Consolidated Financial Statements

Years ended March 31, 2023 and 2022

Mitsubishi Chemical Group Corporation

This document has been extracted and translated from the Japanese original report (Yukashoken-Hokokusho) issued on June 27, 2023 for reference purposes only.
In the event of any discrepancy between this translated document and Japanese version, the Japanese version shall prevail.

Consolidated Statement of Income

Mitsubishi Chemical Group Corporation and Consolidated Subsidiaries
Fiscal years ended March 31

		Millions of yen
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Continuing operations:		
Sales revenue (Notes 4 and 5)	¥ 3,976,948	**¥ 4,634,532**
Cost of sales	(2,862,224)	**(3,395,045)**
Gross profit	1,114,724	**1,239,487**
Selling, general and administrative expenses	(854,455)	**(922,650)**
Other operating income (Note 8)	81,692	**31,893**
Other operating expenses (Note 8)	(59,961)	**(177,755)**
Share of profit of associates and joint ventures (Notes 4 and 15)	21,194	**11,743**
Operating income (Note 4)	303,194	**182,718**
Financial income (Note 9)	9,368	**16,636**
Financial expenses (Note 9)	(22,192)	**(31,390)**
Income before taxes	290,370	**167,964**
Income taxes (Note 10)	(80,965)	**(32,814)**
Net income from continuing operations	¥ 209,405	**¥ 135,150**
Net income attributable to:		
Owners of the parent	¥ 177,162	**¥ 96,066**
Non-controlling interests	32,243	**39,084**
Earnings per share:		(Yen)
Basic earnings per share attributable to owners of the parent (Note 11)	¥ 124.68	**¥ 67.57**
Diluted earnings per share attributable to owners of the parent (Note 11)	¥ 115.03	**¥ 64.72**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

Mitsubishi Chemical Group Corporation and Consolidated Subsidiaries
Fiscal years ended March 31

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Net income	¥209,405	**¥135,150**
Other comprehensive income:		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income (Note 24)	4,471	**(9,923)**
Remeasurements of defined benefit pensions plans (Note 24)	7,328	**(3,018)**
Share of other comprehensive income (loss) of associates and joint ventures for using the equity method (Note 24)	(6)	**426**
Total items that will not be reclassified to profit or loss	11,793	**(12,515)**
Items that may be subsequently reclassified to profit or loss		
Exchange differences on translation of foreign operations (Note 24)	104,596	**78,926**
Net gain (loss) on derivatives designated as cash flow hedges (Note 24)	2,384	**1,528**
Share of other comprehensive income (loss) of associates and joint ventures for using the equity method (Note 24)	4,656	**7,404**
Total items that may be subsequently reclassified to profit or loss	111,636	**87,858**
Total other comprehensive income (net of tax)	123,429	**75,343**
Total comprehensive income	¥332,834	**¥210,493**
Total comprehensive income attributable to:		
Owners of the parent	¥268,003	**¥150,984**
Non-controlling interests	64,831	**59,509**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Financial Position

Mitsubishi Chemical Group Corporation and Consolidated Subsidiaries

		Millions of yen	
		March 31, 2022	**March 31, 2023**
Assets	**Current assets:**		
	Cash and cash equivalents (Note 20)	¥ 245,789	**¥ 297,224**
	Trade receivables (Note 19)	825,996	**808,787**
	Inventories (Note 18)	745,248	**797,877**
	Other financial assets (Note 16)	51,085	**74,469**
	Other current assets (Note 17)	106,556	**141,020**
	Subtotal	1,974,674	**2,119,377**
	Assets held for sale (Note 21)	11,442	**30,241**
	Total current assets	1,986,116	**2,149,618**
	Non-current assets:		
	Property, plant and equipment (Note 13)	1,899,695	**1,907,898**
	Goodwill (Note 12)	705,412	**727,655**
	Intangible assets (Note 12)	448,805	**459,213**
	Investments accounted for using the equity method (Note 15)	174,791	**170,736**
	Other financial assets (Note 16)	233,533	**203,270**
	Other non-current assets (Note 17)	60,923	**61,425**
	Deferred tax assets (Note 10)	64,596	**94,088**
	Total non-current assets	3,587,755	**3,624,285**
	Total assets (Note 4)	¥5,573,871	**¥5,773,903**

The accompanying notes are an integral part of these consolidated financial statements.

		March 31, 2022	**March 31, 2023**
			Millions of yen
Liabilities and Equity			
Liabilities	**Current liabilities:**		
	Trade payables (Note 33)	¥ 486,874	**¥ 476,311**
	Bonds and borrowings (Note 28)	411,213	**601,443**
	Income tax payable	34,875	**29,127**
	Other financial liabilities (Note 30)	291,237	**316,379**
	Provisions (Note 27)	15,601	**47,274**
	Other current liabilities (Note 32)	178,613	**184,272**
	Subtotal	1,418,413	**1,654,806**
	Liabilities directly associated with assets held for sale (Note 21)	880	**9,024**
	Total current liabilities	1,419,293	**1,663,830**
	Non-current liabilities:		
	Bonds and borrowings (Note 28)	1,748,756	**1,642,325**
	Other financial liabilities (Note 30)	112,554	**118,527**
	Retirement benefit liabilities (Note 26)	103,941	**102,292**
	Provisions (Note 27)	22,673	**39,476**
	Other non-current liabilities (Note 32)	147,212	**39,936**
	Deferred tax liabilities (Note 10)	175,123	**179,380**
	Total non-current liabilities	2,310,259	**2,121,936**
	Total liabilities	3,729,552	**3,785,766**
Equity	Common stock: (Note 22)	50,000	**50,000**
	Additional paid-in capital (Note 22)	170,600	**167,917**
	Treasury stock (Note 22)	(62,870)	**(62,231)**
	Retained earnings (Note 22)	1,213,677	**1,270,245**
	Other components of equity (Note 22)	86,670	**138,435**
	Equity attributable to owners of the parent	1,458,077	**1,564,366**
	Non-controlling interests	386,242	**423,771**
	Total equity	1,844,319	**1,988,137**
	Total liabilities and equity	¥5,573,871	**¥5,773,903**

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

Mitsubishi Chemical Group Corporation and Consolidated Subsidiaries

Fiscal year ended March 31, 2022

Millions of yen

	Common stock	Additional paid-in capital	Treasury stock	Retained earnings
Balance at April 1, 2021	¥50,000	¥179,716	¥(63,244)	¥1,060,069
Net income	—	—	—	177,162
Other comprehensive income (Note 24)	—	—	—	—
Total comprehensive income	—	—	—	177,162
Purchase of treasury stock (Note 22)	—	—	(31)	—
Disposal of treasury stock (Note 22)	—	(403)	405	—
Cash dividends (Note 23)	—	—	—	(38,367)
Share-based payment transactions (Note 25)	—	533	—	—
Forfeiture of share acquisition rights	—	(1,106)	—	823
Changes in interests in subsidiaries	—	(8,140)	—	—
Business combinations or business divestitures	—	—	—	—
Changes in scope of consolidation	—	—	—	21
Transfer from other components of equity to retained earnings	—	—	—	13,969
Total transactions with owners	—	(9,116)	374	(23,554)
Balance at March 31, 2022	¥50,000	¥170,600	¥(62,870)	¥1,213,677

	Other components of equity							
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit pensions plans	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Total	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at April 1, 2021	¥56,707	¥ —	¥(47,077)	¥ 168	¥ 9,798	¥1,236,339	¥334,809	¥1,571,148
Net income	—	—	—	—	—	177,162	32,243	209,405
Other comprehensive income (Note 24)	1,063	7,155	80,395	2,228	90,841	90,841	32,588	123,429
Total comprehensive income	1,063	7,155	80,395	2,228	90,841	268,003	64,831	332,834
Purchase of treasury stock (Note 22)	—	—	—	—	—	(31)	—	(31)
Disposal of treasury stock (Note 22)	—	—	—	—	—	2	—	2
Cash dividends (Note 23)	—	—	—	—	—	(38,367)	(15,963)	(54,330)
Share-based payment transactions (Note 25)	—	—	—	—	—	533	—	533
Forfeiture of share acquisition right	—	—	—	—	—	(283)	—	(283)
Changes in interests in subsidiaries	—	—	—	—	—	(8,140)	2,553	(5,587)
Business combinations or business divestitures	—	—	—	—	—	—	(9)	(9)
Changes in scope of consolidation	—	—	—	—	—	21	21	42
Transfer from other components of equity to retained earnings	(6,814)	(7,155)	—	—	(13,969)	—	—	—
Total transactions with owners	(6,814)	(7,155)	—	—	(13,969)	(46,265)	(13,398)	(59,663)
Balance at March 31, 2022	¥50,956	¥ —	¥33,318	¥2,396	¥86,670	¥1,458,077	¥386,242	¥1,844,319

Fiscal year ended March 31, 2023

Millions of yen

	Common stock	Additional paid-in capital	Treasury stock	Retained earnings
Balance at April 1, 2022	¥50,000	¥170,600	¥(62,870)	¥1,213,677
Net income	—	—	—	96,066
Other comprehensive income (Note 24)	—	—	—	—
Total comprehensive income	—	—	—	96,066
Purchase of treasury stock (Note 22)	—	—	(21)	—
Disposal of treasury stock (Note 22)	—	(651)	660	—
Cash dividends (Note 23)	—	—	—	(42,651)
Share-based payment transactions (Note 25)	—	463	—	—
Changes in interests in subsidiaries	—	(2,495)	—	—
Business combinations or business divestitures	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	3,153
Total transactions with owners	—	(2,683)	639	(39,498)
Balance at March 31, 2023	¥50,000	¥167,917	¥(62,231)	¥1,270,245

	Other components of equity							
	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit pensions plans	Exchange differences on translation of foreign operations	Net gain (loss) on derivatives designated as cash flow hedges	Total	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Balance at April 1, 2022	¥50,956	¥ —	¥33,318	¥ 2,396	¥ 86,670	¥1,458,077	¥386,242	¥1,844,319
Net income	—	—	—	—	—	96,066	39,084	135,150
Other comprehensive income (Note 24)	(10,053)	(3,459)	66,570	1,860	54,918	54,918	20,425	75,343
Total comprehensive income	(10,053)	(3,459)	66,570	1,860	54,918	150,984	59,509	210,493
Purchase of treasury stock (Note 22)	—	—	—	—	—	(21)	—	(21)
Disposal of treasury stock (Note 22)	—	—	—	—	—	9	—	9
Cash dividends (Note 23)	—	—	—	—	—	(42,651)	(19,216)	(61,867)
Share-based payment transactions (Note 25)	—	—	—	—	—	463	—	463
Changes in interests in subsidiaries	—	—	—	—	—	(2,495)	(3,153)	(5,648)
Business combinations or business divestitures	—	—	—	—	—	—	389	389
Transfer from other components of equity to retained earnings	(6,612)	3,459	—	—	(3,153)	—	—	—
Total transactions with owners	(6,612)	3,459	—	—	(3,153)	(44,695)	(21,980)	(66,675)
Balance at March 31, 2023	¥34,291	¥ —	¥99,888	¥4,256	¥138,435	¥1,561,366	¥423,771	¥1,988,137

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Mitsubishi Chemical Group Corporation and Consolidated Subsidiaries

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Cash flows from operating activities:		
Income before taxes	¥290,370	**¥167,964**
Depreciation and amortization	251,469	**269,616**
Share of (profit) loss of associates and joint ventures	(21,194)	**(11,743)**
Impairment loss	26,047	**96,782**
Provision for loss on plant closure	—	**26,726**
Loss on sale and disposal of fixed assets	14,407	**10,979**
Provision for loss on business liquidation	—	**5,666**
Provision for loss on litigation	615	**3,550**
Gain on sale of property, plant and equipment	(9,121)	**(8,792)**
Gain on sale of intercompany securities	(1,888)	**(3,316)**
Gain on reversal of environmental expenses	—	**(3,149)**
Gain on business transfer	(60,838)	**—**
Interest and dividend income	(5,875)	**(14,616)**
Interest expense	20,985	**29,800**
(Increase) decrease in trade receivables	(88,721)	**20,438**
(Increase) decrease in inventories	(152,599)	**(45,166)**
Increase (decrease) in trade payables	86,511	**(14,611)**
Increase (decrease) in retirement benefit assets and liabilities, net	9,222	**4,184**
Others	45,221	**(66,344)**
Subtotal	404,611	**467,968**
Interest received	1,134	**2,039**
Dividends received	14,204	**26,338**
Interest paid	(20,250)	**(25,335)**
Income tax (paid) received, net	(52,828)	**(115,821)**
Net cash provided by (used in) operating activities	346,871	**355,189**
Cash flows from investing activities:		
Purchase of property, plant and equipment	(244,851)	**(259,026)**
Proceeds from sales of property, plant and equipment	24,707	**5,793**
Purchase of intangible assets	(12,814)	**(21,969)**
Purchase of other financial assets	(4,070)	**(5,184)**
Proceeds from sales/redemption of other financial assets	38,988	**26,944**
Purchase of investments in subsidiaries	(6,501)	**(122)**
Proceeds from sales of investments in subsidiaries	0	**9,832**
Payments for transfer of businesses	(700)	**—**
Proceeds from transfer of businesses	81,901	**1,934**
Net (increase) decrease in time deposits	476	**(636)**
Others	(5,917)	**(5,198)**
Net cash provided by (used in) investing activities	(128,781)	**(247,632)**

Cash flows from financing activities:		
Net increase (decrease) in short-term borrowings	(89,129)	**(9,167)**
Net increase (decrease) in commercial papers	(60,000)	**69,000**
Proceeds from long-term borrowings	66,162	**81,270**
Repayment of long-term borrowings	(130,246)	**(128,728)**
Proceeds from issuance of bonds	94,636	**44,776**
Redemption of bonds	(125,000)	**(20,000)**
Repayment of lease liabilities	(32,349)	**(34,099)**
Net (increase) decrease in treasury stock	(27)	**(21)**
Dividends paid to owners of the parent	(38,367)	**(42,651)**
Dividends paid to non-controlling interests	(15,810)	**(19,113)**
Repayments to non-controlling interests	(5,600)	**—**
Others	(553)	**(2,050)**
Net cash provided by (used in) financing activities	(336,283)	**(60,783)**

Effect of exchange rate changes on cash and cash equivalents	14,276	**6,425**
Net increase (decrease) in cash and cash equivalents	(103,917)	**53,199**
Cash and cash equivalents at the beginning of the period	349,577	**245,789**
Net increase (decrease) in cash and cash equivalents resulting from transfer to assets held for sale	(137)	**(1,868)**
Net increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	266	**—**
Net increase in cash and cash equivalents resulting from merger and acquisition	—	**104**
Cash and cash equivalents at the end of the period (Note 20)	¥245,789	**¥297,224**

The accompanying notes are an integral part of these consolidated financial statements.

Note 1

Reporting Entity

Mitsubishi Chemical Group Corporation (the "Company") is a corporation domiciled in Japan, whose shares are listed on the Prime Market of the Tokyo Stock Exchange. The registered address of its Head Office is presented on its website (https://www.mcgc.com/). The Company's Consolidated Financial Statements for the fiscal year ended March 31, 2023 comprise those of the Company, its subsidiaries and associates, and interests under joint arrangements (collectively, the "Group"). The Group's three principal domains are Performance Products, Industrial Materials, and Health Care. Further details are presented in Note 4 Segment Information.

The Company changed its trade name from "Mitsubishi Chemical Holdings Corporation" to "Mitsubishi Chemical Group Corporation" on July 1, 2022. In these notes, the trade name is presented as "Mitsubishi Chemical Group Corporation" for all transactions including the transactions before changing the trade name.

Note 2

Basis of Presentation

1. Compliance with IFRS

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

2. Approval of Consolidated Financial Statements

The Group's consolidated financial statements were approved on June 27, 2023, by Jean-Marc Gilson, Representative Corporate Executive Officer, President and Chief Executive Officer, and Yuko Nakahira, Executive Vice President, Chief Financial Officer.

3. Basis of Measurement

The consolidated financial statements are prepared on a historical cost basis, except for certain financial instruments measured at fair value presented in Note 3 Significant Accounting Policies.

4. Presentation Currency

The consolidated financial statements are presented in Japanese yen, which is the Company's functional currency, rounded to the nearest million yen.

5. Use of Judgments, Estimates and Assumptions

Management has made a number of judgments, estimates and assumptions relating to the application of accounting policies, reporting of revenues, expenses, assets and liabilities in the preparation of the consolidated financial statements in accordance with IFRS. Actual results may differ from these estimates.

Estimates and underlying assumptions are continually evaluated. The effect of changes to accounting estimates is recognized in the reporting period in which the revision was made and in future periods.

Information regarding judgments, estimates, and assumptions used in applying accounting policies that could materially affect the Group's consolidated financial statements is included in the following notes:

- Impairment of Non-Financial Assets (Note 12, Goodwill and Intangible Assets, Note 13, Property, Plant and Equipment and Note 14, Impairment Losses)
- Recoverability of Deferred Tax Assets (Note 10, Income Taxes)
- Measurement of Defined Benefit Obligations (Note 26, Retirement Benefits)
- Fair Value of Financial Instruments (Note 34, Financial Instruments)

Significant assumptions used in making estimates for the fiscal year ended March 31, 2023 include the following.

(Assumptions relating to the impacts of conflict between Russia and Ukraine)
While the conflict between Russia and Ukraine shows no signs of ending soon, the direct impacts on the Group's business are immaterial at this stage. Management made no related assumptions in accounting estimates that this conflict would materially affect Group's financial results at the end of the fiscal year ended March 31, 2023.

6. Newly Applied Standards and Interpretations

The principal new standards and interpretations that the Group applied in the fiscal year ended March 31, 2023, are as follows.

Standards and Interpretations		Summary of new and revised provisions
IAS 12	Income Taxes	Temporary exception to accounting for deferred taxes arising from implementing Pillar Two Model Rules

The Group applied International Tax Reform—Pillar Two Model Rules – Amendments to IAS 12 Income Taxes from the fiscal year ended March 31, 2023.

The amendments clarify that IAS 12 applies to income taxes arising from tax laws enacted or substantively enacted to implement the Pillar Two GloBE (global minimum tax) Rules of Base Erosion and Profit Shifting (BEPS) published by the OECD. However, the amendments introduce a temporary exception from recognizing and disclosing deferred tax assets and liabilities for income taxes arising from global minimum taxes.

For income taxes arising from the global minimum taxes, deferred tax assets and liabilities are not recognized or disclosed with respect to the exception mentioned above. For reference, in Japan, as a result of the 2023 tax reform, a corporate tax corresponding to global minimum tax was established, and including related provisions (the Global Minimum Tax), the Tax Reform Act (Act for Partial Revision of the Income Tax Act and Other Acts (Act no. 3, 2023)) (Revised Corporation Tax Act) was enacted on March 28, 2023.

Revised Corporation Tax Act introduced the Income Inclusion Rule (IIR) from the global minimum tax rules of BEPS, imposing top-up taxes on parent companies headquartered in Japan until the tax burdens of their domestic subsidiaries reach the minimum tax rate of 15%, effective from the fiscal year starting on April 1, 2024.

7. New Standards and Interpretations Not Yet Applied

As of the reporting date, the Group did not apply new standards or interpretations issued by the approval date for the Consolidated Financial Statements, as their application was not mandatory and would not have materially affected the Group's Consolidated Financial Statements.

Note 3

Significant Accounting Policies

1. Basis of Consolidation

(1) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group has control over an entity if it has exposure or rights to variable returns from its involvement with the investee and has the ability to affect those returns through its influence over the investee.

In preparing its consolidated financial statements, the Company based the financial statements of each Group company prepared as of the same closing date based on common Group accounting policies. Subsidiaries' financial statements are adjusted, if necessary, when their accounting policies differ from those of the Group.

The Group consolidates entities from the date on which it acquires control until the date on which it loses control.

All intergroup balances of outstanding receivables and obligations and unrealized gains and losses are eliminated on consolidation.

A change in ownership interest of a consolidated subsidiary, without a loss of control, is accounted for as an equity transaction. Differences between adjusted non-controlling interest amounts and fair value are recognized directly as equity attributable to owners of the parent.

In the event of a loss of control, the Group measures and recognizes any remaining investments at fair value. Any gain or loss arising from a loss of control is recognized in profit or loss.

Non-controlling interests in a subsidiary's net assets are recognized separately from those under the Group's control. The comprehensive income of consolidated subsidiaries is attributed to owners of the parent and non-controlling interests even if those results in the non-controlling interests having a deficit balance.

(2) Associates

Associates are entities in which the Group has significant influence over the financial and operational policies but does not have control or joint control. Normally, the Group is assumed to be able to exercise significant influence when it holds 20% to 50% ownership. Other factors considered in assessing whether or not the Group can exercise significant influence include sending any of its officers being on the Board of Directors. In such cases, the Group may be considered to be able to exercise significant influence over an associate even if its investment accounts for less than 20% of voting rights.

The Group accounts for investments in associates under the equity method. Such investments are recognized at cost upon acquisition. After acquisition, the Group's share of the change in the net assets of associates is adjusted and recorded in the Consolidated Statement of Financial Position.

The consolidated financial statements reflect the Group's share of earnings in associates. If amounts recognized in other comprehensive income of associates change, the Group's share with respect to those changes is also recognized in other comprehensive income.

The Group's consolidated financial statements have been adjusted to eliminate its share in unrealized gains and losses arising from transactions between it and associates.

Associates prepare their financial statements for the same reporting period as the Group, adjusting their accounting policies to align with those of the Group.

In the event that the Group loses significant control over an associate, it assesses and recognizes the remaining investment at fair value as of the day on which it lost such influence. Gains and losses arising from the loss of significant influence are recognized in profit or loss.

In preparing the consolidated financial statements, the requirements of local laws and shareholder agreements made it effectively impossible to match reporting dates of all associates to that of the Group. For certain associates for which it was impracticable to provisionally settle accounts on the Group's reporting date owing to business or other factors, the Group uses relevant provisional financial statements for the period ending December 31. Significant transactions or events between the reporting dates of those associates and the consolidated closing date are reflected in the consolidated financial statements.

(3) Joint Arrangements

A joint arrangement is an arrangement in which unanimous consensus from the parties that have joint control of decision-making over related activities is required.

A joint venture is a joint agreement through which parties with joint control over an arrangement have rights to the net assets of an arrangement.

The Group uses the equity method to account for its equity interests in joint ventures.

A joint operation is one in which parties with joint control of an arrangement have rights to assets and obligations for liabilities relating to the joint arrangement.

If the Group holds an interest in a joint operation, the Group recognizes assets, liabilities, revenues and expenses generated from joint operating activities only to the extent of its interest. Inter-company transactions among the Group’s companies as well as receivable and payable balances and unrealized gains and losses arising from such transactions are eliminated.

The principal joint operation is The Saudi Methacrylates Company, in which the Group and Saudi Arabia have a 50-50 interest. That company manufactures methyl methacrylate monomer, acrylic resin, and other offerings.

2. Business Combinations

The Group uses the acquisition method to account for business combinations.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, the Group reports provisional amounts and adjusts the amounts in a measurement period that does not exceed one year from the acquisition date.

