Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 March, 2015

Daiichi Sankyo Company, Limited

Contents

Consolidated Financial Statements

1) Consolidated Statement of Financial Position

(Millions of Yen)

	Note	As of March 31, 2014	As of March 31, 2015
ASSETS			
Current assets			
Cash and cash equivalents	8	183,070	189,372
Trade and other receivables	9	269,194	241,547
Other financial assets	10	324,160	186,457
Inventories	11	189,408	150,093
Other current assets		24,769	14,697
Subtotal		990,603	782,168
Assets held for sale	12	—	3,165
Total current assets		990,603	785,334
Non-current assets			
Property, plant and equipment	6,13	316,304	266,491
Goodwill	6,14	85,518	71,366
Intangible assets	6,14	171,417	199,411
Investments accounted for using the equity method	15	2,624	1,347
Other financial assets	10	141,553	593,944
Deferred tax assets	16	122,550	45,330
Other non-current assets		23,464	19,059
Total non-current assets		863,433	1,196,951
Total assets		1,854,037	1,982,286

(Millions of Yen)

	Note	As of March 31, 2014	As of March 31, 2015
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	17,21	245,422	235,546
Bonds and borrowings	18,30	160,326	20,000
Other financial liabilities	18	15,115	7,576
Income taxes payable		5,636	7,767
Provisions	19	22,702	19,444
Other current liabilities		11,985	6,735
Subtotal		461,188	297,070
Liabilities directly associated with assets held for sale	12	—	426
Total current liabilities		461,188	297,496
Non-current liabilities			
Bonds and borrowings	18,30	263,289	201,000
Other financial liabilities	18	14,177	8,337
Post-employment benefit liabilities	20	8,947	11,631
Provisions	19	3,747	2,713
Deferred tax liabilities	16	39,838	88,357
Other non-current liabilities	21	55,320	65,707
Total non-current liabilities		385,321	377,747
Total liabilities		846,509	675,244
Equity			
Equity attributable to owners of the Company			
Share capital	22	50,000	50,000
Capital surplus	22	105,267	105,267
Treasury shares	22	(14,408)	(14,198)
Other components of equity	22	121,753	169,034
Retained earnings		717,320	993,953
Total equity attributable to owners of the Company		979,933	1,304,057
Non-controlling interests			
Non-controlling interests		27,594	2,984
Total equity		1,007,527	1,307,041
Total liabilities and equity		1,854,037	1,982,286

2) Consolidated Statement of Profit or Loss

(Millions of Yen)

	Note	Year ended March 31, 2014	Year ended March 31, 2015
Revenue	6,24	899,126	919,372
Cost of sales	25	282,851	323,087
Gross profit		616,274	596,284
Selling, general and administrative expenses	25	322,688	331,195
Research and development expenses	25	180,664	190,666
Operating profit		112,922	74,422
Financial income	26	5,163	9,600
Financial expenses	26	4,543	3,160
Share of loss of investments accounted for using the equity method	15	591	925
Profit before tax		112,950	79,936
Income taxes	16	47,157	36,370
Profit from continuing operations		65,792	43,566
Profit (loss) from discontinued operations	27	(12,435)	275,357
Profit for the year		53,357	318,923
Profit attributable to:			
Owners of the Company		60,943	322,119
Non-controlling interests		(7,585)	(3,195)
Profit for the year		53,357	318,923
Earnings per share	28		
Basic earnings per share (Yen)		86.57	457.56
Continuing operations		97.74	66.01
Discontinued operations		(11.17)	391.55
Diluted earnings per share (Yen)		86.41	456.62
Continuing operations		97.56	65.88
Discontinued operations		(11.15)	390.75

3) Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Note	Year ended March 31, 2014	Year ended March 31, 2015
Profit for the year		53,357	318,923
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	16	7,968	26,694
Remeasurements of defined benefit plans	16	7,688	(4,293)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	16,27	43,053	29,131
Cash flow hedges	16,30	(1,510)	(4,347)
Share of other comprehensive income of investments accounted for using the equity method	16	75	66
Other comprehensive income for the year		57,275	47,252
Total comprehensive income for the year		110,632	366,176
Total comprehensive income attributable to:			
Owners of the Company		115,255	366,201
Non-controlling interests		(4,623)	(24)
Total comprehensive income for the year		110,632	366,176

4) Consolidated Statement of Changes in Equity

(Millions of Yen)

