the business combination 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 JPY2,670 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.

(3) Net cash outflow on the acquisition of the subsidiary

| | 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 |

(4) 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.

# Non-Consolidated Statement of Changes in Net Assets
## (From April 1, 2022 to March 31, 2023)

(Millions of JPY)

| | Shareholders' equity | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Capital surplus | | | Retained earnings | | |
| | | | | | Other retained earnings | | |
| | Share Capital | Legal reserve | Other capital surplus | Total capital surplus | Reserve for advanced depreciation of property, plant and equipment | Retained earnings carried forward | Total retained earnings |
| **Balance as of April 1, 2022** | 50,000 | 179,858 | 252,478 | 432,337 | 4,969 | 457,880 | 462,849 |
| Movement in the current year | | | | | | | |
| Reversal of reserve for advanced depreciation of property, plant and equipment | - | - | - | - | (300) | 300 | - |
| Dividend from surplus | - | - | - | - | - | (54,632) | (54,632) |
| Net income | - | - | - | - | - | 104,247 | 104,247 |
| Purchase of treasury shares | - | - | - | - | - | - | - |
| Disposal of treasury shares | - | - | (194) | (194) | - | - | - |
| Movement in the year (net) other than shareholders' equity | - | - | - | - | - | - | - |
| **Total movement in the current year** | - | - | (194) | (194) | (300) | 49,915 | 49,615 |
| **Balance as of March 31, 2023** | 50,000 | 179,858 | 252,284 | 432,142 | 4,669 | 507,795 | 512,464 |

| | Shareholders' equity | | Valuation and translation adjustments | | | Subscription rights to shares | Total net assets |
|---|---|---|---|---|---|---|---|
| | Treasury shares | Total Shareholders' equity | Net unrealized gain or loss on investment securities | Deferred gains or losses on hedges | Total valuation and translation adjustments | | |
| **Balance as of April 1, 2022** | (37,482) | 907,703 | 21,217 | 523 | 21,740 | 822 | 930,266 |
| Movement in the current year | | | | | | | |
| Reversal of reserve for advanced depreciation of property, plant and equipment | - | - | - | - | - | - | - |
| Dividend from surplus | - | (54,632) | - | - | - | - | (54,632) |
| Net income | - | 104,247 | - | - | - | - | 104,247 |
| Purchase of treasury shares | (24) | (24) | - | - | - | - | (24) |
| Disposal of treasury shares | 698 | 503 | - | - | - | - | 503 |
| Movement in the year (net) other than shareholders' equity | - | - | (2,468) | (120) | (2,588) | (213) | (2,801) |
| **Total movement in the current year** | 674 | 50,094 | (2,468) | (120) | (2,588) | (213) | 47,293 |
| **Balance as of March 31, 2023** | (36,808) | 957,798 | 18,749 | 403 | 19,152 | 608 | 977,560 |

Note: Figures are rounded down to the nearest million Japanese yen.

# Notes to Non-Consolidated Financial Statements

1. Significant Accounting Policies

(1) Basis and Method of Valuation of Assets

1) Securities

(i) Held-to-maturity securities

Held-to-maturity securities are measured at amortized costs (straight-line amortization).

(ii) Shares in subsidiaries and associates

Shares in subsidiaries and associates are measured at cost using the moving average method.

(iii) Available-for-sale securities

With quoted market price:

Available-for-sale securities with quoted market price are measured at market value based on the market price as of the reporting date with the valuation difference being recognized directly in equity. Cost of sales is calculated using the moving average method.

Without quoted market price:

Available-for-sale securities without quoted market price are carried at cost using the moving average method.

2) Inventories

Inventories held for sale in the ordinary course of business:

Inventories are measured at cost based on the periodic average method. The carrying amount on the non-consolidated balance sheet is reduced to reflect declines in profitability.

(2) Depreciation and Amortization Method of Non-current Assets

1) Property, plant and equipment

Property, plant and equipment is depreciated by the straight-line method.
The estimated useful lives of major items of property, plant and equipment are as follows:

| | |
|---|---|
| Buildings: | 15 to 50 years |
| Machinery: | 4 to 17 years |
| Tools, furniture and fixtures: | 2 to 15 years |

2) Intangible assets

Intangible assets are amortized by the straight-line method.
Software for internal use is amortized over an estimated useful life of 5 years if it is certain that use of the software will result in future cost reductions.