The Group measures the cost of an acquisition as the aggregate of the consideration transferred, measured at acquisition-date fair value and the amount of any non-controlling interest in the acquiree.

For each business combination, the Group measures components of non-controlling interests in the acquiree at fair value or the amounts of non-controlling interests in the acquiree's identifiable net assets.

The Group accounts for acquisition-related costs as expenses in the periods in which such costs are incurred.

When the Group acquires a business, the Group classifies or designates the identifiable assets acquired and liabilities assumed on the basis of the contractual terms, economic conditions and other pertinent conditions as they exist at the acquisition date. In principle, the Group generally measures the identifiable assets acquired and the liabilities assumed at their acquisition-date fair values.

If a business combination is achieved in stages, the Group reassesses the equity of the acquiree before acquisition of control at fair value on the acquisition date, and recognizes the resulting gain or loss in profit or loss. The Group accounts for the equity interest of the acquiree booked in other comprehensive income before the acquisition on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

Goodwill is measured as the difference by which total value recognized as transferred consideration and non-controlling interests exceeds the net value of identifiable assets acquired and liabilities assumed.

If the total amount recognized as transferred consideration and non-controlling interests is less than net amount of identifiable assets acquired and liabilities assumed, the Group recognizes the difference as profit or loss.

After initial recognition, the Group does not amortize goodwill acquired through a business combination, but records goodwill at cost less any accumulated impairment loss. The Group conducts impairment tests annually or when there are indications of impairment.

3. Foreign Currency Translations

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company's functional currency.

In addition, each company in the Group determines its individual functional currency and measures transactions using these functional currencies.

Foreign currency denominated transactions are translated into functional currencies at spot exchange rates as of the transaction dates or at similar rates.

Foreign currency monetary assets and liabilities are translated into the functional currency using the spot exchange rate on the date of end of the consolidated reporting period. Exchange differences arising from translations or settlement are recognized in profit or loss. However, exchange differences arising from financial instruments designated as hedging instruments of net investments in foreign operations (foreign subsidiaries, etc.), financial assets measured through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

The Group translates assets and liabilities of foreign operations using the spot exchange rate at the end of the reporting period, and revenue and expenses using the spot exchange rate on the transaction date or an approximate rate in Japanese yen, respectively. The Group accounts for any exchange differences arising in such retranslation in other comprehensive income.

On the disposal of a foreign operation, accumulated exchange differences related to the foreign operation are recognized in profit or loss in the corresponding period of disposal.

4. Sales Revenue

The Group recognizes sales revenue based on the following five-step model in amounts reflecting the Group’s anticipated entitlements in exchange for goods or services transferred to customers.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group provides an array of products and services to customers in Japan and abroad through the principal business domains of Performance Products, Chemicals, Industrial Gases, and Health Care.

Regarding product sales in these businesses, once customers gain control over delivered products and it is determined that the performance obligations are met, sales revenue is recognized upon product delivery.

Sales revenue is measured at the amount of consideration promised in contracts with customers, net of discounts, rebates and returns.

Considerations in product sales contracts are generally collected within one year after control of products transfers to customer, and do not include significant financial elements.

5. Government Grants

Government grants are recognized at fair value when there is reasonable assurance that the Group will comply with grant terms and that the grant will be received.

Government grants related to income are recognized as income on a systematic basis over the periods in which the Group recognizes as expenses the related costs for which the grants are intended to compensate.

Government grants relating to assets are deducted from asset acquisition costs.

6. Borrowing Costs

The Group capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of assets that require considerable time before use as intended or sale as part of the cost of that asset. The Group recognizes all other borrowing costs as expenses in periods incurred.

7. Income Taxes

The Group calculates current tax liabilities or assets for the current and prior periods as amounts that it expects to pay to or recover from taxation authorities. The Group uses tax rates and tax laws enacted or substantively enacted by the end of a reporting period to determine tax amounts.

The Group uses the asset and liability method to record deferred taxes for differences between carrying amounts of assets or liabilities on the accounts at the end of the reporting period and the tax basis (temporary differences).

In principle, the Group recognizes deferred tax liabilities for all future taxable temporary differences. Deferred tax assets are recognized to the extent that it is probable that taxable income will be available against which deductible temporary differences and for tax credits and tax loss carryforwards can be used.

As exceptions, however, the Group does not recognize deferred tax assets or deferred tax liabilities for the following temporary differences:

- The initial recognition of goodwill
- The initial recognition of assets or liabilities in transactions that are not business combinations and do not affect profits in the accounts at the time of transactions or taxable profits or losses.
- Deductible temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that it is probable that the temporary difference will not reverse in the foreseeable future or it is not probable that future taxable profits will be available against which they can be utilized.
- Taxable temporary differences arising from investments in subsidiaries and associates, and interests in joint ventures to the extent that the timing of the reversal of the temporary difference is controlled and that it is probable the temporary difference will not reverse in the foreseeable future.

The Group reviews the carrying amount of deferred tax assets and liabilities (including unrecognized deferred tax assets) at the end of each reporting period. The Group calculates deferred tax assets and liabilities based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period, estimating tax rates at the time assets materialize or liabilities are settled.

8. Earnings per Share

The Company calculates basic earnings per share by dividing the net income attributable to ordinary shareholders by the weighted average number of ordinary shares, adjusted for treasury stock during that period. The Company calculates diluted earnings per share by adjusting the effects of all potentially dilutive shares.

9. Cash and Cash Equivalents

Cash and cash equivalents comprise cash on hand, demand deposits, and short-term investments that are readily convertible to cash, which are subject to insignificant risks of changes in value, and whose maturities are three months or less from the date of acquisition.

10. Inventories

The cost of inventories comprises all purchase costs, processing costs, and all costs incurred in bringing the inventories to their present location and condition.

Inventories are measured at the lower of acquisition cost and net realizable value. The Group mainly uses the weighted average cost formula to calculate costs. The Group calculates net realizable value by deducting the estimated selling price in the ordinary course of business from the estimated costs required to make a sale.

11. Assets Held for Sale and Discontinued Operations

The Group classifies a non-current asset (or disposal group) as held for sale if its carrying amount is expected to be recovered principally through a sale transaction rather than through continuing use. This applies only if the asset (or disposal group) is available for immediate sale in its present condition and a sale is highly probable within one year. The Group measures a non-current asset (or disposal group) classified as held for sale at the lower of the carrying amount and fair value, less the cost to sell.

The Group does not depreciate or amortize property, plant and equipment or intangible assets classified as held for sale.

Discontinued operations include units that have been disposed of or are classified as held for sale. The Group recognizes an operation as discontinued if it is a Group business and is scheduled for disposal.

12. Property, Plant and Equipment

The Group applies the cost model to measure property, plant and equipment.

The Group carries property, plant and equipment at acquisition cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes direct costs of acquisition, estimated costs of dismantlement, removal and restoration, and borrowing costs that satisfy capitalization criteria.

Except for land, property, plant and equipment, less the residual value at the end of the reporting term, is depreciated using the straight-line method.

Depreciation is computed over the following estimated useful lives for the following major classes of assets:

Buildings and structures	3 to 50 years
Machinery, equipment and vehicles	2 to 22 years
Tools, furniture and fixtures	2 to 25 years

13. Intangible Assets

The Group uses the cost model to measure intangible assets.

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

Separately acquired intangible assets are initially recognized at cost. The acquisition cost of an intangible asset acquired in a business combination is measured at fair value at the acquisition date.

Expenditure on an internally generated intangible asset is recognized as an expense when it is incurred, excluding development expenditures that satisfy the criteria for capitalization.

The Group amortizes intangible assets with finite useful lives on a straight-line basis over their useful lives. It tests intangible assets when there are indications of impairment. Amortization periods and methods for intangible assets with finite useful lives are reviewed at year-end. Any changes are applied to the future as changes in accounting estimates.

Amortization is over the following estimated useful lives for the following major classes of intangible assets:

Technology-related intangible assets	4 to 22 years
Customer-related intangible assets	5 to 30 years
Software	3 to 5 years

The Group does not amortize intangible assets with indefinite useful lives, and conducts impairment tests individually or by cash-generating unit (or groups of cash-generating units) annually, and whenever there are indications of impairment.

14. Impairment of Assets

(1) Impairment of Non-Financial Assets

The Group assesses whether indications of asset impairment exist at the end of each reporting period. If there are such indications and annual impairment testing is necessary, the Group estimates recoverable amounts, which are the higher amount of fair value less costs of disposal and value in use. If a recoverable amount of an asset cannot be estimated, the Group estimates the recoverable amount of each cash-generating unit or group of cash-generating units of the asset class. If the carrying amount of an asset exceeds its recoverable amount, the Group recognizes impairment losses and reduces the carrying amount of the asset to its recoverable amount. In measuring value in use, the Group determines the present value of cash flow projections, discounted by pre-tax rates reflecting current market assessments of the time value of money and risks specific to the asset. The Group estimates cash flow projections using a business plan for five years or less, in principle. Cash flow projections beyond the business plan period use long-term-average growth rates according to individual circumstances.

The Group uses an appropriate valuation model supported by an available fair value index to measure fair value less costs of disposal.

The Group allocates goodwill after acquisition dates to individual or groups of cash generating units expected to benefit from corporate combination synergies.

For goodwill, intangible assets with indefinite useful lives and intangible assets not yet available for use, the Group tests for impairment annually and when there are indications of impairment.

(2) Reversal of Impairment Loss

For assets other than goodwill, at the end of each reporting period the Group evaluates whether assumptions used to measure recoverable amounts have changed for impairment losses recognized in prior periods and if there are indications that such losses have decreased or disappeared.

If such indications exist, the Group reverses impairment losses if recoverable amounts exceed the Group's carrying amounts of assets or cash-generating units. Any reversal is limited to the lower of the estimated recoverable amount or the carrying value that would have been determined, net of accumulated depreciation, had no impairment loss been recognized in prior periods.

Impairment loss reversals are recognized in profit or loss.

Goodwill impairment losses are not reversed.

15. Leases

When transferring the right to control the use of assets specified in lease contracts in exchange for consideration over a certain period, the Group recognizes lease transactions and the right-of-use assets and lease liabilities as of the commencement date of the lease. Determining whether an arrangement is, or contains, a lease is based on the substance of an arrangement regardless of whether it takes the legal form of a lease.

Lease liabilities are measured as the discounted present value of unsettled portions of lease payments at the lease commencement date. Right-of-use assets are initially measured by adjusting initial direct costs, prepaid lease fees, and other charges for lease liabilities, adding costs for the obligation to restore to original condition and other requirements based on lease contracts.

Lease payments are allocated to the repayment portion of the net financial expenses and lease liabilities so the amount produces a constant periodic rate of interest on the remaining balance of the lease liability, with financial expenses being recognized in profit or loss.

Right-of-use assets are depreciated over their service lives where ownership of the underlying assets transfer to the lessees by the end of lease periods or where the costs of right-of-use assets reflect the exercise of purchase options. In other cases, assets are depreciated systematically over the shorter of service lives or lease periods.

For leases ending within 12 months or leases for which the underlying asset is of low value, related lease payments are systematically recognized as costs over the lease periods.

16. Provisions

A provision is recognized when the Group has 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 the amount of the obligation can be estimated reliability.

Where the effect of the time value of money is material, the provision is measured at the present value of the expenditures expected to be required to settle obligations. The discount rate used in measuring the present value is a pre-tax rate that reflects current market assessments of the time value of money and risks inherent in the liability.

17. Retirement Benefits

The Group operates a defined benefit plan and defined contribution plan as employee retirement benefit plans.

The Group uses the projected unit credit method to determine the present value of its defined benefit obligations and the related current and past service costs for each plan.

The rate used to discount post-employment benefit obligations is determined by referring to market yields at the end of the reporting period on high quality corporate bonds.

The fair value of any plan assets is deducted from the present value of the defined benefit obligation in determining the amount of the net defined benefit liabilities or assets of defined benefit plans.

Remeasurements of liabilities and assets associated with defined benefit retirement plans are recognized in other comprehensive income in the period incurred and immediately reflected in retained earnings. Prior service costs are recognized as expenses in the periods incurred.

The Group recognizes contributions payable to defined contribution plans as expenses at the time of contribution.

18. Capital

(1) Ordinary Shares

The Company allocated the issue price of ordinary shares between common stock and additional paid-in capital.

(2) Treasury Stock

Acquired treasury stock is recognized at cost and deducted from equity, while the difference between the carrying value of treasury stock and its value at the time of sale is recognized in additional paid-in capital.

19. Share-Based Payment

The Company and some subsidiaries employ equity-settled share-based compensation plans.

Under such plans, services received are measured at fair value as of the date capital financial instruments are granted. If granted capital financial instruments are immediately determined, all services received on the grant date is recognized as expenses, that amount being recognized as an increase in equity. If granted capital financial instruments are determined after a certain period of time, they are recognized as expenses over the vesting period from the date granted, that amount being recognized as an increase in equity.

20. Financial Instruments

(1) Financial Assets (Except Derivatives)

(i) Initial Recognition and Measurement

The Group initially recognizes trade receivables upon fulfilling its performance obligations and acquiring unconditional rights to consideration in accordance with IFRS 15 (Revenue from Contracts with Customers). The Group initially recognizes all other financial assets on the transaction dates on which the Group becomes a contract party.

Financial assets are classified as financial assets measured at fair value through profit or loss or other comprehensive income and financial assets measured at amortized cost. The Group determines classifications at initial recognition.

Debt financial instruments are classified as financial assets measured at amortized cost if both of the following conditions are met.

- Financial assets are based on a business model where the aim is to hold financial assets to collect contractual cash flows
- Contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on principal amounts outstanding

Debt financial instruments meeting the following conditions and measured at fair value are classified as financial assets measured at fair value through other comprehensive income. Otherwise, they are classified as financial assets measured at fair value through profit or loss.

- Financial assets are based on a business model where the aim is to hold financial assets to collect contractual cash flows and sell assets
- Contractual terms of financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on principal amounts outstanding

Equity instruments other than those for trading purpose are designated as measured at fair value through profit or loss or as measured at fair value through other comprehensive income. Such designations are applied subsequently on a consistent basis.

Except for financial assets measured at fair value through profit or loss, financial instruments are measured at fair value plus transaction costs attributable directly to them.

(ii) Subsequent Measurements

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

(a) Financial Assets Measured at Amortized Cost

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

(b) Other Financial Assets

Financial assets other than those measured at amortized cost are measured at fair value.

Changes in the fair value of financial assets measured at fair value are recognized in profit or loss or in other comprehensive income.

Changes in the fair value of equity instruments designated as measured at fair value through other comprehensive income are recognized in other comprehensive income and the amount in other comprehensive income is transferred to retained earnings when equity instruments are derecognized or when the fair value of equity instruments declines significantly.

(iii) Derecognition

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

If the Group neither transfers nor retains substantially all the risks and rewards of ownership of a transferred asset and retains control of the transferred asset, the Group recognizes the residual interest in the transferred asset and the associated liability to be payable to the extent of the Group’s continuing involvement.

(iv) Impairment

At each closing date, the Group assesses whether the credit risk on a financial asset or a financial asset group measured at amortized cost or a financial guarantee contract has increased significantly since initially recognizing the impairment of a financial asset or financial guarantee contract.

If, at the closing date, the credit risk of a financial asset or a financial asset group has not increased significantly since initial recognition, the Group measures the loss allowance for that financial asset at an amount equal to 12-month expected credit losses. However, the Group recognizes the expected credit losses of trade receivables over the remaining period from the initial recognition.

If a credit risk has increased significantly since initial recognition, the Group recognizes an expected credit loss over the remaining period as a loss allowance.

The Group assesses whether the credit risk has increased significantly using the change in the risk of default, and assesses whether the default risk has changed mainly using delinquent (past due information).

The Group measures a credit loss using the discounted present value of the difference between the contractual amount receivable and the estimate amount receivable based on the past credit loss.

(2) Financial Liabilities (Except Derivatives)

(i) Initial Recognition and Measurement

Financial liabilities are classified into financial liabilities measured at fair value through profit or loss and financial liabilities measured at amortized cost. The Group determines classifications at initial recognition.

Although all financial liabilities are measured at fair value at initial recognition, financial liabilities measured at amortized cost are measured at cost after deducting, from the fair value, transaction costs that are directly attributable to the financial liabilities.

(ii) Subsequent Measurement

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

(a) 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. After initial recognition, portions of changes in fair value attributed to the change in credit risk of the Group are recognized in other comprehensive income, and the balance is recognized in profit or loss.

(b) Financial Liabilities Measured at Amortized Cost

After initial recognition, financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and gains or losses on derecognition is recognized in profit or loss.

(iii) Derecognition

Financial liabilities are derecognized when the obligation is discharged, canceled or expired, or when they are exchanged with substantially different terms or their terms are modified substantially.

(3) Complex Financial Instruments

The Group measures and initially recognizes hybrid financial instrument liabilities at the fair value of similar liabilities that do not have equity conversion options. Equity is measured and initially recognized at fair value after deducting the fair value of the liabilities of complex financial instruments overall. Direct transaction costs are allocated according to initial carrying amount ratio of liabilities and equity. After initial recognition, complex financial instruments liabilities are measured at amortized cost using the effective interest method. The Company does not remeasure complex financial instrument equity after initial recognition.

(4) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and presented as a net amount in the consolidated statement of financial position only when there is a legally enforceable right to set off the recognized amounts and the Group intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

(5) Derivatives and Hedge Accounting

The Group uses derivatives, including forward foreign exchange contracts and interest rate swap contracts, to hedge foreign exchange and interest rate risks. These derivatives are initially measured at fair value when contracts are entered into and are subsequently remeasured at fair value.

Changes in the fair value of derivatives are recognized in profit or loss, although gains or losses on hedging instruments relating to the effective portions of cash flow hedges and hedges of net investments in foreign operations are recognized in other comprehensive income.

At the inception of hedging relationships, the Group formally designates and documents relationships to which hedge accounting applies and the objectives and strategies of risk management for undertaking the hedges. The documentation includes identifying hedging instruments, the hedged items or transactions, the nature of the risks being hedged and how the hedging instrument effectiveness (including its analysis of the sources of hedge ineffectiveness and how it determines the hedge ratio) is assessed in offsetting the exposure to changes in hedged item fair value or cash flows attributable to hedged risks. When designating a hedging relationship and on an ongoing basis, the Group analyses whether a derivative used to a hedge transaction is effective to offset the change in the fair value or the cash flow of a hedged item. The Group specifically determines that a hedge is effective when the economic relationship between the hedged item and the hedging instrument is offset.

Hedges that meet the requirements for hedge accounting are classified in the following categories and accounted for in accordance with IFRS 9 “Financial Instruments”.

(a) Fair Value Hedges

Changes in the fair value of derivatives are recognized in profit or loss. For changes in the fair value of hedged items attributable to the hedged risks, carrying amounts of hedged items are adjusted, with changes recognized in profit or loss.

(b) Cash Flow Hedges

The effective portion of gains or losses on hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss.

Hedging instrument amounts recognized in other comprehensive income are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. Where hedged items result in the recognition of non-financial assets or liabilities, the amounts recognized in other comprehensive income are accounted for as adjustments to the original carrying amount of non-financial assets or liabilities.

When forecast transactions are no longer expected to occur, any related cumulative gain or loss that has been recognized in equity as other comprehensive income is reclassified to profit or loss. When hedging instruments expire, are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked due to change in the risk management objective, accumulated amounts that have been recognized in other comprehensive income continue to be recognized in other comprehensive income until the forecast transactions occur.

(c) Hedges of Net Investments in Foreign Operations

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. The effective portion of gains or losses on hedging instruments is recognized in other comprehensive income. The ineffective portion is recognized in profit or loss. At the time of the disposal of the foreign operations, any related cumulative gain or loss recognized in equity as other comprehensive income is reclassified to profit or loss.

(6) Fair Value of Financial Instruments

The fair value of financial instruments that are traded in active financial markets at the fiscal year-end refers to quoted prices or dealer quotations.

If there is no active market, the fair value of financial instruments is determined referring to appropriate valuation models or prices presented by related financial institutions.

Note 4

Segment Information

1. Overview of Reporting Segments

The Group’s reporting segments are the components for which separate financial information is available, and the Board of Directors regularly assesses this information in deciding how to allocate resources and evaluate results. No operating segments or components have been aggregated in preparing the reporting segment information.

The Group operates in four business areas. The business segments are Performance Products, Chemicals, Industrial Gases, and Health Care.

The businesses in each reporting segment are as follows.

Business Domains	Business Segments	Sub Business Segments		
			Businesses	
Performance Products	Performance Products	Polymers & Compounds	Polymers	Performance Polymers, Sustainable Polymers, and Acetyl Polymers
			Coating & Additives	Coating Materials, Additives & Fine
		Films & Molding Materials	Films	Packaging, Industrial Films, and Polyester Film
			Molding Materials	Carbon Fiber, Advanced Materials, and Fiber
		Advanced Solutions	Amenity Life	Aqua & Infrastructure and Life Solutions
			Information & Electronics	Semiconductor, Electronics, and Battery Materials
Industrial Materials	Chemicals	MMA	MMA	MMA
		Petrochemicals	Petrochemicals	Basic Petrochemicals, Polyolefins, and Basic Chemical Derivatives
		Carbon Products	Carbon Products	Carbon Products
	Industrial Gases			Industrial Gases
Health Care	Health Care			Ethical Pharmaceuticals
				Life Science

Accounting policies for reportable segments are identical to those Group accounting policies stated in Note 3, Significant Accounting Policies. Inter-segment sales and transfers are based mainly on prevailing market prices.

2. Revenues and Operating Results for the Group's Reporting Segments

The Group evaluates results based on segment profits.

Fiscal year ended March 31, 2022

Millions of yen

	REPORTING SEGMENT					Others (Note 1)	Subtotal	Adjustments (Note 2)	Consolidated
	Performance Products	Chemicals	Industrial Gases	Health Care	Total				
Sales revenue									
External revenue	¥1,136,341	¥1,287,915	¥ 950,111	¥ 403,638	¥3,778,005	¥198,943	¥3,976,948	¥ —	¥3,976,948
Inter-segment revenue	52,497	43,816	7,008	410	103,731	205,510	309,241	(309,241)	—
Total	¥1,188,838	¥1,331,731	¥ 957,119	¥ 404,048	¥3,881,736	¥404,453	¥4,286,189	¥ (309,241)	¥3,976,948
Segment profit (loss) Core operating income (Note 3)	¥ 78,724	¥ 102,163	¥ 98,921	¥ (6,974)	¥ 272,834	¥ 15,048	¥ 287,882	¥ (15,540)	¥ 272,342
Segment assets	1,407,640	1,287,479	2,041,434	1,074,234	5,810,787	270,233	6,081,020	(507,149)	5,573,871
Other items									
Depreciation and amortization	67,312	62,621	94,774	15,466	240,173	6,412	246,585	4,884	251,469
Share of profit of investments accounted for using the equity method	12,113	5,407	3,684	95	21,299	67	21,366	—	21,366
Investments accounted for using the equity method	62,607	58,306	35,584	16,299	172,796	1,995	174,791	—	174,791
Capital expenditures	68,652	61,344	74,661	19,504	224,161	3,539	227,700	26,889	254,589

Notes:

1. The Others category consists of businesses not included in reporting segments and mainly includes engineering, transportation, and warehousing operations.
2. The segment profit (loss) adjustment includes corporate costs of ¥(14,345) million not allocated to reporting segments and inter-segment eliminations of ¥(1,195) million. Corporate costs include expenditures on basic testing, research, and other activities not allocated to reporting segments.
   The segment assets adjustment includes corporate assets of ¥106,607 million not allocated to reporting segments and items such as an inter-segment eliminations of ¥(613,756) million. Corporate assets include financial assets not allocated to reporting segments.
3. Segment profit (loss) is Operating profit in accordance with IFRS after excluding earnings from non-recurring factors, such as losses from business withdrawals and downsizings, representing core operating income.