	Note	Equity attributable to owners of the Company						
					Other components of equity			
		Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2013		50,000	105,194	(14,460)	1,504	40,545	959	42,057
Profit for the year		—	—	—	—	—	—	—
Other comprehensive income for the year		—	—	—	—	39,708	(957)	7,969
Total comprehensive income for the year		—	—	—	—	39,708	(957)	7,969
Purchase of treasury shares		—	—	(31)	—	—	—	—
Cancellation of treasury shares		—	—	83	(55)	—	—	—
Share-based payments	29	—	—	—	231	—	—	—
Dividends	23	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	—	—	—	(10,205)
Others		—	73	—	—	(1)	(2)	(0)
Total transactions with owners of the Company		—	73	52	175	(1)	(2)	(10,205)
Balance as of March 31, 2014		50,000	105,267	(14,408)	1,680	80,252	—	39,821
Profit for the year		—	—	—	—	—	—	—
Other comprehensive income for the year		—	—	—	—	25,963	(4,347)	26,684
Total comprehensive income for the year		—	—	—	—	25,963	(4,347)	26,684
Purchase of treasury shares		—	—	(25)	—	—	—	—
Cancellation of treasury shares		—	—	234	(117)	—	—	—
Share-based payments	29	—	—	—	197	—	—	—
Dividends	23	—	—	—	—	—	—	—
Change in scope of consolidation		—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings		—	—	—	—	—	—	(1,086)
Others		—	—	—	—	(12)	—	(0)
Total transactions with owners of the Company		—	—	209	80	(12)	—	(1,087)
Balance as of March 31, 2015		50,000	105,267	(14,198)	1,760	106,202	(4,347)	65,419

(Millions of Yen)

	Note	Equity attributable to owners of the Company					
		Other components of equity					
		Remeasure-ments of defined benefit plans	Total other components of equity	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2013		—	85,067	680,844	906,645	31,835	938,480
Profit for the year		—	—	60,943	60,943	(7,585)	53,357
Other comprehensive income for the year		7,592	54,312	—	54,312	2,962	57,275
Total comprehensive income for the year		7,592	54,312	60,943	115,255	(4,623)	110,632
Purchase of treasury shares		—	—	—	(31)	—	(31)
Cancellation of treasury shares		—	(55)	(27)	0	—	0
Share-based payments	29	—	231	—	231	594	825
Dividends	23	—	—	(42,237)	(42,237)	—	(42,237)
Transfer from other components of equity to retained earnings		(7,592)	(17,798)	17,798	—	—	—
Others		—	(3)	—	70	(212)	(142)
Total transactions with owners of the Company		(7,592)	(17,625)	(24,466)	(41,966)	381	(41,584)
Balance as of March 31, 2014		—	121,753	717,320	979,933	27,594	1,007,527
Profit for the year		—	—	322,119	322,119	(3,195)	318,923
Other comprehensive income for the year		(4,218)	44,081	—	44,081	3,170	47,252
Total comprehensive income for the year		(4,218)	44,081	322,119	366,201	(24)	366,176
Purchase of treasury shares		—	—	—	(25)	—	(25)
Cancellation of treasury shares		—	(117)	(116)	0	—	0
Share-based payments	29	—	197	—	197	212	410
Dividends	23	—	—	(42,238)	(42,238)	—	(42,238)
Change in scope of consolidation		—	—	—	—	(25,016)	(25,016)
Transfer from other components of equity to retained earnings		4,218	3,131	(3,131)	—	—	—
Others		—	(12)	—	(12)	218	206
Total transactions with owners of the Company		4,218	3,198	(45,486)	(42,077)	(24,585)	(66,662)
Balance as of March 31, 2015		—	169,034	993,953	1,304,057	2,984	1,307,041

5) Consolidated Statement of Cash Flows

(Millions of Yen)