(3) Provisions

1) Provisions for doubtful accounts

Provisions for doubtful accounts are recorded in relation to potential losses on trade receivables, loans receivable and other assets based on historical loss ratio for general accounts receivable and based on individually assessed estimated uncollectable amounts for specific doubtful accounts.

2) Provisions for retirement benefits

Provisions for retirement benefits and Prepaid pension costs are recorded to employees based on the estimated amount of projected benefit obligations and the pension plan assets as of the end of the

fiscal year.
Past service costs are amortized within one year (12 months) after they are incurred.
Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 years) within the average remaining years of service of the employees from the fiscal year following the year in which the differences occurred.

3) Contingency reserve

A contingency reserve is provided based on considering individual risks for each contingent event and a reasonably estimated loss amount is recorded.

4) Provisions for environmental measures

Provisions for environmental measures are recorded based on the estimated costs for purification of polluted soils contained in certain land.

(4) Translation of Foreign Currency Assets and Liabilities

Foreign currency monetary assets and liabilities are translated to Japanese yen using the spot exchange rate on the reporting date, and the exchange differences are recognized in profit or loss.

(5) Hedge Accounting

1) Hedge accounting

In principle, deferral hedge accounting is adopted. Foreign exchange forward contracts which meet the requirements for allocation method are accounted for by that method. Interest rate swaps which meet the requirements for exceptional accounting treatment are accounted for by the exceptional method.

2) Hedging instruments and hedged items

| | |
|---|---|
| Hedging instruments: | Foreign exchange forward contracts, Interest rate swaps |
| Hedged items: | Foreign currency monetary assets and liabilities, Borrowings, Foreign currency forward contracts |

3) Hedge Policy

The Company hedges foreign exchange risks associated with exports and imports and interest rate risks. The Company does not enter into derivative transactions for speculative purposes.

4) Method of Assessing Hedge Effectiveness

Foreign exchange forward contracts and interest rate swaps qualifying for special accounting treatment are exempt from assessment of hedge effectiveness, since the principal contract terms of the hedging instruments are identical with the hedged items and it is assumed that the hedging is highly effective.

Hedge relationships to which “Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR” is applied

Of the hedge relationships mentioned above, all of the hedge relationships which are included in the scope of "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR (ASBJ PITF No. 40, March 17, 2022) apply the special treatment based on ASBJ PITF No. 40. The nature of the hedge relationships to which ASBJ PITF No. 40 apply are as follows:

Hedge accounting method: Special treatment of interest-rate swaps
Hedging instrument: Interest-rate swap
Hedged item: Borrowings
Hedging transaction type: Fixed cash flow

(6) Method of Accounting for Revenue and Expenses

The main business of the Company is the manufacturing and marketing of pharmaceutical products, and the main performance obligation(s) based on the contracts with customers and usual timing of revenue recognition are as follows:

1) Sales of finished goods and merchandise

The promised goods or services to be transferred to customers are mainly the sales of prescription drugs. Regarding this type of sale, the Company 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 Company receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.
The Company 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.

2) License fee revenue

The Company 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 the possibility that a 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 the satisfaction of the performance obligation. Running royalties are measured based on sales of counterparties or other indexes, and recognized as revenue considering the timing of occurrence. The Company receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

2. Notes concerning accounting estimates

Items which are recognized in the non-consolidated financial statements as of March 31, 2023 based on accounting estimates and could have a significant impact on the non-consolidated financial statements for the next fiscal year ending March 31, 2024 are as follows:

(1) Valuation of Deferred Tax Assets

1) Amount recorded in the non-consolidated financial statements as of March 31, 2023: Deferred tax assets JPY94,343 million

2) Information regarding the content of accounting estimates

The information is omitted as the relevant information is disclosed in “2. Notes Concerning Accounting Estimates” in the notes to the consolidated financial statements.

(2) Provisions and Contingent Liabilities

1) Amount recorded in the non-consolidated financial statements as of March 31, 2023: Provisions for environmental measures JPY16,032 million

2) Information regarding the content of accounting estimates

The information is omitted as the relevant information is disclosed in “2. Notes Concerning Accounting Estimates” in the notes to the consolidated financial statements.

3. Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ·········· JPY158,516 million

(2) Contingent liabilities

1) Loan guarantees

The Company provides guarantees in relation to its subsidiaries’ lease agreements for their offices. The Company also provides loan guarantees in relation to its associates’ and employees’ borrowings from financial institutions as follows:

Daiichi Sankyo Inc. ······························································ JPY9 million

Plexxikon Inc. ······························································ JPY5,474 million

Employees (housing and other loans)······································· JPY180 million

2) Litigations

a. Judgement Action Related to Proprietary Antibody Drug Conjugate Technology with Seagen Inc. (formerly Seattle Genetics, Inc.)

In November 2019, the Company filed a declaratory judgment action in the U.S. District Court of Delaware against Seagen Inc. related to the ADC joint research with Seagen Inc. conducted from 2008 to 2015, alleging that certain intellectual property rights related to the Company's ADC technology belong to Seagen Inc. In response, in November 2019, Seagen Inc. filed an arbitration with the American Arbitration Association (AAA) regarding the claim, but the AAA rendered an award denying Seagen Inc.'s claim in its entirety in August 2022.
In the future, there is no possibility of an outflow of economic benefits related to this matter.

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

Seagen Inc. filed a patent infringement lawsuit in the U.S. District Court of Eastern District of Texas in October 2020, claiming the Company's proprietary ENHERTU and other ADCs infringed the U.S. patent held by Seagen Inc. In April 2022, a trial was conducted in the same district court and a jury decided that ENHERTU infringes said patent. The jury awarded Seagen Inc. approximately US$42 million in damages for the period leading up to trial and found that there was willful infringement of said patent. In July 2022, the Court entered a judgment confirming the aforementioned jury verdict, but while the jury found willful infringement, it did not increase the amount of damages based on the totality of the circumstances. As for the order to pay royalties on future sales of ADCs, such as ENHERTU, from April 2022 to November 2024, when the patent expires, the court has not yet made a judgement on this matter. The Company disagrees with the Court's judgment and has filed a Post-trial Motion. 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.

Meanwhile, in December 2020, the Company and relevant parties filed a petition with the U.S. Patent Office for post-grant review (PGR) contesting the patentability of said US patent of Seagen Inc., but, in June 2021, it was decided that a trial examination for such PGR shall not commence. Upon the decision the Company and relevant parties filed a request for rehearing with the U.S. Patent and Trademark Office in July 2021, and filed an administrative lawsuit in the District Court for the Eastern District of Virginia in August. As a result, in April 2022, the U.S. Patent and Trademark Office granted the above request for rehearing and decided to initiate the PGR. In July 2022, the U.S. Patent and Trademark Office granted Seagen Inc.'s request for rehearing and decided not to proceed with the PGR, but in February 2023, it granted the Company's request for rehearing and decided to resume the PGR.

Regardless of the outcome of the first instance of the patent infringement lawsuit, the Company believes that Seagen Inc.'s U.S. patent is likely to be judged invalid in the appeal court and is also likely to be judged invalid in the PGR at the USPTO. The Company believes that it is unlikely that it will be ordered to pay compensation, and therefore did not record any provision for compensation for the alleged patent infringement.

(3) Monetary assets from and liabilities to subsidiaries and associates

1) Short-term monetary assets ············································JPY151,991 million

2) Long-term monetary assets·············································JPY105,941 million

3) Short-term monetary liabilities ·······································JPY210,932 million

4. Notes to Non-Consolidated Statement of Income

(1) Transactions with subsidiaries and associates

1) Net Sales ··············· JPY328,636 million

2) Purchases of goods ··············· JPY184,896 million

3) Selling, general and administrative expenses ··············· JPY303,383 million

4) Non-operating transactions ··············· JPY127,059 million

(2) Extraordinary gains

（Subsidy Income）

Subsidy income is related to the development of the vaccine for the novel coronavirus infection (COVID-19).

5. Notes to Non-Consolidated Statement of Changes in Net Assets

Matters Related to Class and Number of Treasury Shares

| Class of shares | Number of shares at April 1, 2022 | Increase in number of shares during the year | Decrease in number of shares during the year | Number of shares at March 31,2023 |
|---|---|---|---|---|
| Ordinary shares | 30,247 thousand shares | 6 thousand shares | 563 thousand shares | 29,690 thousand shares |

Notes:

1. The increase in the number of treasury shares was due to purchases of 6 thousand shares of less than one unit.
2. The decrease in the number of treasury shares was due to sale of 0 thousand shares to meet top-up demands for shares of less than one unit, a decrease of 476 thousand shares as a result of exercise of subscription rights to shares and a decrease of 87 thousand shares by granting restricted stocks.