Fiscal year ended March 31, 2023

Millions of yen

	REPORTING SEGMENT					Others (Note 1)	Subtotal	Adjustments (Note 2)	Consolidated
	Performance Products	Chemicals	Industrial Gases	Health Care (Note 4)	Total				
Sales revenue									
External revenue	**¥1,252,695**	**¥1,430,156**	**¥1,177,934**	**¥ 547,149**	**¥4,407,934**	**¥226,598**	**¥4,634,532**	**¥ —**	**¥4,634,532**
Inter-segment revenue	**50,631**	**49,522**	**8,750**	**416**	**109,319**	**199,159**	**308,478**	**(308,478)**	**—**
Total	**¥1,303,326**	**¥1,479,678**	**¥1,186,684**	**¥ 547,565**	**¥4,517,253**	**¥425,757**	**¥4,943,010**	**¥ (308,478)**	**¥4,634,532**
Segment profit (loss) Core operating income (Note 3)	**¥ 51,500**	**¥ 9,234**	**¥ 121,013**	**¥ 141,777**	**¥ 323,524**	**¥ 16,523**	**¥ 340,047**	**¥ (14,489)**	**¥ 325,558**
Segment assets	**1,473,147**	**1,214,235**	**2,215,448**	**1,042,275**	**5,945,105**	**268,294**	**6,213,399**	**(439,496)**	**5,773,903**
Other items									
Depreciation and amortization	**69,240**	**63,330**	**108,070**	**14,225**	**254,865**	**6,870**	**261,735**	**7,881**	**269,616**
Share of profit of investments accounted for using the equity method	**5,783**	**2,158**	**3,698**	**256**	**11,895**	**(7)**	**11,888**	**—**	**11,888**
Investments accounted for using the equity method	**56,120**	**59,366**	**38,114**	**16,407**	**170,007**	**729**	**170,736**	**—**	**170,736**
Capital expenditures	**82,024**	**65,365**	**96,636**	**29,602**	**273,627**	**3,374**	**277,001**	**5,172**	**282,173**

Notes:

1. The Others category consists of businesses not included in reporting segments and mainly includes engineering, transportation, and warehousing operations.
2. The segment profit (loss) adjustment includes corporate costs of ¥(14,537) million not allocated to reporting segments and inter-segment eliminations of ¥48 million. Corporate costs include expenditures on basic testing, research, and other activities not allocated to reporting segments.
   The segment assets adjustment includes corporate assets of ¥179,663 million not allocated to reporting segments and items such as an inter-segment eliminations of ¥(619,159) million. Corporate assets include financial assets not allocated to reporting segments.
3. Segment profit (loss) is Operating profit in accordance with IFRS after excluding earnings from non-recurring factors, such as losses from business withdrawals and downsizings, representing core operating income.
4. Since entering the arbitration procedures related to payment obligations for some royalties for Gilenya, a treatment agent for multiple sclerosis, sales revenue was not recognized in accordance with IFRS 15. Reflecting the results of the arbitration award, sales revenue of ¥125,883 million was recorded in the fourth quarter of the fiscal year. See Note 5 Sales Revenue for details.

5. From the fiscal year, group financing operations mainly via the cash management system (CMS) are reclassified from Others to Adjustment. Note that the segment information for the previous fiscal year was also prepared based on revised segment classifications.

Adjustments to income before tax from segment operating results are as follows:

		Millions of yen
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Segment operating results	¥272,342	**¥325,558**
Gain on sale of intercompany securities	1,886	**3,311**
Gain on reversal of environmental expenses	—	**3,149**
Gain on arbitration award	—	**2,884**
Gain on sale of property, plant and equipment	8,641	**2,446**
Gain on business transfer (Note 1)	60,838	**—**
Impairment loss (Note 2)	(20,391)	**(93,381)**
Provision for loss on plant closure (Note 3)	—	**(26,726)**
Special retirement expenses	(2,571)	**(10,557)**
Provision for loss on business liquidation	—	**(5,666)**
Loss on sale and disposal of fixed assets	(7,417)	**(3,924)**
Provision for loss on litigation	(615)	**(3,550)**
Loss on arbitration award	—	**(3,520)**
Loss on business liquidation	(479)	**(3,345)**
Loss on revision of retirement benefit plan	(4,027)	**(515)**
Others	(5,013)	**(3,446)**
Operating income	303,194	**182,718**
Financial income	9,368	**16,636**
Financial expenses	(22,192)	**(31,390)**
Income before taxes	¥290,370	**¥167,964**

Notes:
1. See Note 8 Other Operating Income and Other Operating Expenses for details of the gain on business transfer.
2. See Note 14 Impairment Losses for details.
3. See Note 27 Provisions for details of the provision for loss on plant closure.

3. Geographic Information

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

External sales revenue

		Millions of yen
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Japan	¥2,116,326	**¥2,319,207**
Asia and Oceania	767,275	**810,608**
(China)	(299,016)	**(300,764)**
North America	525,964	**707,830**
Europe	520,552	**743,363**
Others	46,831	**53,524**
Total	¥3,976,948	**¥4,634,532**

Note: Sales revenue is classified by country or region according to the locations of sales destinations.

Non-current assets

	As of March 31, 2022	**As of March 31, 2023**
		Millions of yen
Japan	¥1,226,726	**¥1,227,504**
Asia and Oceania	393,839	**413,736**
North America	554,098	**568,085**
Europe	873,187	**886,541**
Others	14,823	**15,028**
Total	¥3,062,673	**¥3,110,894**

Note:

Non-current assets are based on the locations of the assets and do not include financial instruments, deferred tax assets and retirement benefit asset.

4. Information about Major Customers

This information has been omitted because no external customers account for more than 10% of sales revenue.

Note 5

Sales Revenue

(1) Disaggregation of sales revenue

The Group undertakes diverse operations overseas through its Performance Products, Chemicals, Industrial Gases, and Health Care reporting segments, which regularly submit regional sales reports to management. The relationship between geographic and segment revenue described in Note 4 Segment Information is as follows.

Fiscal year ended March 31, 2022

Millions of yen

	Japan	Asia and Oceania		North America	Europe	Others	Total
			(China)				
Performance Products	¥ 530,239	¥222,908	¥(111,829)	¥186,693	¥184,446	¥12,055	¥1,136,341
Chemicals	750,452	316,027	(106,813)	87,996	100,420	33,020	1,287,915
Industrial Gases	377,331	143,487	(27,848)	214,213	213,886	1,194	950,111
Health Care	329,728	30,745	(8,633)	32,329	10,514	322	403,638
Others	128,576	54,108	(43,893)	4,733	11,286	240	198,943
Total	¥2,116,326	¥767,275	¥(299,016)	¥525,964	¥520,552	¥46,831	¥3,976,948

Notes:
1. Amounts are shown as sales revenue from external customers.
2. Sales revenue is mostly recognized from contracts with customers. Sales revenue recognized from other sources is immaterial.

Fiscal year ended March 31, 2023

Millions of yen

	Japan	Asia and Oceania		North America	Europe	Others	Total
			(China)				
Performance Products	¥ 532,300	¥231,590	¥(106,366)	¥253,841	¥215,924	¥19,040	¥1,252,695
Chemicals	886,966	313,240	(101,332)	99,837	96,925	33,188	1,430,156
Industrial Gases	420,693	179,330	(39,698)	294,653	282,564	694	1,177,934
Health Care	327,203	32,968	(9,328)	53,201	133,495	282	547,149
Others	152,045	53,480	(44,040)	6,298	14,455	320	226,598
Total	¥2,319,207	¥810,608	¥(300,764)	¥707,830	¥743,363	¥53,524	¥4,634,532

Notes:
1. Amounts are shown as sales revenue from external customers.
2. Sales revenue is mostly recognized from contracts with customers. Sales revenue recognized from other sources is immaterial.

Performance Products Segment
This segment encompasses Polymers & Compounds (Polymers and Coating & Additives), Films & Molding Materials (Films and Molding Materials), and Advanced Solutions (Amenity Life and Information & Electronics). We sell to domestic and overseas customers. Principal businesses are described in Note 4 Segment Information.

Once customers gain control over products, when products are delivered to customer-designated locations, the legal title and physical possession of products and significant risks associated with product possession and rewards have been transferred, and we accordingly determine at that stage that we have satisfied our performance obligations and recognize sales revenue. Sales revenue from selling these products is measured at transaction prices relating to agreements with customers.

Sales revenue is measured at the amount of consideration promised in contracts with customers, net of discounts, rebates and returns. Rebates and other estimates use the most frequent techniques based on experience. Sales revenue is recognized only to the extent of no possibility of a significant reversal. Considerations in product sales contracts are generally collected within one year after control of products transfers to customer, and do not include significant financial elements.

Chemicals Segment
In the Chemicals segment, we conduct the MMA, petrochemicals, and carbon products businesses, and sell to domestic and overseas customers. Principal businesses are described in Note 4 Segment Information.

Upon satisfying performance obligations in selling products in these businesses, calculations of transaction prices and payment terms are identical to those of the Performance Products segment.

Industrial Gases Segment
In this segment, our gas business serves the steel, chemical and electronics industries. We manufacture such household items as stainless steel thermoses. We sell to domestic and overseas customers.

Upon satisfying performance obligations in selling products in these businesses, calculations of transaction prices and payment terms are identical to those of the Performance Products segment.

Health Care Segment
Here, we engage in the ethical pharmaceuticals business (researching and developing and manufacturing ethical pharmaceuticals) and the life science business (manufacturing of active pharmaceutical ingredients and intermediates), selling to domestic and foreign customers.

Upon fulfilling performance obligations in selling products in these businesses, calculations of transaction prices and payment terms are identical to those of the Performance Products segment.

Royalty income generated in the Health Care business is from contracts in which the Group has permitted third parties to produce or sell products or use technology. One-off contract payments are recognized as sales revenue when performance obligations are met at certain points. If such obligations are not met, the transaction is recorded as deferred sales revenue and recognized as sales revenue over a certain period as obligations are met. Milestone payments are recognized only to the extent that significant returns are unlikely after reaching contractual milestones. Running royalties are measured based on contractor sales calculations, etc., and sales revenue is recognized as sales occur. Royalty income is generally received within one year of establishing contractual rights, and does not include significant financing components.

With regard to royalty revenue and other income, Mitsubishi Tanabe Pharma Corporation received a petition for arbitration from Novartis Pharma AG ("Novartis") of Basel, Switzerland in February 2019. Novartis claimed that some provisions of a license agreement entered into in 1997 ("Agreement") were invalid and that Novartis had no obligation to pay some royalties. Mitsubishi Tanabe Pharma Corporation claimed the right to receive all royalties payable under the Agreement, and appropriately pursued this right through arbitration.

Due to arbitration proceedings, the Company did not recognize some royalties in accordance with IFRS15 as sales revenue, and posted them to other non-current liabilities. Following an arbitration tribunal ruling in February 2023 that validated all of the agreement's provisions, however, the Company recognized ¥125,883 million in sales the fiscal year ended March 31, 2023.

(2) Contract balance

Receivables from contracts with customers, contract assets, and liabilities are as follows:

Millions of yen

	As of April 1, 2021	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Receivables arising from contracts with customers	¥725,891	¥835,419	**¥819,461**
Contract assets	10,243	16,312	**22,315**
Contract liabilities	38,678	42,266	**31,283**

The Group mainly posts contract assets for compensation from work in progress and posts contract liabilities for advance payments from customers and for deferred sales revenue.

Of sales revenue recognized in the fiscal years ended March 31, 2022, and 2023, ¥12,571 million and ¥15,813 million, respectively, were included in contract liabilities at the start of the terms. Sales revenue recognized from performance obligations satisfied in the fiscal years ended March 31, 2022, and 2023, were ¥12,067 million and ¥139,487 million, respectively. The significant change in contract liabilities in the fiscal year ended March 31, 2023, stemmed from a reclassification of some portion of advances of ¥14,784 million which had already received at the end of the previous fiscal year related to product supplies in the Health Care segment from contract liabilities in other liabilities to other liabilities in the same line item, as requirements for recognition as contract liabilities were no longer met.

There were no significant changes in outstanding contract assets and liabilities in the fiscal year ended March 31, 2022, or in outstanding contract assets in the fiscal year ended March 31, 2023.

(3) Transaction price allocated to the remaining performance obligations

Total transaction price allocated to the remaining performance obligations and sales revenue recognition periods were as follows. Transactions with estimated contract terms of less than one year are excluded. There are no material consideration amounts excluded in the transaction arising from customer contracts.

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Due within one year	¥43,353	**¥69,830**
Due after one year	24,079	**32,135**
Total	¥67,432	**¥101,965**

(4) Assets recognized from costs to obtain or fulfill contracts with customers

In the fiscal years ended March 31, 2022 and 2023, no assets were recognized from the costs to obtain or fulfill contracts with customers. As a practical expedient, costs are recognized as expenses when incurred if the amortization period of the asset to be recognized is one year or less.

Note 6

Employee Benefit Expenses

Employee benefit expenses included in the Consolidated Statement of Income in the fiscal years ended March 31, 2022 and 2023, were ¥635,577 million and ¥682,400 million, respectively. These costs include salaries, bonuses, legal welfare expenses, and expenses related to retirement benefits, and were presented within Cost of sales, Selling, general and administrative expenses, Other operating income, and Other operating expenses.

Special retirement expenses are as described in Note 8 Other Operating Income and Other Operating Expenses. Retirement benefit expenses are as described in Note 26 Retirement Benefits.

Note 7

Research and Development Expenses

Research and development expenses recognized in the fiscal years ended March 31, 2022 and 2023 were ¥156,584 million and ¥149,467 million, respectively.

In the fiscal year ended March 31, 2022, government subsidies for Medicago (Canada), to develop a plant-derived virus-like particle (VLP*) vaccine (development number: MT-2766) to prevent COVID-19, were deducted from research and development expenses.

Note 8

Other Operating Income and Other Operating Expenses

The breakdown of other operating income is as follows:

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Gain on sale of property, plant and equipment (Note 1)	¥ 9,121	**¥ 8,792**
Gain on sale of intercompany securities	1,888	**3,316**
Gain on reversal of environmental expenses	—	**3,149**
Gain on arbitration award	—	**2,884**
Insurance income	1,019	**2,228**
Rent income	2,284	**2,199**
Gain on business transfer (Note 2)	60,838	**—**
Others	6,542	**9,325**
Total	¥81,692	**¥31,893**

Notes:

1. Gains on sale of property, plant and equipment for the fiscal year ended March 31, 2022, included the gain on the sale of the Kashima Plant of Mitsubishi Tanabe Pharma Corporation. Gains for the fiscal year ended March 31, 2023, included a gain on a transfer of intangible assets in the Health Care segment.
2. The gain on business transfer was ¥60,838 million in the fiscal year ended March 31, 2022. This related to the transfers of the polycrystalline alumina fiber business of subsidiaries Mitsubishi Chemical Corporation and Mitsubishi Chemical High-Technica Corporation.

The breakdown of other operating expenses is as follows:

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Impairment loss (Notes 1,2 and 3)	¥26,047	**¥ 96,782**
Provision for loss on plant closure (Note 2)	—	**26,726**
Loss on sale and disposal of fixed assets	14,407	**10,979**
Special retirement expenses (Notes 2 and 3)	2,571	**10,557**
Provision for loss on business liquidation (Note 3)	—	**5,666**
Provision for loss on litigation	615	**3,550**
Loss on arbitration award	—	**3,520**
Loss on business liquidation (Note 3)	479	**3,345**
Loss on revision of retirement benefit plan (Note 4)	4,027	**515**
Others (Note 2)	11,815	**16,115**
Total	¥59,961	**¥177,755**

Notes:

1. Note 14 Impairment Losses details impairment losses.
2. In the fiscal year ended March 31, 2023, the Company recorded an impairment loss of ¥39,251 million, a provision for loss on plant closure of ¥26,726 million, special retirement expenses of ¥1,999 million, and other expense of ¥720 million related to a decision to cease producing methacrylates at the Cassel Site of Mitsubishi Chemical UK in the United Kingdom. Note 27 Provisions details of provision for loss on plant closure.
3. In the fiscal year ended March 31, 2023, in line with a decision to halt the commercialization of VLP vaccines and cease operations at Medicago (Canada) and wind it up, the Company recorded an impairment loss of ¥47,358 million, a provision for loss on business liquidation of ¥4,495 million, special retirement expenses of ¥3,805 million, and a loss on business liquidation of ¥1,776 million.
4. Note 26 Retirement Benefits provides details of loss on revision of retirement benefit plan.

Together with the ¥60,838 million gain on transfer of businesses relating to polycrystalline alumina fiber business transfers in the fiscal year ended March 31, 2022, the Group posted special retirement expenses of ¥1,330 million, ¥1,121 million loss on disposal of fixed assets, an impairment loss of ¥391 million, and ¥379 million in other related losses.

Financial Income and Financial Expenses

The breakdown of financial income is as follows:

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Financial income		
Interest income		
Financial assets measured at amortized cost	¥1,101	**¥ 2,343**
Dividend income		
Financial assets measured at fair value through other comprehensive income	4,774	**6,824**
Others	—	**5,449**
Foreign exchange gains	2,904	**—**
Others	589	**2,020**
Total	¥9,368	**¥16,636**

The breakdown of financial expenses is as follows:

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Financial expenses		
Interest expenses		
Financial liabilities measured at amortized cost	¥20,985	**¥29,800**
Foreign exchange losses	—	**123**
Others	1,207	**1,467**
Total	¥22,192	**¥31,390**

Note 10

Income Taxes

1. Deferred Tax Assets and Liabilities

As of March 31, 2022 and 2023, significant components of deferred tax assets and liabilities are as follows:

Fiscal year ended March 31, 2022

Millions of yen

	April 1, 2021	Amounts recognized in profit or loss	Amounts recognized in other comprehensive income	Others (Note)	March 31, 2022
Deferred tax assets:					
Net defined benefit liabilities	¥ 19,984	¥ 6,618	¥(2,661)	¥ 7,371	¥ 31,312
Employees' bonuses	12,040	8,382	—	37	20,459
Tax loss carryforwards	47,393	(29,643)	—	2,060	19,810
Property, plant and equipment	19,094	(1,466)	—	(61)	17,567
Employees' paid leave	7,827	1,217	—	61	9,105
Inventories	8,068	(169)	—	2	7,901
Others	81,035	4,740	(702)	1,848	86,921
Total	¥ 195,441	¥(10,321)	¥(3,363)	¥ 11,318	¥ 193,075
Deferred tax liabilities:					
Valuation of assets	¥(110,692)	¥ 8,363	¥ —	¥ (7,961)	¥(110,290)
Property, plant and equipment	(77,138)	(3,208)	—	(8,398)	(88,744)
Securities and other investments	(43,981)	1,635	(993)	4,353	(38,986)
Retained earnings of foreign subsidiaries	(13,389)	(3,734)	—	(18)	(17,141)
Others	(38,740)	(769)	(760)	(8,172)	(48,441)
Total	¥(283,940)	¥ 2,287	¥(1,753)	¥(20,196)	¥(303,602)
Net deferred tax assets	¥ (88,499)	¥ (8,034)	¥(5,116)	¥ (8,878)	¥(110,527)

Note:
Others include exchange differences on translation of foreign operations and changes owing to business combinations, etc.

Fiscal year ended March 31, 2023

Millions of yen

	April 1, 2022	Amounts recognized in profit or loss (Note 2)	Amounts recognized in other comprehensive income	Others (Note 1)	March 31, 2023
Deferred tax assets:					
Net defined benefit liabilities	**¥ 31,312**	**¥ (1,683)**	**¥1,266**	**¥(1,017)**	**¥ 29,878**
Employees' bonuses	**20,459**	**(2,251)**	**—**	**(105)**	**18,103**
Tax loss carryforwards	**19,810**	**(5,408)**	**—**	**1,243**	**15,645**
Property, plant and equipment	**17,567**	**2,157**	**—**	**(53)**	**19,671**
Employees' paid leave	**9,105**	**1,316**	**—**	**(219)**	**10,202**
Inventories	**7,901**	**6,805**	**—**	**2**	**14,708**
Others	**86,921**	**18,125**	**521**	**603**	**106,170**
Total	**¥ 193,075**	**¥ 19,061**	**¥1,787**	**¥ 454**	**¥ 214,377**
Deferred tax liabilities:					
Valuation of assets	**¥(110,290)**	**¥ 6,744**	**¥ —**	**¥(5,456)**	**¥(109,002)**
Property, plant and equipment	**(88,744)**	**5,457**	**—**	**(6,939)**	**(90,226)**
Securities and other investments	**(38,986)**	**29**	**4,647**	**3,510**	**(30,800)**
Retained earnings of foreign subsidiaries	**(17,141)**	**(1,293)**	**—**	**(149)**	**(18,583)**
Others	**(48,441)**	**(881)**	**(1,173)**	**(563)**	**(51,058)**
Total	**¥(303,602)**	**¥ 10,056**	**¥3,474**	**¥(9,597)**	**¥(299,669)**
Net deferred tax assets	**¥(110,527)**	**¥29,117**	**¥5,261**	**¥(9,143)**	**¥ (85,292)**

Notes:

1. Others include exchange differences on translation of foreign operations and changes owing to business combinations, etc.
2. The recognition of deferred tax assets in profit or loss included ¥48,383 million from recognizing deferred tax assets related to the investment in Medicago Inc. following the decision to wind up that company and a loss of ¥33,557 million from recognizing revenue and reversing deductible temporary differences following an arbitration award relating to royalties for Gilenya, a treatment agent for multiple sclerosis.
   Details of the Medicago liquidation are described in Note 14 Impairment Losses. Note 5 Sales Revenue details revenue recognition resulting from the arbitration award.

In recognizing deferred tax assets, the Group considers whether it can use all or part of future deductible temporary differences or unused tax loss carryforwards with respect to expected future taxable income. In evaluating the recoverability of deferred tax assets, the Group considers the planned reversal of deferred tax liabilities, expected future taxable income, and tax planning. In addition, future taxable income estimates are based on future business plans. The primary assumptions are sales revenue forecasts. Management expects to recover recognized deferred tax assets in keeping with past taxable income levels and the forecasts for future taxable income when future deductible temporary differences and unused tax loss carryforwards are expected to reverse. Although management deems its assumptions reasonable, they could be affected by future uncertain fluctuations in economic conditions. If future taxable income differs from forecasts and assumptions, the recoverability of deferred tax assets could differ.