	Note	Year ended March 31, 2014	Year ended March 31, 2015
Cash flows from operating activities			
Profit before tax from continuing operations		112,950	79,936
Depreciation and amortization		38,364	42,023
Impairment loss		4,684	37,612
Financial income		(5,163)	(9,600)
Financial expenses		4,543	3,160
Share of (profit) loss of investments accounted for using the equity method		591	925
(Gain) loss on sale and disposal of fixed assets		(12,973)	(1,056)
(Increase) decrease in trade and other receivables		3,789	(966)
(Increase) decrease in inventories		(5,840)	(237)
Increase (decrease) in trade and other payables		6,040	3,661
Others, net		(81)	(1,769)
Subtotal		146,905	153,688
Interest and dividends received		3,318	3,468
Interest paid		(1,902)	(1,732)
Income taxes paid		(48,172)	(21,874)
Cash flows from operating activities of discontinued operations		(62,844)	9,227
Net cash flows from operating activities		37,304	142,776
Cash flows from investing activities			
Payments into time deposits		(122,542)	(64,511)
Proceeds from maturities in time deposits		46,117	72,915
Acquisition of securities		(388,411)	(259,142)
Proceeds from sale of securities		303,377	390,984
Acquisition of property, plant and equipment		(36,388)	(38,500)
Proceeds from sale of property, plant and equipment		11,898	453
Acquisition of intangible assets		(4,704)	(56,130)
Acquisition of subsidiary	7	—	(33,476)
Payments for loans receivable		(1,065)	(1,728)
Proceeds from collection of loans receivable		594	1,489
Others, net		2,205	3,080
Cash flows from investing activities of discontinued operations		27,549	(36,712)
Net cash flows from investing activities		(161,368)	(21,278)
Cash flows from financing activities			
Proceeds from bonds and borrowings		140,862	0
Repayments of bonds and borrowings		(20,266)	(90,000)
Purchase of treasury shares		(31)	(25)
Proceeds from sale of treasury shares		0	0
Dividends paid		(42,238)	(42,254)
Others, net		(890)	(906)
Cash flows from financing activities of discontinued operations		22,885	984
Net cash flows from financing activities		100,322	(132,200)
Net increase (decrease) in cash and cash equivalents		(23,742)	(10,701)
Cash and cash equivalents at the beginning of the year	8	191,145	183,070
Effect of exchange rate changes on cash and cash equivalents		15,667	17,003
Cash and cash equivalents at the end of the year	8	183,070	189,372

Notes to the Consolidated Financial Statements

1. Reporting Entity

Daiichi Sankyo Company, Limited (the "Company") is a public company domiciled in Japan. The addresses of its registered head office and principal business locations are disclosed on the Company's website (http://www.daiichisankyo.co.jp).The Daiichi Sankyo Group consists of 58 companies including the Company, 55 subsidiaries and 2 associates (collectively the "Group") and is engaged in manufacturing and marketing of pharmaceutical products.

The Group's consolidated financial statements for the year ended March 31, 2015 were approved on June 22, 2015 by Joji Nakayama, Representative Director, President and CEO.

2. Basis of Preparation

(1) Compliance with International Financial Reporting Standards

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

(2) Basis of Measurement

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

(3) Functional Currency and Presentation Currency

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

(4) Early Adoption of New Accounting Standards

The Group has early adopted IFRS 9 "Financial Instruments" (issued in November 2009, amended in October 2010 and December 2011) from the date of IFRS transition (April 1, 2012).

IFRS 9 replaces existing guidance in IAS 39 "Financial Instruments: Recognition and Measurement" and classifies financial instruments into two measurement categories, amortized cost and fair value. The change in fair value of financial instruments which have initially been measured at fair value is recognized in profit or loss. However, the change in fair value of equity instruments can be recognized through other comprehensive income, except for financial instruments held for trading.

(5) Changes in Accounting Policies

The significant accounting policies adopted in preparing the consolidated financial statements of the Group have not changed from the prior year except for the adoption of the following new accounting standards and interpretations. In the year ended March 31, 2015, the Group adopted following accounting standards and interpretations in accordance with their effective dates. These new accounting standards and interpretations have not had a material impact on the consolidated financial statements.

Standards and interpretations		Overview of new or amended standards and interpretations
IAS 32	Financial Instruments: Presentation	Clarification of requirements for offsetting financial assets and liabilities, and addition of the interpretations
IFRS 10	Consolidated Financial Statements	Establishment of a new definition of an investment entity and accounting treatment for investments held by an investing entity
IFRS 12	Disclosure of Interests in Other Entities	
IAS 27	Separate Financial Statements	
IFRIC 21	Levies	Clarification of accounting for levies
IAS 36	Impairment of Assets	Amendments to disclosure requirements for recoverable amounts of non-financial assets
IAS 39	Financial Instruments: Recognition and Measurement	New requirements to be exempt from discontinuance hedge accounting

(6) Classification

Following the merger of Ranbaxy Laboratories Ltd. and Sun Pharmaceutical Industries Ltd., the Group classified Ranbaxy Group as a discontinued operation. Consequently, the comparative financial information for previous fiscal years has been restated to show the discontinued operations separately from continuing operations in the same way as the current year.