6. Notes Concerning Tax Effect Accounting

(1)Sources of deferred tax assets and liabilities are as follows:

| Deferred tax assets | (Millions of JPY) |
|---|---|
| Prepaid outsourced research expenses and co-development expenses | 19,275 |
| Prepaid expenses | 16,821 |
| Depreciation and amortization | 15,948 |
| Valuation loss of inventories | 14,772 |
| Unused tax losses | 38,446 |
| Accrued bonuses | 4,183 |
| Valuation loss of securities | 1,344 |
| Accrued enterprise taxes | 278 |
| Provisions for doubtful accounts | 841 |
| Provisions for environmental measures | 4,891 |
| Others | 5,883 |
| Subtotal of deferred tax assets | 122,686 |
| Valuation allowance | (5,572) |
| Total deferred tax assets | 117,114 |
| Deferred tax liabilities | |
| Net unrealized gain or loss on investment securities | (8,231) |
| Prepaid pension cost | (9,085) |
| Reserve for advanced depreciation of property, plant and equipment | (4,262) |
| Others | (1,191) |
| Total deferred tax liabilities | (22,771) |
| Net deferred tax assets (liabilities) | 94,343 |

(2) Accounting treatment for national corporation tax and local corporation tax, and tax effect accounting related to these taxes

The Company has applied the Group Tax Sharing System from the current fiscal year. The Company has accounted for national corporation tax, local corporation tax and tax effect accounting related to these taxes and made relevant disclosures in accordance with the “Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System” (ASBJ PITF No. 42, August 12, 2021).

7. Notes Concerning Revenue Recognition

Notes concerning revenue recognition are omitted as the relevant information is disclosed in “7. Notes Concerning Revenue Recognition” in the notes to the consolidated financial statements.

## 8. Notes Concerning Related Party Transactions

Subsidiaries

| Nature of related party | Name | Business | Ownership percentage | Relationship | | Transactions | Transaction amount (Millions of JPY) | Accounts | Balance at the end of year (Millions of JPY) |
|---|---|---|---|---|---|---|---|---|---|
| | | | | Concurrent directors | Business relationship | | | | |
| Subsidiary | Daiichi Sankyo Espha Co., Ltd | Research and development and marketing of pharmaceuticals | Directly 100.0 | Directors: 1 | Purchase of merchandise | Purchase of merchandise | 92,318 | Accounts payable - trade | 5,629 |
| | | | | | | Custody of funds | 25,987 | Deposit received | 25,987 |
| Subsidiary | Daiichi Sankyo Healthcare Co., Ltd. | Research and development, manufacturing and marketing of healthcare products | Directly 100.0 | Directors: 1 | Lending and borrowing of funds | Custody of funds | 34,923 | Deposit received | 34,923 |
| Subsidiary | Daiichi Sankyo Propharma Co., Ltd. | Manufacturing of pharmaceuticals | Directly 100.0 | Directors: 1 | Purchase of merchandise | Purchase of merchandise | 22,412 | Accounts payable - trade | 3,418 |
| | | | | | | Lending of funds | 19,400 | Long-term loans receivable | 19,400 |
| Subsidiary | Daiichi Sankyo Chemical Pharma Co., Ltd. | Manufacturing of pharmaceuticals | Directly 100.0 | Directors: 1 | Purchase of merchandise | Lending of funds | 43,718 | Short-term loans receivable | 5,465 |
| | | | | | | | | Long-term loans receivable | 38,253 |
| Subsidiary | Daiichi Sankyo U.S. Holdings, Inc.. | Holding company | Directly 100.0 | Directors: 1 | Interlocking of officers | Receipt of dividend | 74,370 | — | — |
| Subsidiary | Daiichi Sankyo Inc. | Research and development and marketing of pharmaceuticals | Indirectly 100.0 | Directors: 1 | Marketing of pharmaceuticals and entrustment of research and development and marketing | Marketing of pharmaceuticals and royalty income | 92,956 | Accounts receivable - trade | 35,880 |
| | | | | | | Entrustment of research and marketing | 210,306 | Accounts payable - other | 16,431 |
| | | | | | | | | Accrued expenses | 30,035 |
| Subsidiary | Daiichi Sankyo Europe GmbH | Supervision of the Daiichi Sankyo Europe Group, and research and development, manufacturing and marketing of pharmaceuticals | Directly 100.0 | Directors: 1 | Marketing of pharmaceuticals and entrustment of research and development and marketing | Marketing of pharmaceuticals and royalty income | 206,692 | Accounts receivable - trade | 62,012 |
| | | | | | | Entrustment of research and marketing | 59,873 | Accounts payable - other | 20,871 |
| | | | | | | | | Accrued expenses | 8,395 |
| | | | | | | Lending of funds | 48,087 | Long-term loans receivable | 48,087 |
| Subsidiary | Daiichi Sankyo (China) Holdings Co., Ltd. | Research and development and marketing of pharmaceuticals | Directly 100.0 | Directors: 3 | Marketing of pharmaceuticals and entrustment of research and development and marketing | Receipt of dividend | 32,665 | — | — |