Future deductible temporary differences and unused tax loss carryforwards (on an income basis), not recognized as deferred tax assets are as follows:

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Future deductible temporary differences	¥109,433	**¥135,979**
Unused tax loss carryforwards	370,237	**446,702**
Unused tax credit carryforwards	52,446	**93,490**

Unrecognized deferred tax assets corresponding to the above are as follows.

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Future deductible temporary differences	¥30,338	**¥38,390**
Unused tax loss carryforwards	72,178	**75,047**
Unused tax credit carryforwards	12,466	**23,603**

The breakdowns of tax loss carryforwards not recognized as deferred tax assets (on an income basis) by expiration date are as follows:

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Tax loss carry forwards:		
Due within one year	¥ 1,162	**¥ 1,476**
Due after one year and not later than five years	96,603	**105,107**
Due after five years and not later than 10 years	40,253	**93,120**
Due after 10 years and not later than 20 years	111,600	**99,700**
Indefinite	120,619	**147,299**
Total	¥370,237	**¥446,702**

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Unused tax credit carryforwards		
Due within one year	¥ —	**¥ —**
Due after one year and not later than five years	14,678	**16,530**
Due after five years and not later than 10 years	—	**—**
Due after 10 years and not later than 20 years	1,770	**1,760**
Indefinite	35,998	**75,200**
Total	¥52,446	**¥93,490**

As of March 31, 2022 and 2023, total temporary differences related to undistributed earnings of subsidiaries for which deferred tax liabilities were not recognized were ¥1,354,648 million and ¥1,397,268 million, respectively.

The Group does not recognize deferred tax liabilities related to temporary differences when it can control the timing of the reversal of the temporary differences and it is highly probable that temporary differences will not be reversed in the foreseeable future.

2. Income Taxes

The breakdown of income taxes is as follows:

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Income taxes	¥72,931	**¥61,931**
Deferred income taxes	8,034	**(29,117)**
Total	¥80,965	**¥32,814**

3. Effective Tax Rate Reconciliation Schedule

The Company is principally subject to corporate taxes, resident taxes and business taxes. The statutory effective tax rate that is the base for these taxes was 30.6% in the fiscal years ended March 31, 2022 and 2023. For overseas subsidiaries, local corporate income taxes are imposed.

A reconciliation of the statutory tax rates to the effective tax rates for the fiscal years ended March 31, 2022 and 2023, was as follows:

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Statutory tax rate	30.6%	**30.6%**
Difference of unrecognized deferred tax assets	1.0	**(8.9)**
Tax credits for research and development costs	(3.3)	**(3.5)**
Share of profit of investments accounted for using the equity method	(2.2)	**(2.1)**
Difference of statutory tax rate in overseas subsidiaries	(3.5)	**(1.5)**
Foreign taxes	0.4	**1.8**
Permanent differences	1.9	**1.1**
Others	3.0	**2.0**
Effective tax rate	27.9%	**19.5%**

Note 11

Per Share Information

The bases for calculating basic and diluted earnings per share attributable to owners of the parent were as follows:

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
		(Millions of yen)
Net income attributable to owners of the parent	¥177,162	**¥ 96,066**
Adjustment	281	**173**
Net income used to calculate diluted earnings per share	¥177,443	**¥ 96,239**
		(Thousands of shares)
Average number of ordinary shares during period	1,420,945	**1,421,783**
Impact of potentially dilutive ordinary shares		
Convertible bond-type bonds with subscription rights to shares	120,256	**64,020**
Subscription rights to shares	1,442	**1,106**
Average number of diluted ordinary shares during period	1,542,643	**1,486,909**
		(Yen)
Basic earnings per share attributable to owners of the parent	¥ 124.68	**¥ 67.57**
Diluted earnings per share attributable to owners of the parent	¥ 115.03	**¥ 64.72**

Note:
In the calculation of basic and diluted net income per share attributable to owners of the parent, the Company stocks held by Board Incentive Plan trust are included in shares of treasury stock deducted in calculating the average number of shares during the period.

Note 12

Goodwill and Intangible Assets

1. Schedule of Goodwill and Intangible Assets

The acquisition cost, accumulated amortization, accumulated impairment losses and carrying amount of goodwill and intangible assets were as follows:

Fiscal year ended March 31, 2022

Acquisition cost

Millions of yen

	Goodwill	Intangible assets				
		Technology-related intangible assets	Customer-related intangible assets	Software	Other	Total
Balance as of April 1, 2021	¥688,163	¥295,296	¥353,590	¥72,719	¥64,900	¥786,505
Acquisitions	—	5,759	—	7,697	850	14,306
Acquisitions through business combinations	3,954	—	1,839	146	1,014	2,999
Sale or disposal	—	(13,374)	(24)	(3,590)	(1,072)	(18,060)
Transfers	—	—	—	(4)	(7)	(11)
Exchange differences on translation of foreign operations	29,569	20,642	21,610	3,737	3,590	49,579
Balance as of March 31, 2022	¥721,686	¥308,323	¥377,015	¥80,705	¥69,275	¥835,318

Accumulated amortization, accumulated impairment losses

Millions of yen

	Goodwill	Intangible assets				
		Technology-related intangible assets	Customer-related intangible assets	Software	Other	Total
Balance as of April 1, 2021	¥16,274	¥161,217	¥ 78,505	¥56,094	¥35,372	¥331,188
Amortization	—	8,067	16,910	6,402	2,786	34,165
Impairment losses	—	16,166	—	22	1	16,189
Sale or disposal	—	(13,337)	(23)	(3,228)	(1,003)	(17,591)
Exchange differences on translation of foreign operations	—	11,350	5,812	3,355	2,045	22,562
Balance as of March 31, 2022	¥16,274	¥183,463	¥101,204	¥62,645	¥39,201	¥386,513

Carrying amount

Millions of yen

	Goodwill	Intangible assets				
		Technology-related intangible assets	Customer-related intangible assets	Software	Other	Total
Balance as of April 1, 2021	¥671,889	¥134,079	¥275,085	¥16,625	¥29,528	¥455,317
Balance as of March 31, 2022	¥705,412	¥124,860	¥275,811	¥18,060	¥30,074	¥448,805

Fiscal year ended March 31, 2023

Acquisition cost

Millions of yen

	Goodwill	Intangible assets				
		Technology-related intangible assets	Customer-related intangible assets	Software	Other	Total
Balance as of April 1, 2022	**¥721,686**	**¥308,323**	**¥377,015**	**¥80,705**	**¥69,275**	**¥835,318**
Acquisitions	**—**	**14,904**	**53**	**5,132**	**3,391**	**23,480**
Acquisitions through business combinations	**740**	**—**	**173**	**—**	**377**	**550**
Sale or disposal	**—**	**(13,414)**	**(490)**	**(3,184)**	**(75)**	**(17,163)**
Transfers	**—**	**(1)**	**—**	**(172)**	**(12)**	**(185)**
Exchange differences on translation of foreign operations	**27,965**	**14,744**	**15,669**	**2,043**	**2,341**	**34,797**
Balance as of March 31, 2023	**¥750,391**	**¥324,556**	**¥392,420**	**¥84,524**	**¥75,297**	**¥876,797**

Accumulated amortization, accumulated impairment losses

Millions of yen

	Goodwill	Intangible assets				
		Technology-related intangible assets	Customer-related intangible assets	Software	Other	Total
Balance as of April 1, 2022	**¥16,274**	**¥183,463**	**¥101,204**	**¥62,645**	**¥39,201**	**¥386,513**
Amortization	**—**	**9,120**	**18,847**	**6,708**	**2,081**	**36,756**
Impairment losses	**6,739**	**1,717**	**—**	**754**	**21**	**2,492**
Sale or disposal	**—**	**(13,198)**	**(490)**	**(3,049)**	**(67)**	**(16,804)**
Exchange differences on translation of foreign operations	**(277)**	**6,563**	**1,268**	**(451)**	**1,247**	**8,627**
Balance as of March 31, 2023	**¥22,736**	**¥187,665**	**¥120,829**	**¥66,607**	**¥42,483**	**¥417,584**

Carrying amount

Millions of yen

	Goodwill	Intangible assets				
		Technology-related intangible assets	Customer-related intangible assets	Software	Other	Total
Balance as of April 1, 2022	¥705,412	¥124,860	¥275,811	¥18,060	¥30,074	¥448,805
Balance as of March 31, 2023	**¥727,655**	**¥136,891**	**¥271,591**	**¥17,917**	**¥32,814**	**¥459,213**

There were no material internally generated assets in the fiscal years ended March 31, 2022 and 2023.

The amortization of intangible assets is included in Cost of sales and Selling, general and administrative expenses in the Consolidated Statement of Income.

2. Significant Intangible Assets

Significant intangible assets in the Consolidated Statement of Financial Position include technology-related intangible assets that the Company obtained in acquiring Mitsubishi Rayon Co., Ltd. (now Mitsubishi Chemical Corporation), in March 2010. The carrying amounts of these intangible assets were ¥10,926 million as of March 31, 2022 and ¥8,786 million as of March 31, 2023. The remaining amortization periods were 2 to 6 years.

The carrying amounts of customer-related intangible assets of Taiyo Nippon Sanso Corporation (now Nippon Sanso Holdings Corporation), which the Company acquired in November 2014, were ¥21,450 million as of March 31, 2022, and ¥19,346 million as of March 31, 2023. The remaining amortization periods were 5 to 10 years.

The carrying amounts of technology-related intangible assets of NeuroDerm Ltd. which Mitsubishi Tanabe Pharma Corporation acquired in October 2017, were ¥50,058 million as of March 31, 2022 and ¥54,614 million as of March 31, 2023. This item is classified as intangible assets with indefinite useful lives.

The carrying amount of customer-related intangible assets of European businesses which Taiyo Nippon Sanso Corporation (now Nippon Sanso Holdings Corporation) acquired in December 2018, were ¥188,326 million as of March 31, 2022 and ¥188,773 million as of March 31, 2023. The remaining amortization period was mainly 25 years.

The carrying amount of intangible assets related to technology obtained through the Mitsubishi Chemical America Inc. acquisition of Gelest in October 2020, were ¥29,146 million as of March 31, 2022 and ¥29,692 million as of March 31, 2023. The remaining amortization period was mainly 12 years.

The carrying amounts of technology-related intangible assets recorded as a result of Mitsubishi Tanabe Pharma Corporation's payment to Eli Lilly and Company in September 2022 for the marketing rights of pharmaceutical products in Japan, were ¥11,823 million as of March 31, 2023. The remaining amortization period was 10 years.

3. Intangible Assets with Indefinite Useful Lives

The carrying amounts of intangible assets with indefinite useful lives were ¥66,695 million and ¥63,127 million, as of March 31, 2022 and 2023, respectively, mainly comprising in-process research and development costs recognized by Mitsubishi Tanabe Pharma Corporation in the Health Care segment in connection with its acquisition of NeuroDerm Ltd. in 2017. These amounts are included in technology-related intangible assets. Given that the assets are at the research and development stage, have yet to obtain marketing approval from regulatory authorities, and cannot be in use, the Company classifies them as intangible assets with indefinite useful lives and as intangible assets that are not yet available for use.

The relevant assets are subject to impairment testing at certain times every year, regardless of whether there are indications of impairment.

In impairment tests, recoverable amounts of intangible assets are measured by their value in use.

In calculating value in use, the Company uses estimates of future cash flows based on management-approved business plans. The business plans are based on experience and external information. Except on justifiable grounds, the plans are, in principle, for up to five years, the prime assumptions being the prospects for obtaining regulatory approval for sales, post launch sales revenue forecasts, and discount rates.

The discount rate used is the pre-tax weighted average cost of capital. The rates were 6.5%-10.9% and 8.2%-15.0% for the fiscal years ended March 31, 2022 and 2023, respectively. The discount rates used in the annual impairment test for in-process R&D expenses related to NeuroDerm were 10.9% and 15.0% for the fiscal years ended March 31, 2022 and 2023, respectively. It was possible that the recoverable amount would equal the carrying amount if the discount rate rose 1.8% in the previous fiscal year.

If the discount rate were to increase by 1.3% in the fiscal year ended March 31, 2023, the recoverable amount could equal the carrying amount.

Although management deems these assumptions reasonable, they are subject to uncertain fluctuations in future economic conditions. If assumptions change, calculations of recoverable amount may differ.

Impairment losses recognized for intangible assets with indefinite useful lives are as described in Note 14 Impairment Losses.

4. Goodwill

The carrying amounts of goodwill allocated to cash-generating units (groups of cash-generating units) are as follows:

Millions of yen

Reporting segment	Cash-Generating Unit (Groups of Cash-Generating Units)	March 31, 2022	**March 31, 2023**
Performance Products	High performance engineering plastics	¥ 28,702	**¥ 31,019**
	Pharmaceutical formulation materials	16,288	**16,288**
	Others	57,749	**60,083**
	Total	¥102,739	**¥107,390**
Chemicals	MMA	¥ 38,336	**¥ 38,474**
	Others	3,026	**3,152**
	Total	¥ 41,362	**¥ 41,626**
Industrial Gases	Industrial gases	¥501,170	**¥523,921**
Health Care	Ethical pharmaceuticals	¥ 59,939	**¥ 54,540**
Others	Others	¥ 202	**¥ 178**
Total		¥705,412	**¥727,655**

The recoverable amounts of goodwill of cash-generating unit groups are measured by their value in use.

The value in use is based on a management-approved five-year plan reflecting experience and external information sources. After considering future uncertainties after the five-year period, the Company assumes a zero-growth rate, with value equaling cash flows in the fifth year. Estimated future cash flows are shaped largely by sales revenue forecasts and market growth rates. While management has determined that its main assumptions are reasonable, they are subject to uncertain changes in economic conditions, and calculations of recoverable amounts could differ if assumptions change.

The discount rates used for measuring recoverable amounts are as follows:

Reporting segment	Cash-Generating Unit (Groups of Cash-Generating Units)	March 31, 2022	**March 31, 2023**
Performance Products	High performance engineering plastics	6.6%	**6.3%**
	Pharmaceutical formulation materials	6.7%	**5.8%**
Chemicals	MMA	5.8%	**5.5%**
Industrial Gases	Industrial gases	5.8%	**5.5%**
Health Care	Ethical pharmaceuticals	8.1%	**8.2%**

For goodwill allocated to pharmaceutical formulation materials, it was possible that the recoverable amount would equal the carrying amount if the discount rate rose 0.4% in the previous fiscal year. If the discount rate were to increase 1.9% in the fiscal year ended March 31, 2023, the recoverable amount could equal the carrying amount.

Property, Plant and Equipment

The acquisition cost, accumulated depreciation, accumulated impairment losses and carrying amount of property, plant and equipment were as follows:

1. Schedule of property, plant and equipment

Fiscal year ended March 31, 2022

Acquisition cost

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2021	¥1,209,112	¥3,383,248	¥361,339	¥290,179	¥166,356	¥5,410,234
Acquisitions (Note 1)	45,446	142,904	27,433	7,116	39,870	262,769
Acquisitions through business combinations	1,290	199	323	384	223	2,419
Transfer of businesses	(5,609)	(35,599)	(604)	—	(372)	(42,184)
Sale or disposal	(24,591)	(72,449)	(16,748)	(3,062)	(3,464)	(120,314)
Transfers (Note 2)	(4,423)	(8,222)	(720)	(1,382)	(7,273)	(22,020)
Exchange differences on translation of foreign operations	25,974	120,540	16,426	918	9,368	173,226
Balance as of March 31, 2022	¥1,247,199	¥3,530,621	¥387,449	¥294,153	¥204,708	¥5,664,130

Accumulated depreciation, accumulated impairment losses

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2021	¥774,343	¥2,556,984	¥246,969	¥12,043	¥6,057	¥3,596,396
Transfer of businesses	(1,941)	(23,440)	(422)	—	—	(25,803)
Depreciation	43,637	149,463	22,561	1,643	—	217,304
Impairment losses	1,702	3,571	80	1,134	3,371	9,858
Sale or disposal	(21,413)	(69,812)	(15,808)	(1,805)	(3,375)	(112,213)
Transfers (Note 2)	(2,053)	(4,554)	(376)	(430)	—	(7,413)
Exchange differences on translation of foreign operations	10,685	69,736	9,304	(2,876)	(543)	86,306
Balance as of March 31, 2022	¥804,960	¥2,681,948	¥262,308	¥ 9,709	¥5,510	¥3,764,435

Notes:
1. "Acquisitions" of construction in progress is presented as a net amount, including the amount of increase due to new acquisitions as well as the amount in parentheses transferred to each property, plant and equipment account.
2. Transfers include a transfer to assets held for sale.

Carrying amount

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2021	¥434,769	¥826,264	¥114,370	¥278,136	¥160,299	¥1,813,838
Balance as of March 31, 2022	¥442,239	¥848,673	¥125,141	¥284,444	¥199,198	¥1,899,695

Fiscal year ended March 31, 2023

Acquisition cost

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2022	**¥1,247,199**	**¥3,530,621**	**¥387,449**	**¥294,153**	**¥204,708**	**¥5,664,130**
Acquisitions (Note 1)	**70,983**	**152,656**	**31,644**	**3,887**	**29,030**	**288,200**
Acquisitions through business combinations	**24**	**180**	**1**	**212**	**—**	**417**
Transfer of businesses	**(6,821)**	**(19,098)**	**(1,552)**	**(49)**	**(23)**	**(27,543)**
Sale or disposal	**(20,205)**	**(83,869)**	**(14,303)**	**(2,898)**	**(1,463)**	**(122,738)**
Transfers (Note 2)	**(4,772)**	**(8,854)**	**13**	**(384)**	**(10,895)**	**(24,892)**
Exchange differences on translation of foreign operations	**17,671**	**89,946**	**12,067**	**4,190**	**(2,453)**	**121,421**
Balance as of March 31, 2023	**¥1,304,079**	**¥3,661,582**	**¥415,319**	**¥299,111**	**¥218,904**	**¥5,898,995**

Accumulated depreciation, accumulated impairment losses

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2022	**¥804,960**	**¥2,681,948**	**¥262,308**	**¥ 9,709**	**¥ 5,510**	**¥3,764,435**
Transfer of businesses	**(5,372)**	**(17,667)**	**(1,373)**	**—**	**—**	**(24,412)**
Depreciation	**47,147**	**159,107**	**24,827**	**1,779**	**—**	**232,860**
Impairment losses	**9,118**	**27,298**	**782**	**2,295**	**48,058**	**87,551**
Sale or disposal	**(16,251)**	**(81,287)**	**(13,960)**	**(554)**	**(845)**	**(112,897)**
Transfers (Note 2)	**(1,888)**	**(5,631)**	**(29)**	**(102)**	**(139)**	**(7,789)**
Exchange differences on translation of foreign operations	**5,110**	**51,929**	**4,570**	**1,131**	**(11,391)**	**51,349**
Balance as of March 31, 2023	**¥842,824**	**¥2,815,697**	**¥277,125**	**¥14,258**	**¥41,193**	**¥3,991,097**

Notes:
1. "Acquisitions" of construction in progress is presented as a net amount, including the amount of increase due to new acquisitions as well as the amount in parentheses transferred to each property, plant and equipment account.
2. Transfers include a transfer to assets held for sale.

Carrying amount

Millions of yen

	Buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Land	Construction in progress	Total
Balance as of April 1, 2022	¥442,239	¥848,673	¥125,141	¥284,444	¥199,198	¥1,899,695
Balance as of March 31, 2023	**¥461,255**	**¥845,885**	**¥138,194**	**¥284,853**	**¥177,711**	**¥1,907,898**

Right-of-use assets increased ¥20,831 million and ¥26,926 million in the fiscal years ended March 31, 2022 and 2023, respectively.

Depreciation of property, plant and equipment is included in Cost of sales and Selling, general and administrative expenses in the Consolidated Statement of Income.

Expenditure on construction work in progress for property, plant and equipment is included in construction in progress.

2. Right-of-use assets (lease assets)

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

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Buildings and structures	¥ 80,394	**¥ 75,556**
Machinery and vehicles	18,097	**19,400**
Tools, furniture and fixtures	12,152	**11,215**
Land	9,094	**8,489**
Total	¥119,737	**¥114,660**

Note 14

Impairment Losses

In principle, the Group determines its cash-generating units considering operational, production processes, regions, and other factors based on business units. The Group tests idle assets individually to recognize impairment losses.

Impairment losses in the fiscal years ended March 31, 2022, and 2023, are as follows. Impairment losses are included in other operating expenses in the Consolidated Statement of Income.

Impairment losses

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Property, plant and equipment		
Buildings and structures	¥ 1,702	**¥ 9,118**
Machinery and vehicles	3,571	**27,298**
Tools, furniture and fixtures	80	**782**
Land	1,134	**2,295**
Construction in progress	3,371	**48,058**
Total of property, plant and equipment	¥ 9,858	**¥87,551**
Goodwill	—	**6,739**
Intangible assets (Note)	16,189	**2,492**
Total impairment losses	¥26,047	**¥96,782**

Note:
The impairment losses on intangible assets with indefinite useful lives were ¥16,166 million and ¥1,463 million in the fiscal years ended March 31, 2022 and 2023, respectively.

The main assets for which impairment losses were recognized are as follows:

Fiscal year ended March 31, 2022
Property, plant and equipment and intangible assets

Use	Location	Category	Reporting segment	Impairment loss
Steam turbine facilities	Mitsubishi Chemical UK Limited (Stockton-on-Tees, United Kingdom)	Construction in progress	Chemicals	¥3,349 million
Development of treatment of Osteoarthritis pain	Mitsubishi Tanabe Pharma Corporation (Osaka Prefecture)	Intangible assets related to technology (rights secured from a development stage in-licensing agreement)	Health Care	¥15,797 million

1. Steam turbine facilities
In line with a decision to cancel the construction plan for some of the steam turbine facilities which are under construction at the Cassel site of Mitsubishi Chemical UK Limited, the Company fully reduced the carrying amount of this facilities (construction in progress) and posted an impairment loss of ¥3,349 million. The recoverable amount is based on the value in use, set at zero.

2. Development of treatment of Osteoarthritis pain
The results of a revision to the business plan of treatment of Osteoarthritis pain (MT-5547) to factor in changes in the business environment triggered a drop in the recoverable amount to below carrying amount. The Company accordingly reduced the carrying amount of intangible assets related to technology (rights acquired through a licensing-in contract) to the recoverable amount of ¥923 million and posted an impairment loss of ¥15,797 million. The Company classifies intangible assets related to this technology as intangible assets with indefinite useful lives.

The recoverable amount is based on value in use. The significant assumptions used to calculate the value in use are prospects for obtaining regulatory marketing approval, sales revenue forecasts after a product launch, and the discount rate. The value in use is based on a planning period exceeding five years, factoring in account the patent period and product lifecycle based on experience and external information sources, with estimated future cash flows discounted to the present value.

The discount rate is the pre-tax weighted average cost of capital of 6.5% for the relevant cash-generating unit.

Fiscal year ended March 31, 2023
Property, plant and equipment and intangible assets

Use	Location	Category	Reporting segment	Impairment loss
MMA manufacturing equipment	Mitsubishi Chemical UK Limited (Stockton-on-Tees, United Kingdom)	Machinery and equipment, etc.	Chemicals	¥39,251 million
Vaccine manufacturing equipment	Medicago Inc. (Quebec, Canada)	Construction in progress, etc.	Health Care	¥40,619 million

(Goodwill)

Main contents	Reporting segment	Impairment loss
Goodwill related to Medicago's business and operations	Health Care	¥6,739 million

1. Methyl Methacrylate (MMA) manufacturing equipment at Mitsubishi Chemical UK's Cassel Site
A comprehensive business review was undertaken which concluded that MCG does not believe that the manufacturing operation of methacrylates at Mitsubishi Chemical UK Cassel Site can be economically sustainable for the foreseeable future. MCG therefore decided to cease the production of methacrylates at the site. Consequently, since the investment became unrecoverable, the carrying amount of the manufacturing equipment at the site was reduced to the recoverable amount, and an impairment loss of ¥39,251 million (including ¥20,720 million for machinery and equipment and ¥18,531 million for others) was recorded.

The recoverable amount is measured at fair value less costs of disposal. The fair value less costs of disposal is the estimated sale amount or is zero for the assets which are not expected to be sold. The fair value hierarchy is Level 3.

2. Medicago's vaccine manufacturing equipment and goodwill related to its business and operations
Medicago Inc. is a biopharmaceutical company specializing in the research and development of new vaccines using plant-based virus-like particles (hereinafter, "VLP") technology. Medicago's VLP vaccine for the prevention of COVID-19 was approved in Canada in February 2022 and the company has since been preparing for the transition to commercial-scale production. However, in light of significant changes to the COVID-19 vaccine landscape since the approval of the VLP vaccine, and after a comprehensive

review of the current global demand and market environment for COVID-19 vaccines and Medicago's challenges in transitioning to commercial-scale production, MCG has determined that it will not pursue the commercialization of the VLP vaccine. In addition, MCG judged that it was not viable to continue to make further investment in the commercialization of Medicago's development products, and decided to cease all of its operations at Medicago and proceed with an orderly wind up of its business and operations. Consequently, since the investment became unrecoverable, the carrying amount of Medicago's vaccine manufacturing equipment and goodwill related to its business and operations was reduced to the recoverable amount, and an impairment loss of ¥47,358 million (including ¥31,762million for construction in progress, ¥6,739 million for goodwill, and ¥8,857 million for others) was recorded.

The recoverable amount is measured at fair value less costs of disposal. The fair value less costs of disposal is the estimated sale amount or is zero for the assets which are not expected to be sold. The fair value hierarchy is Level 3.

Note 15

Individually Insignificant Investments Accounted for Using Equity Method

Amounts of Investments and Share of Total Shareholders' Equity in Total Comprehensive Income

The carrying amounts of individually insignificant investments in joint ventures accounted for using the equity method are as follows:

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Carrying amounts of investments in joint ventures	¥89,100	**¥79,020**

Equity in earnings of joint ventures accounted for using the equity method for total comprehensive income is as follows:

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Share of profit using equity method	¥11,154	**¥5,558**
Share of other comprehensive income using equity method	1,359	**856**
Share of total shareholders' equity in total comprehensive income	¥12,513	**¥6,414**

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

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Carrying amounts of investments in associates	¥85,691	**¥91,716**

Equity in earnings of associates accounted for using the equity method for total comprehensive income is as follows:

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Share of profit using equity method	¥10,040	**¥ 6,185**
Share of other comprehensive income using equity method	3,291	**6,974**
Share of total shareholders' equity in total comprehensive income	¥13,331	**¥13,159**

Other Financial Assets

The breakdown of other financial assets is as follows:

	Millions of yen	
	As of March 31, 2022	**As of March 31, 2023**
Stocks and investments	¥193,888	**¥162,919**
Accounts receivable	35,900	**51,025**
Time deposits	5,516	**6,286**
Derivatives	3,458	**5,678**
Other	47,558	**53,549**
Allowance for doubtful accounts	(1,702)	**(1,718)**
Total	¥284,618	**¥277,739**
Current assets	¥ 51,085	**¥ 74,469**
Non-current assets	233,533	**203,270**
Total	¥284,618	**¥277,739**

Stocks and investments are classified mainly as equity financial assets measured at fair value through other comprehensive income. Accounts receivable and time deposits are classified as financial assets measured mainly at amortized cost. Derivative assets are financial assets measured at fair value through profit or loss (except those to which hedge accounting applies).

Other includes financial assets related to contingent consideration agreements, are classified as financial assets measured at fair value through profit or loss.

The major issues and fair values of equity financial assets measured at fair value through other comprehensive income are as follows:

As of March 31, 2022

Company name	Millions of yen
PHC Holdings Corporation	¥22,234
IBIDEN CO., LTD.	8,012
TOHO HOLDINGS CO., LTD.	6,611
MEDIPAL HOLDINGS CORPORATION	4,283
Tosoh Corporation	4,049
Shin-Etsu Chemical Co., Ltd.	3,796
Velo3D, Inc.	3,741
JiLin OLED Material Tech Co., Ltd.	3,567
Mitsubishi Research Institute, Inc.	2,496
KOATSU GAS KOGYO CO., LTD.	2,237

As of March 31, 2023

Company name	Millions of yen
PHC Holdings Corporation	**¥17,610**
IBIDEN CO., LTD.	**6,966**
NewAmsterdam Pharma Company N.V.	**6,633**
Tosoh Corporation	**4,014**
Mitsubishi Research Institute, Inc.	**3,182**
KOATSU GAS KOGYO CO., LTD.	**2,394**
STANLEY ELECTRIC CO., LTD.	**2,174**
RIKEN KEIKI Co., Ltd.	**1,939**
MITSUBISHI GAS CHEMICAL COMPANY, INC.	**1,656**
MEDIPAL HOLDINGS CORPORATION	**1,564**

As well as the assets above, the Group holds financial assets measured at fair value through other comprehensive income for which quoted prices in active markets are unavailable, mainly comprising stocks related to the Chemicals, Health Care and Industrial Gases product segments.

Investments in Chemicals -related stocks were ¥83,422 million as of March 31, 2022, and ¥69,807 million as of March 31, 2023. Investments in Health Care-related stocks were ¥8,602 million as of March 31, 2022, and ¥9,648 million as of March 31, 2023. Investments in Industrial Gases-related stocks amounted to ¥8,810 million as of March 31, 2022, and ¥9,437 million as of March 31, 2023.

As stocks are held mainly to maintain and strengthen business and collaborative ties and financial transactions, they are designated as equity financial assets measured at fair value through other comprehensive income.

The Company endeavors to enhance the efficiency and effective use of its assets by selling (derecognizing) equity financial assets measured at fair value through other comprehensive income. Fair values upon sales and cumulative gains or losses (before tax) on sales are as follows. Cumulative gains or losses (after tax) recognized in other components of equity are transferred to retained earnings at the time of sale.

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Fair value	¥33,242	**¥23,821**
Cumulative gains or losses	10,326	**10,699**

Dividend income from equity financial assets measured at fair value through other comprehensive income is as follows:

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Derecognized financial assets	¥ 565	**¥ 266**
Financial assets held at year-end	4,209	**6,558**

Note 17

Other Assets

The breakdown of other assets is as follows:

	Millions of yen	
	As of March 31, 2022	**As of March 31, 2023**
Accrued income tax	¥ 7,022	**¥ 48,907**
Net defined benefit assets	52,162	**45,297**
Prepaid expenses	39,318	**41,306**
Contract asset (Note)	16,312	**22,315**
Advance payment	17,456	**17,765**
Consumption taxes receivable	12,956	**11,560**
Other	22,253	**15,295**
Total	¥167,479	**¥202,445**
Current assets	106,556	**141,020**
Non-current assets	60,923	**61,425**
Total	¥167,479	**¥202,445**

Note: See Note 5 Sales Revenue for details.

Note 18

Inventory

The breakdown of inventory is as follows:

	Millions of yen	
	As of March 31, 2022	**As of March 31, 2023**
Finished goods	¥419,729	**¥448,463**
Raw materials and supplies	238,903	**257,845**
Work in process	86,616	**91,569**
Total	¥745,248	**¥797,877**

Inventories measured at net realizable value as of March 31, 2022 and 2023 were ¥86,174 million and ¥125,244 million, respectively.

In the fiscal years ended March 31, 2022 and 2023, write-downs of inventories recognized as expenses were ¥5,783 million and ¥11,378 million, respectively.

Note 19

Trade Receivables

The breakdown of trade receivables is as follows:

	As of March 31, 2022	**As of March 31, 2023**
		Millions of yen
Accounts receivable	¥835,419	**¥819,461**
Allowance for doubtful accounts	(9,423)	**(10,674)**
Total	¥825,996	**¥808,787**

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

Note 20

Cash and Cash Equivalents

The breakdown of cash and cash equivalents is as follows:

	As of March 31, 2022	**As of March 31, 2023**
		Millions of yen
Cash and deposits	¥217,635	**¥278,416**
Short-term investments	28,154	**18,808**
Total	¥245,789	**¥297,224**

Note 21

Assets Held for Sale

The breakdowns of assets held for sale and directly related liabilities are as follows:

	As of March 31, 2022	**As of March 31, 2023**
		Millions of yen
Assets held for sale:		
Cash and cash equivalents	¥ 137	**¥ 2,005**
Trade receivables	183	**7,173**
Inventories	2,746	**3,922**
Property, plant and equipment	1,268	**1,262**
Other financial assets	6,807	**14,772**
Others	301	**1,107**
Total	¥11,442	**¥30,241**
Liabilities related directly to assets held for sale:		
Trade payables	¥ 90	**¥ 4,713**
Retirement benefit liabilities	605	**2,009**
Others	185	**2,302**
Total	¥ 880	**¥ 9,024**

Fiscal year ended March 31, 2022
Assets held for sale and directly related liabilities as of March 31, 2022, primarily comprised the following.

(1) Cross-shareholdings held by the Group

The Group constantly reviews the meaningfulness of cross-shareholdings. Pursuant to such review, at the end of the fiscal year ended March 31, 2022, it classified the shares which are assessed to be insufficiently justified and planned be sold within one year as held for sale within one year. These shares are primarily listed,and are classified as Level 1 in the fair value hierarchy.

The Company largely completed sales of cross-shareholdings classified as held for sale at the end of the fiscal year ended March 31, 2022, by the end of the fiscal year ended March 31, 2023.

As of March 31, 2022, other components of equity related to assets held for sale were ¥3,594 million.

Fiscal year ended March 31, 2023
Assets held for sale and directly related liabilities as of March 31, 2023, primarily comprised the following.

(1) Investment in joint venture Mitsubishi Engineering-Plastics Corporation accounted for using the equity method in the Performance Products segment
In February 2022, the Company decided to transfer a portion of the shares as part of portfolio reforms. As the sale was expected within one year from the end of the first quarter of the fiscal year ended March 31, 2023, the Company discontinued the use of equity method for those shares and classified them as held for sale.
As the fair value after deducting selling costs (the estimated sales price) exceeded the carrying amount, the Company measured this investment at its carrying amount.
The Company completed the sale in April 2023.

(2) Related to Mitsubishi Chemical Agri Dream Co., Ltd., a consolidated subsidiary in the Performance Products segment
As part of portfolio reforms, the Group agreed in March 2023 to transfer all of its shares in Mitsubishi Chemical Agri Dream Co., Ltd., classifying all of that company's assets and liabilities as held for sale.
As the fair value after deducting selling costs (estimated sales price) exceeded the carrying amount, the Company measured the assets and liabilities at their carrying amount.
The Company expects to complete the sale by September 2023.

(3) Related to Alphatec Solutions, Co., Ltd., a consolidated subsidiary in the Other segment
In keeping with efforts to reinforce and rationalize its systems infrastructure, the Group agreed in February 2023 to transfer all of its shares in Alphatec Solutions, Co., Ltd., classifying all of that company's assets and liabilities as held for sale.
As the fair value after deducting selling costs (estimated sales price) exceeded the carrying amount, the Company measured the assets and liabilities at their carrying amount.
The Company completed the sale in April 2023.

(4) Cross-shareholdings held by the Group
The Group constantly reviews the meaningfulness of cross-shareholdings. Pursuant to such review, at the end of the fiscal year ended March 31, 2023, it classified the shares which are assessed to be insufficiently justified and planned to be sold within one year as held for sale. These shares are primarily listed, and are classified as Level 1 in the fair value hierarchy.

As of March 31, 2023, other components of equity related to assets held for sale were ¥4,428 million.

Note 22

Capital

1. Common stock and Treasury Stock

Number of shares authorized and issued is as follows:

Thousands of shares

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Number of shares authorized	6,000,000	**6,000,000**
Number of shares issued:		
At the beginning of the period	1,506,288	**1,506,288**
Increase (decrease)	—	**—**
At the end of the period	1,506,288	**1,506,288**

The Company's shares are ordinary shares without par value. The shares issued were fully paid.

Changes in the number of shares of treasury stock during the year are as follows:

	Thousands of shares	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
At the beginning of the period	85,866	**85,200**
Increase (note 1)	34	**29**
Decrease (note 2)	(700)	**(1,039)**
At the end of the period	85,200	**84,190**

Notes:

1. An increase in the number of shares of treasury stock in the fiscal year ended March 31, 2022, was due to the purchase of 34,000 shares of less than one unit.
   An increase in the number of shares of treasury stock in the fiscal year ended March 31, 2023, was due to the purchase of 29,000 shares of less than one unit.
2. A decrease in the number of shares of treasury stock in the fiscal year ended March 31, 2022, was due to payments of 428,000 shares for grants of restricted stock as share-based compensation, payments of 109,000 shares through the exercise of stock options, grants of 161,000 shares from the Board Incentive Plan trust, and the sale of 2,000 shares of less than one unit.
   A decrease in the number of shares of treasury stock in the fiscal year ended March 31, 2023, was due to payments of 344,000 shares for grants of restricted stock as share-based compensation, payments of 273,000 shares through the exercise of stock options, grants of 420,000 shares from the Board Incentive Plan trust, and the sale of 1,000 shares of less than one unit.
3. Company stocks held by the Board Incentive Plan trust are included.
   As of March 31, 2022: 2,833,000 shares and as of March 31, 2023: 2,413,000 shares

2. Additional paid-in capital and Retained Earnings

Additional paid-in capital comprises amounts arising from capital transactions that are not included in common stock. The main component is legal capital surplus and other capital surplus. Retained earnings comprise legal retained earnings and other retained earnings.

The Japanese Company Law mandates that at least half of paid-in capital be appropriated as common stock and the rest be appropriated as a legal reserve within the legal capital surplus. Under that law, the legal capital surplus can be incorporated in common stock by resolution at a shareholders' meeting.

Amounts classified as equity elements at the time of issuance of convertible bond type bonds with stock acquisition rights are included in other capital surplus as a capital element of compound financial products.

That law requires that 10% of the surplus appropriated for dividends be retained until the total amount of the legal capital surplus and legal retained earnings reaches a quarter of the amount of common stock. The accumulated legal retained earnings can be appropriated for deficit disposition, and legal retained earnings may be available for dividends by resolution at a shareholders' meeting.

3. Other Components of Equity

Other components of equity are as follows:

(Financial Assets Measured at Fair Value through Other Comprehensive Income)
Unrealized gains on financial assets are measured at fair value through other comprehensive income.

(Remeasurement of Defined Benefit Pension Plans)
This remeasurement is for differences between actuarial assumptions at the beginning of the year and actual experience and the effects of changes in actuarial assumptions. This amount is recognized in other comprehensive income when it occurs and is immediately transferred from other components of equity to retained earnings.

(Exchange Differences on Translation of Foreign Operations)
These are the adjustments result from consolidating the financial statements of foreign operations, and the cumulative amount of effective portions of hedges from gains or losses on hedge instruments designated as net investment hedges.

(Effective Portion of Net Change in Fair Value of Cash Flow Hedges)
This is the cumulative amount of effective portions of hedges from gains or losses arising from changes in the fair value of hedging instruments relating to cash flow hedges.

Note 23

Dividends

Dividends paid to shareholders are as follows:

Fiscal year ended March 31, 2022

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Entitlement date	Effective date
May 19, 2021	Board of Directors	Common stock	¥17,081	¥12	March 31, 2021	June 3, 2021
November 2, 2021	Board of Directors	Common stock	¥21,358	¥15	September 30, 2021	December 2, 2021

Note:
Total dividends from a resolution of the Board of Directors on May 19, 2021, and November 2, 2021, included ¥33 million and ¥39 million, respectively, in dividends for the Company stock held by the Board Incentive Plan trust (excluding shares equivalent to the accumulated number of points granted).

Fiscal year ended March 31, 2023

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Amount per share (Yen)	Entitlement date	Effective date
May 19, 2022	Board of Directors	Common stock	¥21,359	¥15	March 31, 2022	June 3, 2022
November 8, 2022	Board of Directors	Common stock	¥21,366	¥15	September 30, 2022	December 2, 2022

Note:
Total dividends from a resolution of the Board of Directors on May 19, 2022, and November 8, 2022, included ¥39 million and ¥35 million, respectively, in dividends for the Company stock held by the Board Incentive Plan trust (excluding shares equivalent to the accumulated number of points granted).

Dividends with a record date in the fiscal year ended March 31, 2023, with an effective date in the following fiscal year are as follows:

Fiscal year ended March 31, 2023

Date of approval	Resolution approved by	Type of shares	Amount (Millions of yen)	Paid from	Amount per share (Yen)	Entitlement date	Effective date
May 19, 2023	Board of Directors	Common stock	¥21,368	Retained earnings	¥15	March 31, 2023	June 6, 2023

Note:
Total dividends included ¥35 million in dividends for the Company stock held by the Board Incentive Plan trust (excluding shares equivalent to the accumulated number of points granted).

Note 24

Other Comprehensive Income

Changes in each item of other comprehensive income during the year are as follows:

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Financial assets measured at fair value through other comprehensive income:		
Amounts arising during period	¥ 6,236	**¥ (14,499)**
Tax effects	(1,765)	**4,576**
Net amount	¥ 4,471	**¥ (9,923)**
Remeasurements of defined benefit pension plans:		
Amounts arising during period	¥ 10,035	**¥ (4,168)**
Tax effects	(2,707)	**1,150**
Net amount	¥ 7,328	**¥ (3,018)**
Exchange differences on translation of foreign operations:		
Amounts arising during period	¥104,455	**¥79,018**
Reclassification adjustments	113	**(92)**
Tax effects	28	**—**
Net amount	¥104,596	**¥78,926**
Effective portion of net change in fair value of cash flow hedges:		

Amounts arising during period	¥ 2,758	**¥ 3,858**
Reclassification adjustments	298	**(1,865)**
Tax effects	(672)	**(465)**
Net amount	¥ 2,384	**¥ 1,528**
Share of other comprehensive income (loss) of investments accounted for using equity method:		
Amounts arising during period	¥ 4,650	**¥ 7,832**
Reclassification adjustments	—	**(2)**
Net amount	¥ 4,650	**¥ 7,830**
Total other comprehensive income	¥123,429	**¥75,343**

Note 25

Share-based Payment

The Company adopted the following share-based compensation plan intended primarily to promote awareness of sustainable improvement in corporate value.

1. Stock Option Plan

(1) Details of Equity-Settled Share-Based Compensation Plan

Based on a resolution of the Remuneration Committee, the Company issues share-based compensation stock options as a form of performance-related payment to its corporate executive officers (directors excluding outside directors until the fiscal year ended March 31, 2015. The same shall apply hereinafter) and executive officers, taking into consideration the Company's financial results for each fiscal year as well as the status of achieving of business targets by the corporate executive officers or executive officers (including those who have the retired) based on their degree of contribution, etc.

All stock options that the Company issues are equity-settled share-based compensation. There are no vesting conditions. The exercise period is principally 20 years from the date of grant, and is, in principle, effective for 5 years from the day after the first year after recipients lose their status as director, executive officer, executive, or corporate auditor of the Company and/or its subsidiaries.

There are no new share-based compensation stock option grants from the fiscal year ended March 31, 2020.

(2) Changes in the Number of Stock Options

Thousands of shares

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Outstanding at the beginning of the period	824	**715**
Exercised	(109)	**(273)**
Outstanding at the end of the period	715	**442**
Exercisable at the end of the period	288	**150**

Note: No shares were granted or forfeited in the fiscal years ended March 31, 2022, or 2023.

The exercise price for all stock options is ¥1 per share.

The weighted average share prices for exercised stock options were ¥864.0 and ¥732.9 in the fiscal years ended March 31, 2022 and 2023, respectively.

The weighted average remaining contractual years of stock options outstanding at year-end were 6.7 years and 5.9 years as of March 31, 2022 and 2023, respectively.

2. Share-Based Compensation Plans using Board Incentive Plan Trusts

(1) Details of Share-Based Compensation Plans

In the fiscal year ended March 31, 2019, the Company and some subsidiaries introduced performance-based share compensation plans ("the Plans") to executive officers (through the fiscal year ended March 31, 2021), executive directors (excluding non-residents of Japan, the same applying hereafter), the president of some subsidiaries and directors and executives concurrently serving as executive officers (excluding nonresidents of Japan; executive officers and directors collectively referred to as executive officers below).

The Plans cover five consecutive fiscal years (initially, three through the fiscal year ending March 31, 2021) that correspond to the period covered by the Company's medium-term management plan. Based on assessments of progress toward corporate performance targets, each executive officer is granted a number of points each year according to the office title. The Company stocks equivalent to accumulated points calculated after the retirements of executive officers (1 point = 1 share) are provided as executive remuneration.

The Plans employ the Board Incentive Plan trust. The Company and some subsidiaries contribute funds to acquire the Company shares through the trust, which delivers the common shares to executive officers.

The Plans are accounted for as equity-settled share-based compensation.

In line with its revision of share-based compensation plans, the Company decided not to grant points under them from the following fiscal year.

(2) Number of Points Granted during the Period and Weighted Average Fair Value of Points

The number of points granted during the period and weighted average fair value of points are as follows. The fair value on the day points were granted uses the share price on that day since the share price on the day of grant is a close approximation of fair value.

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Number of points granted during the period (thousands of shares)	219	**30**
Weighted average fair value of points (yen)	¥985.1	**¥996.7**

(3) Share-Based Compensation Expenses

Expenses related to this plan were ¥216 million and ¥32 million in the fiscal years ended March 31, 2022 and 2023, respectively. These expenses were presented within Selling, general and administrative expenses and Cost of sales in the Consolidated Statement of Income.

3. Restricted Shares Compensation Plan

(1) Details of Share-based Compensation Plan

In the fiscal year ended March 31, 2021, the Company introduced a restricted share compensation plan for executive officers, etc.

Under this plan, Compensation Committee determines the number of shares of common shares to be delivered based on the base value that reflects plan objectives, the Company's performance, the scope of responsibilities of eligible individuals, and other factors. Restrictions on the transfer of such common shares are lifted upon retirement from the positions of director, executive officer, or corporate officer of the Company or its subsidiaries (hereinafter, Officers, etc., of the Company), provided that such individuals continuously hold those positions from grant dates through March 31 of the following year.