Notes:

Policies for determining transaction terms and conditions
Transaction terms with the companies mentioned above are decided by referring to market prices.

## 9. Notes Concerning Per Share Information

(1) Net assets per share ························· JPY509.53

(2) Earnings per share ························· JPY54.38

(3) Diluted earnings per share ························· JPY54.34

## 10. Notes Concerning Significant Subsequent Events

Not applicable.

## 11. Other Notes

Notes Concerning Provisions for environmental measures

Between 2006 and 2008, after the Yasugawa Plant was shut down, the Company had carried out cleanup, excavation and removal of contaminated soil on the site. Since then, the Company has been monitoring the quality of groundwater there through the observation wells installed around the site.

a. Removal of contaminated soil storage facilities

There are 2 storage facilities of contaminated soil on the site, which were built in 1993, one beneath a playground and the other beneath the plant building. The Company has managed the facilities and monitored the quality of groundwater there without any issues noted. However, 29 years have passed since the installment of the facilities and the perception toward “Safety and Security” has changed globally during that period. Therefore, considering the risk of unexpected events, the Company, which values environmental stewardship, decided to remove those facilities in the year ended March 31, 2020 in order to avoid any potential business risks and issues related to managing those facilities.

In order to remove the two storage facilities, the Company carried out a contamination study in compliance with the Soil Contamination Countermeasures Act of Japan, which was completed in March 2021, and provisions were recorded based on the work plan. Subsequently, the removal work for the storage facility beneath the playground began in September 2021 and is still ongoing. However, since new soil contamination that was not anticipated at the beginning of the removal work was discovered in some parts of the storage facility, additional costs for the removal work are expected. As the work is still in progress and the impact on the overall removal work cannot be fully assessed, no reliable estimate can be made in relation to the additional costs. Therefore, no provision has been recorded for the related costs, but the Company plans to conduct a further contamination study once it has an overall picture of the removal work, and will record an additional provision when it can be reliably estimated.

In addition, the work for the storage facility beneath the plant building will be carried out together with the countermeasures against contamination on the Yasu River bank as described in b. below as the facility is adjacent to the river bank.

b. Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site

From March 2018 to September 2019, the Company examined the soil and groundwater of the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, since POPs pesticide endrin exceeding the guideline value was continuously observed in some observation wells through monitoring. Consequently, the Company identified an area where POPs pesticide endrin is excessively distributed. Complying with the Soil Contamination Countermeasures Act of Japan, the Company performed an examination of the area which was completed in June 2021. Based on the examination results, the Company is continuing discussions with the government and other authorities regarding the countermeasure work plan, and the countermeasure work will be carried out as soon as the work plan is finalized. At this point in time, the Company has recorded provisions based on the assumed work plan. However, if the work plan is changed as a result of the discussions, the Company plans to record provisions based on the new work plan.

For the fiscal year ended March 31, 2023, the Company has recorded JPY6,558 million in “Provision for environmental measures” as the estimated cost of a. Removal of contaminated soil storage facilities on the site of the former Yasugawa Plant, and JPY9,474 million as the estimated cost of b. Countermeasures on the site of the former Yasugawa Plant and the Yasu River bank. As a result, the Provision for environmental measures at the current year end remains the same as the previous year at JPY16,032 million, of which JPY964 million is recorded as current liabilities and JPY15,068 million as non-current liabilities.