Also, the Company granted restricted shares as a sign-on bonus to the president & CEO on assuming the position in the fiscal year ended March 31, 2022. One-third of the transfer restrictions are to be lifted at the end of each of three fiscal years after assuming the position. If, however, the, president & CEO resigns before these restrictions are lifted, the Company will acquire shares for which transfer restrictions are not lifted, without paying compensation.

This plan is accounted for as equity-settled share-based compensation.

(2) Number of shares and weighted average fair value of shares granted during the period

The number of shares granted and the weighted average fair value of shares during the term are as follows. The Company uses share prices on grant dates, as the fair values of shares on those dates approximate share prices on those dates.

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Number of points granted during the period (thousands of shares)	428	**344**
Weighted average fair value of points (yen)	¥804.6	**¥772.3**

(3) Share-Based Compensation Expenses
Expenses related to this plan were ¥267 million and ¥321 million in the fiscal years ended March 31, 2022 and 2023, respectively. These expenses were presented within Selling, general and administrative expenses in the Consolidated Statement of Income.

4. Performance Share Unit
(1) Details of Stock Compensation Plan
The Company introduced a performance share unit (PSU) system for executive officers, etc. from the fiscal year ended March 31, 2022. The system assesses the Company's total shareholder return (TSR) over three years to determine whether or not to grant shares and, in case it is determined to grant shares, the number of shares to grant. Based on comparison with the growth rate of the JPX-Nikkei Index 400 and comparison with the TSR of the peer group, which includes the domestic and overseas chemical and health companies with similar sales volume and market capitalization, the TSR is evaluated to determine the calculation factor ranging between 0% and 200%. In case it is determined to grant shares, the Company determines the number of shares to deliver to eligible individuals by using the above calculation factor multiplied by the base number of shares according to the office title. An executive officer is required to continuously hold one of the positions of corporate executive officer or executive officer for the target period of three years to qualify.

This plan is accounted for as equity-settled share-based compensation.

(2) Number of Shares Granted during Period and Weighted Average Fair Value of Shares

The base number of shares granted during the period and the weighted average fair value of the shares are as follows. The actual number of standard shares granted varied between 0% and 200% of the base number of shares. The Monte Carlo simulation is used to determine the fair value as of the grant date.

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Number of standard shares granted during period (thousands of shares) (Note)	176	**238**
Weighted average fair value per standard share (yen)	¥898.7	**¥788.1**

Note:
The standard number of shares for the fiscal years ended March 31, 2022 and 2023, included 9,000 shares and 37,000 shares, respectively, for retirees.

Key basic figures used in the Monte Carlo simulation for the Company's shares were as follows.

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Share price on grant date	¥804.6	**¥759.5,etc.**
Expected dividend rate	2.983%	**3.950%**
Initial share price	¥824.0	**¥795.8**
Volatility (Note)	29.562%	**27.076%**
Risk-free interest rate	(0.135)%	**0.049%**

Note:
The Group calculates volatility based on the share price from the grant date through the end of the applicable period.

(3) Share-Based Compensation Expenses

Expense related to this plan were ¥52 million and ¥111 million, respectively, in the fiscal years ended March 31, 2022 and 2023. The expenses were presented within Selling, general and administrative expenses in the Consolidated Statement of Income.

Retirement Benefits

The Company's consolidated subsidiaries maintain lump-sum retirement and retirement benefit plans. The retirement benefit plans are defined benefit (fund- and contract-type) and defined contribution plans. Some consolidated subsidiaries also maintain welfare pension plans.

1. Defined Benefit Plans

The defined benefit plans of the Company's consolidated subsidiaries are mainly cash balance pension plans. Benefits under these plans are based on such conditions as years of service, points gained from results and contributions during employment. Investment yields are determined after taking into consideration such as the yields of 10-year national government bonds.

Cash balance pension plans are managed by corporate pension funds that are legally separated from the consolidated subsidiaries of the Company pursuant to Japan's Defined Benefit Corporate Pension Plan Act. Consolidated subsidiaries, or pension fund directors, and pension investment management institutions are legally required to accord top priority to plan participants, and must manage plan assets based on prescribed policies.

Contract-type cash balance plans are run in line with Bureau of Health and Welfare-approved pension provisions. The management and operation of reserve funds is through contracts with trust banks and other entrusted management institutions on the basis of duty of care and damages stipulations for trustees.

Funded cash balance pension plans are run by corporate pension funds. If fund directors neglect to faithfully discharge their duties concerning reserve management and operations, they assume liability for fund damages.

In the fiscal years ended March 31, 2022, and 2023, some domestic consolidated subsidiaries decided to switch from defined benefit to defined contribution pension plans. They also decided to revise their rules to extend the retirement age from 60 years of age, to 65. The Group recognized the gain and loss on the retirement benefit plan revision and prior service cost in the fiscal years in which subsidiaries made these decisions. The Company recognized decreases in defined benefit plan obligations and plan assets resulting from transitions to defined contribution pension plans in the fiscal years in which the transitions occurred.

Defined benefit plan amounts in the Consolidated Statement of Financial Position are as follows:

	Millions of yen	
	As of March 31, 2022	**As of March 31, 2023**
Present value of the defined benefit obligation	¥563,660	**¥402,579**
Fair value of the plan assets	(511,881)	**(345,584)**
Net defined benefit liabilities	¥ 51,779	**¥ 56,995**
Retirement benefit liabilities	¥103,941	**¥102,292**
Retirement benefit assets	(52,162)	**(45,297)**
Net defined benefit liabilities	¥ 51,779	**¥ 56,995**

For defined benefit plans, amounts recognized as expenses in the Consolidated Statement of Income are as follows:

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Current service cost	¥18,462	**¥13,070**
Prior service cost	497	**1,077**
Interest expense	3,759	**4,249**
Interest income	(4,264)	**(4,226)**
Loss on revision of retirement benefit plan	4,027	**3**
Total	¥22,481	**¥14,173**

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

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Outstanding at the beginning of the period	¥584,556	**¥563,660**
Current service cost	18,462	**13,070**
Interest expense	3,759	**4,249**
Remeasurements:		
Actuarial gains and losses arising from changes in demographic assumptions	(308)	**49**
Actuarial gains and losses arising from changes in financial assumptions	(9,132)	**(21,853)**
Other	1,894	**(1,765)**
Benefits paid	(39,077)	**(33,438)**
Prior service cost	497	**1,077**
Retirement benefit plan liquidation and downsizing	(6,475)	**(17,591)**
Impact of retirement benefit plan revisions	4,027	**(109,829)**
Exchange differences on translation of foreign operations	5,457	**4,950**
Outstanding at the end of the period	¥563,660	**¥402,579**

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

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Outstanding at the beginning of the period	¥531,910	**¥511,881**
Interest income	4,264	**4,226**
Remeasurements:		
Return on plan assets	2,489	**(27,737)**
Contributions by the employer	5,908	**4,899**
Benefits paid	(32,661)	**(28,036)**
Retirement benefit plan liquidation and downsizing	(6,475)	**(17,849)**
Impact of retirement benefit plan revisions	—	**(109,195)**
Exchange differences on translation of foreign operations	6,446	**7,395**
Outstanding at the end of the period	¥511,881	**¥345,584**

The principal actuarial assumptions used to calculate present values of defined benefit obligations are as follows:

	As of March 31, 2022	**As of March 31, 2023**
Discount rate	0.87%	**1.44%**

In the event of changes in the discount rate, the principal actuarial assumption, the impact on the present value of defined benefit obligation as of March 31, 2022 and 2023 would be as follows. This sensitivity analysis assumes that all actuarial assumptions other than that subject to analysis are held constant.

		Millions of yen
	As of March 31, 2022	**As of March 31, 2023**
Increase by 0.5%	¥(29,011)	**¥(18,717)**
Decrease by 0.5%	28,795	**20,392**

Note:
The discount rate is determined by referring to yields on high-quality bonds with maturities similar to periods in which benefits are anticipated. The sensitivity analysis is therefore based on a minimum reasonable discount rate of 0%.

The fair value of plan assets are as follows:

As of March 31, 2022

			Millions of yen
	Fair value with quoted prices in active markets	Fair value without quoted prices in active markets	Total
Cash and cash equivalents	¥114,825	¥ —	¥114,825
Equity instruments			
Domestic equities	17,571	—	17,571
Foreign equities	6,654	—	6,654
Other	—	61,756	61,756
Debt instruments			
Domestic bonds	3,289	—	3,289
Foreign bonds	28,658	—	28,658
Other	—	120,274	120,274
General accounts of life insurance companies	—	124,042	124,042
Other	—	34,812	34,812
Total	¥170,997	¥340,884	¥511,881

As of March 31, 2023

			Millions of yen
	Fair value with quoted prices in active markets	Fair value without quoted prices in active markets	Total
Cash and cash equivalents	**¥30,615**	**¥ —**	**¥ 30,615**
Equity instruments			
Domestic equities	**4,986**	**—**	**4,986**
Foreign equities	**2,248**	**—**	**2,248**
Other	**—**	**47,115**	**47,115**
Debt instruments			
Domestic bonds	**3,185**	**—**	**3,185**
Foreign bonds	**6,097**	**—**	**6,097**
Other	**—**	**93,316**	**93,316**
General accounts of life insurance companies	**—**	**119,655**	**119,655**
Other	**—**	**38,367**	**38,367**
Total	**¥47,131**	**¥298,453**	**¥345,584**

The Company's consolidated subsidiaries secure the total investment returns required within an acceptable range of risk to sufficiently fund payments of pension benefits and lump-sum payments, and endeavor to minimize long-term contributions and amass financing for payments of benefits.

To achieve targeted rates of return, management sets percentages of policy assets based on medium- to long-term perspectives, reviewing them regularly, and endeavors to maximize returns in keeping with risk assumptions.

Standard and special contributions to defined benefit plans cover the expenses necessary to provide benefits.

In keeping with laws and regulations, the Company regularly recalculates pension financing to balance pension funding for the future. The recalculations review basal rates (including projected mortality, withdrawal, and interest rates) related to setting contributions, and validating premiums.

Scheduled contributions to plan assets for the year ending March 31, 2024 are ¥5,528 million.

The Company's consolidated subsidiaries may pay premium benefits to employees on retirement.

Some domestic consolidated subsidiaries have established retirement benefits trusts.

The weighted average durations of defined benefit plan obligations as of March 31, 2022 and 2023 were 11.1 years and 10.3 years, respectively.

2. Defined Contribution and Public Plans

Amounts recognized as expenses under defined contribution and public plans are as follows:

		Millions of yen
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Defined contribution plan cost	¥ 9,045	**¥13,757**
Public plan cost	23,653	**24,038**

Note 27

Provisions

The breakdowns and schedule of provisions are as follows:

Fiscal year ended March 31, 2022

					Millions of yen
	Asset retirement obligations	Provision for litigation	Provision for loss on plant closure	Other	Total
As of April 1, 2021	¥18,079	¥6,078	¥4,526	¥10,405	¥39,088
Arising during the year	2,396	690	—	4,954	8,040
Interest cost associated with passage of time	364	10	—	—	374
Utilized	(2,531)	(518)	(2,135)	(3,436)	(8,620)
Unused amounts reversed	(406)	—	—	(2,168)	(2,574)
Exchange differences on translation of foreign operations	1,218	—	302	132	1,652
Other	218	—	—	96	314
As of March 31, 2022	¥19,338	¥6,260	¥2,693	¥ 9,983	¥38,274
Current liabilities	¥ 5,844	¥ 16	¥2,231	¥ 7,510	¥15,601
Non-current liabilities	13,494	6,244	462	2,473	22,673
Total	¥19,338	¥6,260	¥2,693	¥ 9,983	¥38,274

Fiscal year ended March 31, 2023

Millions of yen

	Asset retirement obligations	Provision for litigation	Provision for loss on plant closure (Note 1) (Note 3)	Other (Note 2) (Note 3)	Total
As of April 1, 2022	**¥19,338**	**¥6,260**	**¥ 2,693**	**¥ 9,983**	**¥38,274**
Arising during the year	**1,123**	**3,965**	**34,317**	**25,785**	**65,190**
Interest cost associated with passage of time	**517**	**9**	**—**	**1**	**527**
Utilized	**(2,160)**	**(860)**	**(3,318)**	**(3,812)**	**(10,150)**
Unused amounts reversed	**(248)**	**—**	**(4,633)**	**(3,097)**	**(7,978)**
Exchange differences on translation of foreign operations	**1,098**	**—**	**1,019**	**(231)**	**1,886**
Other	**(195)**	**—**	**(707)**	**(97)**	**(999)**
As of March 31, 2023	**¥19,473**	**¥9,374**	**¥29,371**	**¥28,532**	**¥86,750**
Current liabilities	**¥ 5,139**	**¥ 17**	**¥14,767**	**¥27,351**	**¥47,274**
Non-current liabilities	**14,334**	**9,357**	**14,604**	**1,181**	**39,476**
Total	**¥19,473**	**¥9,374**	**¥29,371**	**¥28,532**	**¥86,750**

Notes:
1. Includes a provision for loss related to plant closure and special retirement expenses related to a decision to cease the production of methacrylates at Mitsubishi Chemical UK's Cassel Site. An increase during the fiscal year ended March 31, 2023 is a loss arising from contractual commitments including penalties for cancelling purchasing contracts and expenses for fulfilling contractual obligations and costs related to removing the plant. See Note 14 Impairment Loss for more details on cessation of the production.
2. Includes a provision for loss on business liquidation and special retirement expenses related to a decision to liquidate business operations at Medicago. See Note 14 Impairment Loss for more details on liquidation.
3. Provision for loss on plant closure, included in Other in the fiscal year ended March 31, 2022 is reclassified and presented as a separate line item in the fiscal year ended March 31, 2023, owing to the increased materiality.
   Provision for environmental measures, presented as a separate line item in the fiscal year ended March 31, 2022, is included in Other in the fiscal year ended March 31, 2023, owing to the decreased materiality. The presentation for the fiscal year ended March 31, 2022 is also reclassified.

Asset Retirement Obligations

The Company covers recovery obligations for the rental real estate of the Group by recording projected payments based on historical amounts. These expenses are expected to be paid after one year or more; however, they may be affected by future business plans.

Reserves for Possible Losses in Connection with Litigation

Reserves for possible losses in connection with litigation are set aside for payments to settle lawsuits and in preparation for payments that may arise in the future. The main provisions for loss on litigation are as follows:

(1) Reserve for Health Management Allowances for HIV Compensation

To provide for future payments of health management allowances in connection with a lawsuit for damages filed by plaintiffs infected with HIV, the consolidated subsidiary, Mitsubishi Tanabe Pharma Corporation (MTPC) has set aside an estimated amount for such future payments.

Based on a letter confirming a settlement concluded in March 1996, an amount equivalent to the present value of the estimated future expenditure based on the payments to date for AIDS patients who have reached a settlement is recognized.

(2) Reserve for Health Management Allowances for Sub-acute Myelo-Optical Neuropathy (SMON) Compensation

MTPC has made a provision in the accompanying consolidated financial statements for the estimated future medical treatment payments to be made over the remaining lives of the parties entitled to such payments under the compromise settlement.

(3) Reserve for HCV Litigation

To provide for losses that may arise in the future from a settlement of lawsuits filed by plaintiffs infected with HCV (hepatitis C virus), MTPC has set aside an estimated amount for payments related to such settlement based on estimates of the number of people receiving relief and the amount of relief payments required under a law which stipulates that relief be provided to people who contacted hepatitis C from specific fibrinogen products or specific coagulation factor IX products.

Provision for Loss on Plant Closure

The Company estimates and records a provision for loss on plant closure in line with its decision to shut down a facility to prepare for related expenses. Progress with the closure plan affects the timing of payments for those expenses.

Note 28

Bonds and Borrowings

The breakdown of bonds and borrowings is as follows:

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Short-term borrowings	¥ 237,779	**¥ 243,627**
Current portion of long-term borrowings	124,054	**174,086**
Commercial paper	7,000	**76,000**
Current portion of bonds	20,000	**25,000**
Current portion of convertible bond-type bonds with subscription rights to shares	—	**74,767**
Loans due to the transfer of trade receivables	18,773	**7,911**
Loans due to the transfer of trade receivables of subsidiaries	3,607	**52**
Bonds	582,111	**602,357**
Convertible bond-type bonds with subscription rights to shares	74,535	**—**
Long-term borrowings	1,092,110	**1,039,968**
Total	¥2,159,969	**¥2,243,768**
Current liabilities	¥ 411,213	**¥ 601,443**
Non-current liabilities	1,748,756	**1,642,325**
Total	¥2,159,969	**¥2,243,768**

Bonds and borrowings are classified as financial liabilities measured at amortized cost.

The average interest rates for short- and long-term borrowings as of March 31, 2022 were 0.721% and 0.983%, respectively.

The average interest rates for short- and long-term borrowings as of March 31, 2023 were 2.684% and 1.882%, respectively.

Repayment terms for long-term borrowings are from 2023 to 2059.

Loans due to the transfer of trade receivables are liabilities for transfers that do not meet the criteria for derecognition as financial assets.

Borrowings by consolidated subsidiaries from trade receivable transfers are liabilities related to transfers to consolidated subsidiaries.

The breakdown of bonds is as follows:

Millions of yen

Note	Name of bond	Term	Interest rate	As of March 31, 2022	**As of March 31, 2023**
1	9th unsecured bond	2013-2023	1.226%	¥ 10,000	**¥ 10,000**
1	12th unsecured bond	2013-2023	0.918%	15,000	**15,000**
1	15th unsecured bond	2014-2024	0.800%	15,000	**15,000**
1	16th unsecured bond	2015-2022	0.433%	10,000	**—**
1	17th unsecured bond	2015-2025	0.755%	10,000	**10,000**
1	19th unsecured bond	2015-2022	0.476%	10,000	**—**
1	20th unsecured bond	2015-2025	0.711%	10,000	**10,000**
1	22nd unsecured bond	2016-2026	0.320%	10,000	**10,000**
1	23rd unsecured bond	2016-2036	0.850%	20,000	**20,000**
1	24th unsecured bond	2018-2028	0.370%	15,000	**15,000**
1	25th unsecured bond	2018-2038	0.890%	15,000	**15,000**
1	26th unsecured bond	2018-2028	0.410%	12,000	**12,000**
1	27th unsecured bond	2018-2038	1.000%	8,000	**8,000**
1	28th unsecured bond	2018-2048	1.380%	5,000	**5,000**
1	29th unsecured bond	2019-2029	0.330%	10,000	**10,000**
1	30th unsecured bond	2019-2039	0.830%	12,000	**12,000**
1	31st unsecured bond	2019-2049	1.214%	8,000	**8,000**
1	32nd unsecured bond	2020-2027	0.230%	20,000	**20,000**
1	33rd unsecured bond	2020-2030	0.280%	20,000	**20,000**
1	34th unsecured bond	2020-2040	0.690%	29,841	**29,850**
1	35th unsecured bond	2020-2025	0.190%	25,000	**25,000**
1	36th unsecured bond	2020-2030	0.400%	15,000	**15,000**
1	37th unsecured bond	2020-2040	0.830%	10,000	**10,000**
1	38th unsecured bond	2020-2030	0.360%	10,000	**10,000**
1	39th unsecured bond	2020-2040	0.770%	10,000	**10,000**
1	40th unsecured bond	2021-2026	0.090%	20,000	**20,000**
1	41st unsecured bond	2021-2031	0.330%	20,000	**20,000**
1	42nd unsecured bond	2021-2041	0.740%	29,830	**29,841**
1	43rd unsecured bond	2022-2032	0.659%	—	**17,000**
1	1st unsecured bond	2023-2028	0.579%	—	**10,000**
1	2nd unsecured bond	2023-2033	1.180%	—	**18,000**
2	14th unsecured bond	2016-2026	0.390%	15,000	**15,000**
2	15th unsecured bond	2019-2024	0.130%	19,948	**19,969**
2	16th unsecured bond	2019-2026	0.190%	9,963	**9,971**
2	17th unsecured bond	2019-2029	0.300%	19,921	**19,930**
2	1st unsecured bond	2021-2026	0.110%	15,000	**15,000**
2	2nd unsecured bond	2021-2031	0.280%	10,000	**10,000**
3	1st series deferrable interest and callable unsecured subordinated bonds	2019-2054	1.410%	99,671	**99,850**
4	2nd series deferrable interest and callable unsecured subordinated bonds	2019-2059	1.870%	7,937	**7,946**
	Subtotal			¥602,111	**¥627,357**
1	Zero coupon convertible bond-type bonds with subscription rights to shares due 2024	2017-2024	0.312%	¥ 74,535	**¥ 74,767**
	Subtotal			¥ 74,535	**¥ 74,767**
	Total			¥676,646	**¥702,124**

Notes:
1. These corporate bonds are issued by the Company.
2. These corporate bonds are issued by Nippon Sanso Holdings Corporation, a domestic consolidated subsidiary.
3. These corporate bonds are issued by Nippon Sanso Holdings Corporation, a domestic consolidated subsidiary. A fixed interest rate from the day following January 29, 2019 to January 29, 2024 and a variable interest rate from the day following January 29, 2024 (with a step-up in the interest rate scheduled for January 30, 2024).
4. These corporate bonds are issued by Nippon Sanso Holdings Corporation, a domestic consolidated subsidiary. A fixed interest rate from the day following January 29, 2019 to January 29, 2029 and a variable interest rate from the day following January 29, 2029 (with a step-up in the interest rate scheduled for January 30, 2029).

Assets pledged as collateral and collateralized obligations are as follows:
Assets pledged as collateral

	As of March 31, 2022	**As of March 31, 2023**
		Millions of yen
Buildings and structures	¥ 6,874	**¥ 6,993**
Machinery and vehicles	9,113	**9,750**
Land	6,537	**6,414**
Other	1,699	**1,834**
Total	¥24,223	**¥24,991**

Collateralized obligations

	As of March 31, 2022	**As of March 31, 2023**
		Millions of yen
Trade payables	¥ 105	**¥ 82**
Short-term borrowings	58	**—**
Current portion of long-term borrowings	838	**250**
Long-term borrowings	5,762	**5,206**
Other	29	**33**
Total	¥6,792	**¥5,571**

Note 29

Changes in Liabilities Relating to Financing Activities

Changes in liabilities relating to financing activities are as follows:

Fiscal year ended March 31, 2022

	Short-term borrowings	Commercial paper	Long-term borrowings (Note)	Bonds (Note)	Lease liabilities (Note)
					Millions of yen
As of April 1, 2021	¥336,512	¥67,000	¥1,239,785	¥706,207	¥132,918
Cash flows	(89,129)	(60,000)	(64,084)	(30,364)	(32,349)
Changes from acquisition or loss of control over subsidiaries or other businesses	150	—	2,421	—	7
Changes owing to new leases and contract changes, etc.	—	—	—	—	24,290
Impact of foreign exchange rate fluctuations, etc.	12,626	—	38,042	803	5,034
As of March 31, 2022	¥260,159	¥ 7,000	¥1,216,164	¥676,646	¥129,900

Note: Including amounts due or scheduled for redemption within one year.

Fiscal year ended March 31, 2023

Millions of yen

	Short-term borrowings	Commercial paper	Long-term borrowings (Note)	Bonds (Note)	Lease liabilities (Note)
As of April 1, 2022	**¥260,159**	**¥ 7,000**	**¥1,216,164**	**¥676,646**	**¥129,900**
Cash flows	**(9,167)**	**69,000**	**(47,458)**	**24,776**	**(34,099)**
Changes from acquisition or loss of control over subsidiaries or other businesses	**—**	**—**	**3**	**—**	**191**
Changes owing to new leases and contract changes, etc.	**—**	**—**	**—**	**—**	**30,631**
Impact of foreign exchange rate fluctuations, etc.	**598**	**—**	**45,345**	**702**	**5,436**
As of March 31, 2023	**¥251,590**	**¥76,000**	**¥1,214,054**	**¥702,124**	**¥132,059**

Note: Including amounts due or scheduled for redemption within one year.

Note 30

Other Financial Liabilities

The breakdown of other financial liabilities is as follows:

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Lease liabilities	¥129,900	**¥132,059**
Accrued expenses	98,273	**127,099**
Accounts payable-other	120,838	**110,314**
Deposits	31,638	**36,325**
Other	23,142	**29,109**
Total	¥403,791	**¥434,906**
Current liabilities	¥291,237	**¥316,379**
Non-current liabilities	112,554	**118,527**
Total	¥403,791	**¥434,906**

Other financial liabilities are mainly classified as financial liabilities measured at amortized cost.

Note 31

Lease Transactions

1. **Profit or Loss and Cash Outflows Related to Lease Transactions**
   Profit or loss and cash outflows related to lease transactions are as follows.

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Depreciation of right-of-use assets		
Underlying assets of land, buildings and structures	¥16,172	**¥17,977**
Underlying assets of machinery and vehicles	5,444	**6,159**
Underlying assets of tools, furniture and fixtures	2,711	**2,644**
Total	¥24,327	**¥26,780**
Expenses related to short-term leases	¥ 947	**¥ 980**
Expenses related to leases of low-value assets	11,501	**10,962**
Variable lease payments	225	**119**
Total cash outflows for leases	¥45,022	**¥46,160**

2. **Additional Information Related to Lease Transactions**

Many of the leasing activities of the Group entail real estate leasing, with land and buildings being leased mainly as office and factory land. To provide business flexibility, some leases contain extension and termination options. The Group assesses whether it is reasonably certain to exercise extension options (or not to exercise termination options) and determines the lease periods.

Under the Group's leasing activities, there are no significant restrictions or covenants imposed by leasing or sale and leaseback transactions.

Note 32

Other Liabilities

The breakdown of other liabilities is as follows:

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Employees' bonuses	¥ 68,540	**¥ 62,271**
Employees' paid leave related obligations	36,528	**39,209**
Contract liability	42,266	**31,283**
Accrued consumption taxes	12,279	**18,621**
Advances received (Note 1)	1,397	**5,621**
Social insurance premiums received	2,524	**4,040**
Suspense receipt (Note 2)	104,643	**1,485**
Other (Note 3)	57,648	**61,678**
Total	¥325,825	**¥224,208**
Current liabilities	¥178,613	**¥184,272**
Non-current liabilities	147,212	**39,936**
Total	¥325,825	**¥224,208**

Notes:
1. Advances related to items other than sales revenue.
2. In the fiscal year ended March 31, 2022, the suspense receipt included amounts recorded as liabilities for some royalties without recognizing revenues. See Note 5 Sales Revenues for details. And the decrease in suspense receipt related to the above royalties in the fiscal year ended March 31, 2023, is presented in others of Cash flows from operating activities in the Consolidated Statement of Cash Flows.
3. Includes amounts transferred from contract liabilities in the fiscal year ended March 31, 2023. See Note 5 Sales Revenues for details.

Note 33

Trade Payables

Trade payables are as follows:

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Accounts payable	¥486,874	**¥476,311**

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

Note 34

Financial Instruments

1. Capital Management

The newly defined strategy and organizational structure allow us to quickly respond to accelerating changes in social needs and the business environment while maximizing growth and profitability in the future low-carbon economy. Financial performance indicators relating to capital management are as follows.

	As of or fiscal year ended March 31, 2022	**As of or fiscal year ended March 31, 2023**
Return on Equity (ROE) (Note 1)	13.2%	**6.4%**
Net D/E ratio (Note 2)	1.40	**1.33**

Notes:

1. Net income attributable to owners of the parent / equity attributable to owners of the parent (averages of beginning and end of fiscal years)

2. Net interest-bearing debt*1 / equity attributable to owners of the parent (end of fiscal years)
   *1Net interest-bearing debt = Interest-bearing debt - (cash and cash equivalents + cash reserves*2)
   *2 Cash reserves comprise certificates of deposits, securities, and other instruments other than cash equivalents that the Group holds to manage surplus funds.

2. Financial Risk Management

The Group is exposed to financial risks in the course of doing business in an array of fields around the world. It manages risks based on certain policies to reduce or avoid such risks. The policy with derivatives transactions is to restrict their use to actual demand. The Group does not enter into derivative transactions for speculative purposes. The relevant officers are informed about contract balances, fair value, and other elements of these transactions based on internal regulations for transaction authority and limits.

3. Credit Risk

The Group is exposed to customer credit risk for trade and other receivables acquired in the course of business. The securities that the Group holds are exposed to the credit risk of issuers. Derivatives transactions that the Group conducts to hedge financial risks are exposed to the credit risks of counterparty financial institutions.

In keeping with its credit management rules, the Group regularly monitors the trade receivables and long-term loans of major customers, oversees due dates and balances for each counterparty, and endeavors to swiftly identify and mitigate collections concerns arising from deteriorating financial positions. The Group only invests in bonds with high ratings, so credit risk is inconsequential. Derivatives transactions are only entered into with financial institutions with high credit ratings to minimize credit risk from nonperformance by counterparties. The Group prevents excessive concentrations of credit risk through special management procedures.

At the end of the fiscal year, the Group recognizes impairment losses based on historical rates to the Allowance for doubtful accounts, for significant uncollectible financial assets, and for insignificant financial assets. The Allowance for doubtful accounts relating to such assets is included in Trade receivables and Other financial assets in the Consolidated Statement of Financial Position.

Changes in the Allowance for doubtful accounts, measured at amounts equivalent to projected losses for the entire period, are as follows.

There were no significant differences between projected 12-month credit losses on loans and the projected credit losses for the entire period.

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Outstanding at the beginning of the period	¥11,554	**¥11,125**
Addition	1,383	**4,392**
Decrease (intended use)	(1,517)	**(2,564)**
Decrease (reversal)	(941)	**(1,235)**
Other	646	**674**
Outstanding at the end of the period	¥11,125	**¥12,392**

The maximum exposure to the credit risks of financial assets is the carrying amount after impairment presented in the Consolidated Statement of Financial Position.

The Group holds real estate, securities, etc. as collateral for receivables against certain customers.

Maximum exposure on credit risk of financial guarantee contracts is the amount of guarantee obligations etc. described in Note 38 Contingent Liabilities.

4. Liquidity Risk

The Group's trade payables obligations and borrowings are exposed to liquidity risk. The Group manages this risk by producing cash plan and ensuring liquidity by maintaining commitment lines with several financial institutions.

Outstanding financial liabilities (including derivative financial instruments) by fiscal year are as follows:

As of March 31, 2022

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	Millions of yen							
Non-derivative financial liabilities:								
Trade Payables	¥ 486,874	¥ 486,874	¥486,874	¥ —	¥ —	¥ —	¥ —	¥ —
Short-term borrowings	260,159	260,159	260,159	—	—	—	—	—
Commercial paper	7,000	7,000	7,000	—	—	—	—	—
Bonds	676,646	678,000	20,000	100,000	35,000	45,000	90,000	388,000
Long-term borrowings	1,216,164	1,220,802	124,054	160,304	164,166	109,257	94,516	568,505
Lease obligations	129,900	134,762	30,335	20,712	15,930	13,081	10,630	44,074
Accounts payable-other	120,838	120,838	120,838	—	—	—	—	—
Accrued expenses	98,273	98,273	98,273	—	—	—	—	—
Others	54,677	54,677	42,795	506	252	93	135	10,896
Derivative liabilities:								
Foreign exchange forward contracts	¥ 102	¥ 102	¥ 102	¥ —	¥ —	¥ —	¥ —	¥ —
Interest rate swaps	1	1	—	—	1	—	—	—

As of March 31, 2023

	Carrying amount	Contractual cash flow	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
	Millions of yen							
Non-derivative financial liabilities:								
Trade Payables	**¥ 476,311**	**¥ 476,311**	**¥476,311**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Short-term borrowings	**251,590**	**251,590**	**251,590**	**—**	**—**	**—**	**—**	**—**
Commercial paper	**76,000**	**76,000**	**76,000**	**—**	**—**	**—**	**—**	**—**
Bonds	**702,124**	**703,000**	**100,000**	**35,000**	**45,000**	**90,000**	**25,000**	**408,000**
Long-term borrowings	**1,214,054**	**1,216,227**	**174,086**	**173,558**	**117,988**	**97,309**	**195,019**	**458,267**
Lease obligations	**132,059**	**136,931**	**30,972**	**22,891**	**16,916**	**13,920**	**10,662**	**41,570**
Accounts payable-other	**110,314**	**110,314**	**110,314**	**—**	**—**	**—**	**—**	**—**
Accrued expenses	**127,099**	**127,099**	**127,099**	**—**	**—**	**—**	**—**	**—**
Others	**64,974**	**64,974**	**50,852**	**984**	**106**	**103**	**3,075**	**9,854**
Derivative liabilities:								
Foreign exchange forward contracts	**¥ 189**	**¥ 189**	**¥ 189**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Currency swaps	**1**	**1**	**1**	**—**	**—**	**—**	**—**	**—**
Others	**270**	**270**	**269**	**1**	**—**	**—**	**—**	**—**

For financial guarantee agreements, maximum amounts based on performance requests are the outstanding guaranteed liabilities described in Note 38 Contingent Liabilities.

The total commitment line and borrowing balance is as follows:

	Millions of yen	
	As of March 31, 2022	**As of March 31, 2023**
Total commitment line	¥137,741	**¥134,545**
Borrowing balance	4,896	**8,679**
Unused balance	¥132,845	**¥125,866**

We are also diversifying funding, notably by obtaining uncommitment-based overdraft facilities with several financial institutions and by securing frameworks to issue commercial paper or register corporate bond issues.

5. Foreign Exchange Risk

Foreign currency denominated receivables and payables from the Group's global operations are exposed to foreign exchange fluctuation risk. The Group uses foreign exchange forward contracts and currency swaps as needed to hedge against the foreign currency risk associated with such receivables and payables.

The Group’s net investments in foreign operations are exposed to foreign exchange fluctuation risk. The Group hedges such risk as needed using foreign currency-denominated loans.

Foreign Exchange Sensitivity Analysis

If the yen at the end of the fiscal year was 1% higher against the U.S. dollar and the euro for the foreign currency denominated financial instruments that the Group held at the year end, the impact on income before taxes in the Consolidated Statement of Income would be as follows.

This analysis is based on multiplying each currency risk exposure by 1%, based on the assumption that other variables (including other foreign exchange rates and interest rates) are held constant.

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
U.S. dollar (1% appreciation of yen)	¥(97)	**¥(408)**
Euro (1% appreciation of yen)	(35)	**(20)**

6. Interest Rate Risk

Interest rate risk within the Group arises from interest-bearing debt net of cash equivalents. The Group raises funds needed to do business and make capital investments through borrowings and the issuance of corporate bonds. Borrowings and corporate bonds with floating rates are exposed to interest rate fluctuation risk.

The Group uses derivatives transactions (including interest rate swaps) to hedge against interest rate fluctuation risk.

Interest Rate Sensitivity Analysis

In the event the interest rate on financial instruments that the Group holds at the end of each fiscal year increases by 100 basis points, the impact on income before taxes in the Consolidated Statement of Income would be as follows:

The analysis is for financial instruments affected by interest rate fluctuations and assumes that other factors, including the impacts of foreign exchange fluctuations, are held constant.

	Millions of yen	
	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Income before taxes	¥(3,079)	**¥(3,025)**

Impact of Interest Rate Benchmark Reform

The Group formulated a response policy after assessing interest rate benchmark reform trends and their impacts for the purpose of transitioning borrowing and interest rate swap contracts referencing the London Inter-Bank Offered Rate to an alternative interest rate benchmark. As of the end of the fiscal year ended March 31, 2023, the transition had yet to be completed for certain U.S. dollar borrowing and interest rate swap agreements.

The Group's interest rate swap agreements primarily exchange floating rate receipts for fixed rate payments. For interest rate swap contracts not transitioned to alternative interest rate benchmarks as of the end of the fiscal year ended March 31, 2023, the Group looks to conclude agreements to transition to alternative interest rate benchmarks equivalent to those of hedged borrowing contracts.

The Group will continue to apply IFRS 9 and hedge accounting until uncertainties associated with interest rate benchmark reforms end. The Group expects such uncertainty to persist until it finalizes details of an agreement to transition to an alternative interest rate benchmark.

As of March 31, 2023, the carrying amount of borrowing contracts for which the Group had yet to complete transitions to an alternative interest rate benchmark and were affected by interest rate benchmark reform was ¥37,561 million. The notional amount of interest rate swap contracts was ¥55,274 million.

7. Market Price Fluctuation Risk

The Group's securities holdings are exposed to market price fluctuation risk.

With respect to securities, the Group regularly reviews the fair value and financial positions of issuers (business partners), and constantly reviews holdings by taking into account its relationships with business partners.

8. Fair Value of Financial Instruments

Financial instruments are classified into the following three-level fair value hierarchy:

Level 1: Unadjusted quoted prices for identical assets or liabilities in active markets
Level 2: Valuations measured by direct or indirect observable inputs other than Level 1
Level 3: Valuations measured by significant unobservable inputs

The Company determines transfers between levels of the fair value hierarchy of the financial instruments at the end of each quarter.

In the fiscal year ended March 31, 2022, some of the shares were transferred from Level 3 to Level 1 due to the listing of the investees on the stock exchange.

At the end of the second quarter of the fiscal year ended March 31, 2022, shares of PHC Holdings Corporation were transferred from Level 3 to Level 2 in response to a decision to list on the stock exchange. At the end of the third quarter of the fiscal year ended March 31, 2022, shares of PHC Holdings Corporation were transferred from Level 2 to Level 1 following a listing on the stock exchange.

At the end of the first quarter of the fiscal year ended March 31, 2023, one of the Company's investments was listed on the TOKYO PRO Market. The Company had transferred its holdings from Level 3 to Level 2. The shares are classified as Level 2 because transactions on this market are infrequent and prices are not considered quoted in an active market.

There were no other transfers between levels.

(1) Financial instruments measured at fair value on a recurring basis
Financial assets and liabilities measured at fair value on a recurring basis were as follows:

As of March 31, 2022

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Stocks and investments	¥84,986	¥ —	¥108,902	¥193,888
Stocks and investments held for sale	6,548	—	147	6,695
Financial assets related to contingent consideration agreements	—	—	2,956	2,956
Derivatives	—	3,458	—	3,458
Total	¥91,534	¥3,458	¥112,005	¥206,997
Liabilities				
Derivatives	¥ —	¥ 103	¥ —	¥ 103
Total	¥ —	¥ 103	¥ —	¥ 103

As of March 31, 2023

Millions of yen

	Level 1	Level 2	Level 3	Total
Assets				
Stocks and investments	**¥65,822**	**¥ 370**	**¥96,727**	**¥162,919**
Stocks and investments held for sale	**7,238**	**—**	**16**	**7,254**
Financial assets related to contingent consideration agreements	**—**	**—**	**2,570**	**2,570**
Derivatives	**—**	**5,678**	**—**	**5,678**
Total	**¥73,060**	**¥6,048**	**¥99,313**	**¥178,421**
Liabilities				
Derivatives	**¥ —**	**¥ 460**	**¥ —**	**¥ 460**
Total	**¥ —**	**¥ 460**	**¥ —**	**¥ 460**

Stocks and investments

The fair value of marketable shares classified as Level 1 is based on unadjusted quoted prices in active markets for identical assets or liabilities.

The fair value of shares in Level 2 is calculated using quoted prices for identical or similar assets or liabilities in markets that are not active and initial public offering prices and others.

The fair value of Level 3 unlisted shares and investments for which quoted prices in active markets are unavailable is calculated by using reasonably available inputs through similar company comparisons or other appropriate valuation techniques. Illiquidity discounts are added as needed.

Financial Assets Related to Contingent Consideration Agreements

The fair value of financial assets related to Level 3 contingent consideration agreements are primarily financial assets which arose from the transfers of polycrystalline alumina fiber business. The Black-Scholes model is used to calculate the fair value of these financial assets, taking future business performances and other relevant factors into account.

Derivative assets and liabilities

The fair value of Level 2 derivative assets and liabilities is based on such observable inputs as prices provided by counterparty financial institutions or exchange and interest rates and such like.

The fair value of Level 3 financial instruments is calculated by valuation specialists determining valuation methods for each relevant financial instrument in accordance with valuation policies and procedures that include valuation methods for fair value calculations approved by suitably authorized personnel.

Changes in Level 3 financial instruments are as follows:

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Balance at beginning of period	¥133,322	**¥112,005**
Other comprehensive income (Note1)	27,947	**(10,887)**
Purchase and share exchange acceptance	3,111	**4,181**
Recognized based on contingent consideration agreements	2,956	**—**
Sales or redemptions	(830)	**(3,996)**
Transfer from Level 3 (Note 2)	(57,161)	**(370)**
Others	2,660	**(1,620)**
Balance at end of period	¥112,005	**¥ 99,313**

Notes:
1. Included in “Financial assets measured at fair value through other comprehensive income” in the Consolidated Statement of Comprehensive Income
2. This stemmed from the listings (and decisions to do so) of some investees.

(2) Financial instruments measured at amortized cost

The carrying amounts and estimated fair values of the financial instruments measured at amortized cost are as follows:

As of March 31, 2022

Millions of yen

	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Long-term borrowings	¥1,216,164	¥ —	¥1,216,479	¥ —	¥1,216,479
Bonds	676,646	—	674,798	—	674,798
Total	¥1,892,810	¥ —	¥1,891,277	¥ —	¥1,891,277

As of March 31, 2023

Millions of yen

	Carrying amounts	Fair value			
		Level 1	Level 2	Level 3	Total
Liabilities:					
Long-term borrowings	**¥1,214,054**	**¥ —**	**¥1,203,530**	**¥ —**	**¥1,203,530**
Bonds	**702,124**	**—**	**681,898**	**—**	**681,898**
Total	**¥1,916,178**	**¥ —**	**¥1,885,428**	**¥ —**	**¥1,885,428**

The carrying amounts of financial assets and liabilities measured at amortized cost, other than debt securities, long-term borrowings and bonds presented in the tables above, are approximately the same as the fair values of such financial assets and liabilities.

Long-term borrowings

The fair value of Level 2 long-term loans is based on the present value, calculated by discounting the total principal and interest by the interest rate assumed for similar new borrowings.

Bonds

The fair value of Level 2 corporate bonds is based on the market price.

9. Transfers of Financial Assets

The Group transfers some trade receivables to a business entity comprising third-party financial institutions. The entity operates as part of these institutions and purchases a large amount of assets from customers other than those of the Group, so trade receivables that the Group transferred constitute a small proportion of the entity's total assets. The relevance of the Group to the assessment of exposure to the risks of this entity is therefore low.

(1) Transfers of financial assets that are not derecognized in their entirety
The trade receivables transferred that do not qualify for derecognition remain included in trade receivables. The considerations received for the transfer are included in bonds and borrowings in the Consolidated Statement of Financial Position. The carrying amounts of the transferred trade receivables in the fiscal years ended March 31, 2022, and 2023, were ¥9,057 million and ¥4,814 million, respectively. The carrying amounts of borrowings for the same periods were ¥18,773 million and ¥7,911 million, respectively. The difference in carrying amounts is due to the retained portion of the trade receivables and the difference between the timing of collection of trade receivables and repayment of borrowings. If debtors defaulted on these trade receivables, the Group would be deemed to hold most of the risks and economic value of ownership of the transferred assets, as payment obligations would revert to the Group.

(2) Transfers of financial assets that are derecognized in their entirety
In the fiscal years ended March 31, 2022 and 2023, expenses arising from transfers of trade receivables that were derecognized in their entirety were ¥345 million and ¥388 million, respectively.

10. Derivative Transactions

(1) Derivative transactions to which hedge accounting is applied

The analysis of contract amounts of derivative transactions by due dates is as follows:

As of March 31, 2022

Millions of yen

	Contract amount	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Cash flow hedges							
Foreign exchange risk:							
Foreign exchange forward contracts	¥11,132	¥10,006	¥ 1,126	¥ —	¥ —	¥ —	¥ —
Interest rate risk:							
Interest rate swaps	51,648	—	636	14,833	636	636	34,907
Others	1,705	1,705	—	—	—	—	—
Hedge of net investments in foreign operations							
Foreign exchange risk:							
Foreign currency-denominated borrowings	85,437	—	—	—	—	—	85,437

As of March 31, 2023

	Contract amount	Due within one year	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
							Millions of yen
Cash flow hedges							
Foreign exchange risk:							
Foreign exchange forward contracts	**¥10,828**	**¥9,369**	**¥ 1,459**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
Interest rate risk:							
Interest rate swaps	**56,002**	**694**	**16,183**	**694**	**694**	**694**	**37,043**
Others	**3,234**	**2,632**	**602**	**—**	**—**	**—**	**—**
Hedge of net investments in foreign operations							
Foreign exchange risk:							
Foreign currency-denominated borrowings	**91,075**	**—**	**—**	**—**	**—**	**—**	**91,075**

The principal rates on forward exchange contracts and currency swap transactions and the principal rates on payments under interest rate swaps are as follows:

	As of March 31, 2022	**As of March 31, 2023**
		Millions of yen
Cash flow hedges		
Foreign exchange risk:		
Foreign exchange forward contracts		
U.S. dollars	¥110.25-120.56	**¥112.99-143.63**
Euros	¥129.29-136.36	**¥142.12-145.13**
Interest rate risk		
Interest rate swaps		
Pay fixed rate, receive floating rate	0.94%–2.01%	**0.94%–2.01%**

Amounts for derivatives designated as hedges are as follows:

As of March 31, 2022

	Contract amount	Carrying amount		Items in Consolidated Statement of Financial Position	Change in fair value of hedged item used as the basis for recognizing hedge ineffectiveness
		Assets	Liabilities		Millions of yen
Cash flow hedges					
Foreign exchange risk:					
Foreign exchange forward contracts	¥11,132	¥ 121	¥ 81	Other financial assets Other financial liabilities	¥ 49
Interest rate risk:					
Interest rate swaps	51,648	2,598	—	Other financial assets	2,628
Others	1,705	630	—	Other financial assets	398
Hedge of net investments in foreign operations					
Foreign exchange risk:					
Foreign currency-denominated borrowings	85,437	—	85,437	Bonds and borrowings	(4,312)

As of March 31, 2023

Millions of yen

	Contract amount	Carrying amount: Assets	Carrying amount: Liabilities	Items in Consolidated Statement of Financial Position	Change in fair value of hedged item used as the basis for recognizing hedge ineffectiveness
Cash flow hedges					
Foreign exchange risk:					
Foreign exchange forward contracts	**¥10,828**	**¥ 53**	**¥ 179**	Other financial assets Other financial liabilities	**¥ (166)**
Interest rate risk:					
Interest rate swaps	**56,002**	**5,526**	**—**	Other financial assets	**2,928**
Others	**3,234**	**—**	**270**	Other financial assets	**(900)**
Hedge of net investments in foreign operations					
Foreign exchange risk:					
Foreign currency-denominated borrowings	**91,075**	**—**	**91,075**	Bonds and borrowings	**(5,637)**

Amounts for items designated as hedges are as follows:

Millions of yen

	As of March 31, 2022			**As of March 31, 2023**		
	Change in fair value of hedged item used as the basis for recognizing hedge ineffectiveness	Cash flow hedge reserve	Foreign currency translation surplus	Change in fair value of hedged item used as the basis for recognizing hedge ineffectiveness	Cash flow hedge reserve	Foreign currency translation surplus
Cash flow hedges						
Foreign exchange risk:						
Planned to purchase	¥ (49)	¥ 68	¥ —	**¥ 176**	**¥ (64)**	**¥ —**
Foreign currency-denominated debt and interest	—	—	—	**(10)**	**7**	**—**
Interest rate risk:						
Interest on borrowings	(2,628)	2,095	—	**(2,928)**	**4,394**	**—**
Others	(398)	233	—	**900**	**(81)**	**—**
Hedge of net investments in foreign operations						
Foreign exchange risk:						
Exchange rate fluctuations in net investments	4,312	—	(4,949)	**5,637**	**—**	**(7,802)**

Details of cash flow hedges and hedges of net investments in foreign operations are as follows:

Fiscal year ended March 31, 2022

Millions of yen

	Changes in fair value of hedges recognized in other comprehensive income	Ineffective portions of hedges recognized in profit or loss	Consolidated Statement of Income items in which ineffective portions of hedges are included in profit or loss	Reclassification adjustments from cash flow hedge reserve to profit or loss	Consolidated Statement of Income items including profit from reclassification adjustments
Cash flow hedges					
Foreign exchange risk:					
Foreign exchange forward contracts	¥ 32	¥ —	¥ —	¥ (58)	Financial income
Interest rate risk:					
Interest rate swaps	2,077	—	—	421	Financial expenses
Others	275	—	—	(128)	Financial expenses
Hedge of net investments in foreign operations					
Foreign exchange risk:					
Foreign currency-denominated borrowings	(4,312)	—	—	—	—

Fiscal year ended March 31, 2023

Millions of yen

	Changes in fair value of hedges recognized in other comprehensive income	Ineffective portions of hedges recognized in profit or loss	Consolidated Statement of Income items in which ineffective portions of hedges are included in profit or loss	Reclassification adjustments from cash flow hedge reserve to profit or loss	Consolidated Statement of Income items including profit from reclassification adjustments
Cash flow hedges					
Foreign exchange risk:					
Foreign exchange forward contracts	**¥ (156)**	**¥ —**	**¥ —**	**¥ (136)**	Financial expenses
Interest rate risk:					
Interest rate swaps	**2,299**	**—**	**—**	**(438)**	Financial expenses
Others	**(615)**	**—**	**—**	**(742)**	Financial expenses
Hedge of net investments in foreign operations					
Foreign exchange risk:					
Foreign currency-denominated borrowings	**(5,637)**	**—**	**—**	**—**	**—**

(2) Derivative transactions to which hedge accounting is not applied

Amounts relating to items not designated as hedges are as follows:

Millions of yen

	As of March 31, 2022			**As of March 31, 2023**		
	Contract amount	Over one year	Fair value	Contract amount	Over one year	Fair value
Foreign exchange forward contracts	¥ 9,360	¥ —	¥63	**¥6,406**	**¥ —**	**¥ (2)**
Currency swaps	285	273	24	**435**	**197**	**55**
Interest rate swaps	1,015	1,015	0	**854**	**854**	**35**
Total	¥10,660	¥1,288	¥87	**¥7,695**	**¥1,051**	**¥88**

Note 35

Subsidiaries

Subsidiaries with significant non-controlling interests in fiscal years ended March 31, 2022 and 2023, were as follows:

		Percentage of non-controlling interest	
Name of subsidiary	Location	As of March 31, 2022	**As of March 31, 2023**
NIPPON SANSO HOLDINGS CORPORATION	Japan, others	49.4%	**49.4%**

Net income attributable to non-controlling interests of relevant subsidiaries and dividends paid to non-controlling interests are as follows:

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal year ended March 31, 2023**
Net income (loss) attributable to non-controlling interests	¥33,225	**¥37,896**
Dividends paid to non-controlling interests	8,001	**8,876**

Cumulative non-controlling interests of relevant subsidiaries are as follows:

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Cumulative non-controlling interests amounts	¥326,898	**¥371,596**

Summary financial information of Nippon Sanso Holdings Corporation is as follows. Summary financial information below is calculated based on the amounts before elimination in consolidation, adjusting goodwill and other items recognized at the time of a business combination.

Summary Consolidated Statements of Financial Position

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Current assets	¥ 422,493	**¥ 527,074**
Non-current assets	1,623,637	**1,692,785**
Total	¥2,046,130	**¥2,219,859**
Current liabilities	331,595	**425,157**
Non-current liabilities	1,000,538	**991,288**
Total	¥1,332,133	**¥1,416,445**
Equity	713,997	**803,414**
Total	¥2,046,130	**¥2,219,859**

Summary Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Sales revenue	¥957,169	**¥1,186,683**
Net income	64,951	**72,765**
Total comprehensive income	124,628	**109,911**

Summary Consolidated Statements of Cash Flows

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Cash flows from operating activities	¥148,760	**¥187,958**
Cash flows from investing activities	(70,858)	**(98,073)**
Cash flows from financing activities	(77,946)	**(54,430)**
Effect of exchange rate changes on cash and cash equivalents	2,416	**2,961**
Net increase (decrease) in cash and cash equivalents	¥ 2,371	**¥ 38,416**

Note 36

Related Parties

1. Related Party Transactions

Transactions with major related parties are as follows. For sales of goods and services, the principal transactions are product sales, while the main transactions for goods purchases are purchases of raw materials. The terms for transactions with related parties are similar to those of independent third-party transactions.

Millions of yen

	Fiscal year ended March 31, 2022		**Fiscal year ended March 31, 2023**	
	Joint venture	Associates	Joint venture	Associates
Sales of goods and services	¥82,811	¥29,505	**¥77,610**	**¥26,944**
Purchases of goods and services	20,125	53,584	**26,401**	**58,384**

Receivables and obligations to major related parties as a result of the above transactions are as follows:

Millions of yen

	As of March 31, 2022		**As of March 31, 2023**	
	Joint venture	Associates	Joint venture	Associates
Receivables				
Accounts receivable	¥17,470	¥7,964	**¥15,718**	**¥6,852**
Others	542	1,333	**578**	**1,502**
Total	¥18,012	¥9,297	**¥16,296**	**¥8,354**
Obligations				
Accounts payable	¥ 3,970	¥6,050	**¥ 4,041**	**¥5,449**
Others	82	43	**124**	**124**
Total	¥ 4,052	¥6,093	**¥ 4,165**	**¥5,573**

2. Remuneration for key Group executives

Remuneration for key Group executives is as follows:

Millions of yen

	Fiscal year ended March 31, 2022	**Fiscal Year ended March 31, 2023**
Remuneration and bonuses	¥2,005	**¥1,342**
Share-based compensation	477	**337**
Total	¥2,482	**¥1,679**

Note 37

Commitments

Commitments relating to acquisitions of property, plant and equipment and intangible assets are as follows:

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Acquisitions of property, plant and equipment and intangible assets	¥183,879	**¥136,001**

Note 38

Contingent Liabilities

Guarantee Obligations

Guarantees and similar undertakings for borrowings from joint ventures, associates and financial institutions of general business partners are as follows.

Millions of yen

	As of March 31, 2022	**As of March 31, 2023**
Joint ventures	¥2,994	**¥1,371**
Associates	181	**744**
General business partners	78	**38**
Others	966	**844**
Total	¥4,219	**¥2,997**

English Translation

Independent Auditor's Report

June 27, 2023

The Board of Directors
Mitsubishi Chemical Group Corporation

Ernst & Young ShinNihon LLC
Tokyo, Japan

Kazuomi Nakamura
Designated Engagement Partner
Certified Public Accountant

Takayuki Ueki
Designated Engagement Partner
Certified Public Accountant

Kosuke Kawabata
Designated Engagement Partner
Certified Public Accountant

Makoto Okabe
Designated Engagement Partner
Certified Public Accountant

Opinion

We have audited the accompanying consolidated financial statements of Mitsubishi Chemical Group Corporation and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current fiscal year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

<table>
<tr><th colspan="2">Valuation of goodwill with impairment test</th></tr>
<tr><th>Description of key audit matter</th><th>Auditor’s response</th></tr>
<tr><td>As of March 31, 2023, goodwill is valued at ¥727,655 million (12.6% of total assets) in the Consolidated Statement of Financial Position. As described in note 12 to the consolidated financial statements, the breakdown of goodwill by cash generating units or group of cash generating units is as follows: Industrial gases business in the amount of ¥523,921 million, Ethical pharmaceuticals business in the amount of ¥54,540 million, MMA business in the amount of ¥38,474 million, and others in the amount of ¥110,720 million.

In the impairment tests, the recoverable amount of a group of cash generating units including goodwill is measured based on value in use. The value in use is measured using discounted cash flow projections. The cash flow projections are based on the business plan for up to five years approved by management. For the subsequent periods, the Company estimates the cash flow projections and long-term growth rates considering future uncertainty.

The significant assumptions in estimating the value in use are the cash flow projections based on the business plan for up to five years, discount rates and long-term growth rates for the subsequent periods. The business plan is affected primarily by the sales revenue forecasts and the market growth rates.

The calculation process of the value in use used in goodwill impairment tests is complex and the assumptions for future cash flows and long-term growth rates over five years depend on the market trends in each industry and have uncertainty due to projections over a long period.

Estimates of future cash flows, discount rates, and long-term growth rates over five years significantly depend on the assessments and judgment of management, and therefore we determined it to be a key audit matter.</td><td>We assessed the valuation methodologies used in the calculation of the value in use by involving valuation specialists of our network firm. We performed the following procedures for cash flow projections, discount rates, and long-term growth rates over five years, which are significant assumptions in the calculation of the value in use, among others:

■ Cash flow projections
- In order to ensure that the cash flow projections used in the impairment tests are based on the business plan for up to five years approved by management, we assessed consistency of the business plan with the budget for the next year and the business plan approved by management.
- In order to evaluate the degree of accuracy of the estimation process for the future business plan, we compared the budgets and business plans in the prior years with actual results.
- We assessed the key inputs included in the estimation for the business plan such as the sales revenue forecasts and the market growth rates by discussing with management, comparing the relevant assumptions with market forecasts, external data such as forecasts of similar companies, and analyzing trends using actual results in order to evaluate the reasonableness of such inputs.

■ Discount rates
- In order to evaluate the reasonableness of the calculation results, we assessed the consistency between the input information used in the calculation and available external information by involving the valuation specialists of our network firm.

■ Long-term growth rates over five years and responses to estimation uncertainty
- In order to ensure that future uncertainty is considered and reflected by management, we evaluated management’s assessment of estimation uncertainty related to long-term market growth rates.</td></tr>
</table>

	- If there was insufficient headroom in the group of cash generating units, we assessed whether the value in use was not less than the carrying value, while considering additional risks.

Valuation of intangible assets with indefinite useful lives related to pharmaceutical products (In-process research and development expenses in the acquisition of NeuroDerm Ltd.)	
Description of key audit matter	**Auditor's response**
As of March 31, 2023, intangible assets with indefinite useful lives are valued at ¥63,127 million (1.0% of total assets) in the Consolidated Statement of Financial Position and the related disclosure of intangible assets with indefinite useful lives is made in note 12 to the consolidated financial statements. As of the end of the current fiscal year intangible assets with indefinite useful lives mostly consist of in-process research and development expenses for the treatment for Parkinson's disease recognized when Mitsubishi Tanabe Pharma Corporation, a consolidated subsidiary of the Company, acquired NeuroDerm Ltd. in October 2017 and corresponding carrying amount is, ¥54,614 million (0.9% of total assets). No impairment loss was recorded as a result of the annual impairment tests. In-process research and development expenses is at the research and development stage, have yet to obtain marketing approval from regulatory authorities, and are not available for use, the period during which the future economic benefits embodied in the assets are consumed is currently unforeseeable and therefore, the assets are classified as intangible assets with indefinite useful lives. The Company does not amortize intangible assets with indefinite useful lives and conducts impairment tests annually and whenever there are indications of impairment. In the impairment tests, the recoverable amount of the intangible assets is measured based on value in use. The value in use is measured using discounted cash flow projections, and the significant assumptions are the probability of obtaining marketing approval from regulatory authorities, sales revenue forecasts after launch of products and discount rates.	We performed the following procedures to assess valuation of the in-process research and development expenses, among others: ■ Valuation methodologies - With the involvement of the valuation specialists of our network firm, we assessed the valuation methodologies used in the calculation of the value in use. ■ Probability of obtaining marketing approval by regulators - We discussed the future forecasts considering product development progress and success probabilities with the management and department managers. In addition, we considered and evaluated past data related to success probabilities at each stage of research and development in the pharmaceutical industry. ■ Sales revenue forecasts after launch - In order to evaluate the reasonableness of the key inputs in the cash flow projections, we understood the calculation logic and assumptions regarding projected sales prices and volumes, and market share of the products to evaluate the projected revenues after launch of products. We examined changes from the projections in the previous year in the light of the business environment. We compared the relevant assumptions with market forecasts from external institutions and assessed the basis of the estimation. Especially, for the forecast of sales volume, we obtained, reviewed, and compared the results of the market research conducted by an external organization. We also discussed with management and reviewed management presentation materials to the Board of Directors. ■ Discount rates - In order to evaluate the reasonableness of the calculation results, we assessed the consistency between the input information used in the calculation

Prospects for product pipelines in development stages in the pharmaceutical industry are highly uncertain. Furthermore, the assumptions such as the probability of obtaining marketing approval by regulators, sales revenue forecasts after launch, and discount rates are numerous and highly complex and have significant impact on the calculation of value in use. Given that the significant assumptions depend on the assessments and judgment of management and affect the value in use calculation and the judgment of whether impairment loss recognition is necessary, and therefore we determined it to be a key audit matter.	and available external information with involvement of the valuation specialists of our network firm. ■ Responses to estimation uncertainty - We identified the risk factors considered for probability of obtaining marketing approval by regulators and the sales revenue forecasts after launch through discussions with management and department managers, and we evaluated the evaluation of uncertainty by management. - We assessed that the value in use was not less than the carrying amount, while considering additional risks by raising the discount rate to a certain amount.

Losses related to business restructuring resulting from the execution of significant management policy measures (Cessation of MMA-related Products Production at the Cassel site and Cessation and wind up of its business and operations of Medicago Inc.)	
Description of key audit matter	**Auditor's response**
In December 2021, Mitsubishi Chemical Group Corporation (the "Company") formulated a management policy, "Forging the future" for the period to FY2025, and developed a specific action plan as well as updated its performance targets in February 2023. The management policy consists of five key pillars as a strategy to maximize value for all shareholders, with (1) Growth, performance, sustainability; (2) Strategic cost transformation; (3) Business to exit; (4) Leaner, digital and empowered organization; and (5) Strategic capital allocation. The action plan is being implemented from the perspective of economic sustainability and competitive advantage based on this management policy, and in association with the cost transformation, the Company made two decisions which have significant impacts on the consolidated financial statements of the current fiscal year as follows. The related losses were recorded in the Consolidated Statement of Income for the current fiscal year. (Refer to note 8, 14, 17 to the consolidated financial statements) (1) Cessation of MMA-related Products Production at the Cassel site of Mitsubishi Chemical UK Limited (the "Cassel site") As part of pursuing the cost transformation, a comprehensive business review was undertaken which concluded that the Company does not believe that methacrylate manufacturing operation at the Cassel site	We performed the following procedures by involving the component auditors to assess the appropriateness of recording losses related to business restructuring, among others: (1) Cessation of MMA-related Products Production at the Cassel site 1. Impairment loss on related facilities - We obtained the impairment review document prepared by the Company, and made inquiries with management and compared it with the audited fixed asset ledger to ensure the identification and completeness of the assets. As for the scope of assets subject to impairment, we assessed consistency with MMA business assets directly related to the Cassel site and ensured that the assets that should not be included, such as assets of other businesses, were excluded. 2. Provision for loss related to plant closure - As for the scope of items subject to provision, we obtained a list of the losses related to the plant closure prepared by the Company, and made inquiries about the nature and content of each item, and the basis for calculation. In the consideration of the contracts and facts, we also assessed whether a provision should be recorded or not in accordance with IAS37. In order to ensure the necessity of provisions applicable to the current fiscal year, we assessed that operation expenses to be recognized in future fiscal years are not included, in addition to

would be economically sustainable for the foreseeable future. Consequently, since the investment became unrecoverable, the carrying amount of the manufacturing equipment at the site was reduced to the recoverable amount and an impairment loss of ¥39,251 million (including ¥20,720 million for machinery and equipment and ¥18,531 million for others) was recorded. Also, a provision for loss on plant closure of ¥26,726 million, special retirement expenses of ¥1,999 million, and other related losses of ¥720 million were recorded. (2) Cessation and wind up of its business and operations of Medicago Inc. ("Medicago") The VLP vaccine, which has been developed for the prevention of COVID-19, was approved in Canada and preparations for the transition to commercializing production were underway. The COVID-19 vaccine landscape has since changed significantly and after comprehensively reviewing the current global demand and market environment for these vaccines and Medicago's challenges in transitioning to commercial-scale production, the Company decided not to pursue its commercialization of the VLP vaccine. The Company also concluded that it would not be viable to continue to make further investment in the commercialization from the perspective of restructuring the Health Care business, and decided to cease all of its operations and proceed with an orderly wind up of its business and operations. Since this investment became unrecoverable, the carrying amount of Medicago's vaccine manufacturing equipment and goodwill related to its business and operations was reduced to the recoverable amount, and an impairment loss of ¥47,358 million (including ¥31,762million for construction in progress, ¥6,739 million for goodwill, and ¥8,857 million for others) was recorded. Also, a provision for loss on business liquidation of ¥4,495 million, special retirement expenses of ¥3,805 million, and a loss on business liquidation of ¥1,776 million were recorded. In the above two events, the majority of related to losses resulting from the Company's decisions consist of asset impairments and provisions for losses related to plant closure and business liquidation. With regard to impairment losses on the assets, the recoverable amount is measured at fair value less costs of disposal. The fair value less costs of disposal is the estimated sale amount	the procedures to ensure the completeness of the provisions. - The provision for loss related to plant closure mainly consists of a loss arising from contractual commitments including penalties for cancelling purchasing contracts and expenses for fulfilling contractual obligations and costs related to removing the plant. We obtained a list of the related contracts and inquired with the procurement department leader and the legal department in order to ensure the completeness of the contractual commitments and the appropriateness of the provision amount. In addition, we inspected the related contracts, performed contract confirmation procedures, and assessed the validity of the calculation sheets. - To ensure the appropriateness of the demolition and removal costs of the plant, we obtained the calculation sheets for each item and performed recalculations. In performing the recalculation, we obtained the latest execution plan, and made inquiries about the expected period required until the closure and removal and the basic assumptions used in the calculations, and assessed the consistency with the related materials. (2) Cessation and wind up of its business and operations of Medicago 1. Impairment loss on goodwill and related facilities of Medicago. - For the cessation and wind up of its business and operation, in order to ensure that all fixed assets recorded by Medicago were included in the scope of assets subject to impairment, we agreed them to the audited fixed asset ledger. As for goodwill, we assessed the impact on cash-generating units related to the decision and assessed the appropriateness of the scope and amount of goodwill subject to impairment. - As for related facilities, the book value has been reduced to the recoverable amount in consideration of the status of the prospect of disposals as of the end of the fiscal year and for the subsequent period. In order to ensure the recoverable amount, we inquired of the management and reviewed the document related to the most reasonable way to dispose the assets and assessed the preconditions and the amount described in the document. In addition, we inquired of the management if there were no other factors to be considered.

or is zero for the assets which is not expected to be sold. The provisions for loss on plant closure and for loss on business liquidation were recorded based on the estimated expenses which will be incurred in future fiscal years due to the plant closure and liquidation, and should be recognized in the current fiscal year. The prospect of disposals of the assets and estimate of recoverable amount is not highly uncertain as the manufacturing facilities at the Cassel site that produced MMA-related products by ACH method are planned to be closed and removed. However, expenses expected to be incurred for the plant closure are various, besides, it requires time to complete to close them with significant expenditures. Therefore, the estimate of the provision for loss on plant closure is highly uncertain. On the other hand, as Medicago's VLP vaccine was prior to the commercialization, items of losses related to the cessation and wind up of its business and operations are limited, therefore, the estimate of the provision for loss on business liquidation is not highly uncertain. However, the prospect of disposals of its manufacturing facilities under construction and the estimates of the amount are highly uncertain. The management policy of "Forging the future" is the foundation of the transformation the Company is pursuing, and we highly pay attention to the status of implementation and the impact of such events on the consolidated financial statements. In particular, the events described above were significant decisions made during the current fiscal year for the purpose of pursuing management policies, and the amount of the related losses was significant. In addition, due to the characteristics of each event, highly estimated uncertainty was included in estimated losses. Furthermore, given that the significant assumptions used in estimate depend on the assessments and judgment of managements and decisions, and had significant impacts on the consolidated financial statements, therefore we determined it to be a key audit matter.	2. Provision for loss on business liquidation - As Medicago's VLP vaccine was prior to the commercialization, items of losses related to the cessation and wind up of its business and operations are limited in terms of number of items and amount then we assessed the additional expenses which are supposed to be recorded in the current fiscal year. Specifically, we obtained and inspected the latest action plan and the list of expenses that are expected to be incurred during the period leading up to the liquidation. We made inquiries with management of Medicago about the contents of each item and ensured the consistency with our understandings of the timing of cost recognition. - In order to ensure whether or not a provision is necessary as of the end of the current fiscal year and the appropriateness of the provision amount , we obtained the list of the provision for loss on business liquidation prepared by Medicago and made inquiries with management about the nature and content of each item and the basis for calculation. In the consideration of the contracts and facts, we also assessed whether a provision should be recorded or not in accordance with IAS37 and performed recalculations.

Other Information

The other information comprises the information included in the annual report (Yukashoken Hokokusho) that contains audited consolidated financial statements but does not include the consolidated financial statements and our audit report thereon. Management is responsible for preparation and disclosure of the other information. The Audit Committee is responsible for overseeing the Group's reporting process of the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Management, the Audit Committee for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by IFRSs, matters related to going concern.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with IFRSs.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

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

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