3. Significant Accounting Policies

(1) Basis of Consolidation

The Group’s consolidated financial statements include the financial statements of the Company and its subsidiaries and the Group’s interests in equity-accounted associates.

a. Subsidiaries

A Subsidiary is an entity that is controlled by the Group. An investor controls an investee if the Group has power over the investee, exposure, or rights, to variable returns from its involvement with the investee and the ability to use its power over the investee to affect the amount of the investor’s return. Consolidation of a subsidiary begins from the date the Group obtains control of the subsidiary and cease when the Group loses control of the subsidiary.
Changes in a parent’s ownership interest in a subsidiary that occur after obtaining the control over the subsidiary and that do not result in the parent losing control of the subsidiary are accounted for as equity transactions.
All intercompany balances and transactions, and any unrealized gains and losses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

b. Associates

An associate is an entity over which the Group has significant influence but is not a subsidiary of the Group.
Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies.
An investment is accounted for using the equity method from the date on which the Group has the significant influence until the date on which it ceases to have the significant influence over the investment.
When significant influence over an associate is lost, and if there is still remaining ownership interest, the remaining equity interest is measured at fair value. The difference between the fair value and the carrying value at the date on which the equity method is discontinued, is recognized in net profit or loss.
Investment in associates includes acquired goodwill.

(2) Business Combinations

Business combinations are accounted for using the acquisition method. The acquisition cost is measured as the sum of the consideration transferred, the amount of non-controlling interest in the acquiree, and in the case of an acquisition achieved in stages, the fair value of the previously held equity interest at the date of acquisition. The consideration transferred is measured at fair value at the date of acquisition. Non-controlling interests are measured either at fair value or at the proportionate share of the financial instruments currently held over the recognized amounts of the acquiree’s identifiable net assets for each business combination.
The excess of the acquisition cost over the Group’s share of the acquiree’s identifiable assets, liabilities, and contingent liabilities at fair value is recognized as goodwill. When the aggregate amount of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the acquisition cost, the resulting gain is recognized in net profit or loss on the date of acquisition. Acquisition related costs are recognized as expenses in the period they are incurred.

(3) Foreign Currency Translation

Foreign currency transactions are recorded in the functional currency, by applying to the foreign currency amount the spot exchange rate between the functional currency and the foreign currency at the date of the transaction. Foreign currency monetary assets and liabilities are translated into the functional currency using the closing rate and the exchange differences arising on the settlement of monetary items or on translating monetary items are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

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

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

(4) Financial Instruments

a. Non-derivative Financial Assets

i) Initial recognition and measurement

Financial assets are classified as financial assets measured at amortized cost or financial assets measured at fair value at initial recognition.

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

(a) The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.

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

Otherwise, they are classified as financial assets measured at fair value.

For financial assets measured at fair value, each equity instrument, except for an equity instrument held for trading, which must be measured at fair value through profit or loss, is designated as financial assets measured at fair value through profit or loss or as financial assets measured at fair value through other comprehensive income. Such designations are applied consistently. Financial assets, in the case of financial assets not at fair value through profit or loss, are measured at the fair value plus transaction costs that are attributable to the acquisition of financial assets.

Trade and other receivables are recognized on the date when they are incurred. All other financial assets are recognized on the contract date when the Group becomes a party to the contractual provisions of the instruments.

ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value

Financial assets measured at fair value are measured at fair value.

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

iii) Derecognition

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

b. Impairment of Financial Assets

At the end of each reporting period, it is assessed whether there is any objective evidence that financial assets measured at amortized cost are impaired. Evidence that financial assets measured at amortized cost are impaired includes significant financial difficulty of the borrower or a group of borrowers, a default or delinquency in interest or principal payments, and bankruptcy of the borrower.

It is assessed whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant.

If there is objective evidence that impairment losses on financial assets measured at amortized cost have been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows.

When impairment is recognized, the carrying amount of the financial asset is reduced through use of an allowance for doubtful account and impairment losses are recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is reduced directly when they are expected to become uncollectible in the future and all collaterals are implemented or transferred to the Group. If, in a subsequent period, the amount of the impairment loss decreases and the decrease is related to an event occurring after the impairment is recognized, the previously recognized impairment losses are reversed by adjusting the allowance for doubtful account and the reversal is recognized in profit or loss.

c. Non-derivative Financial Liabilities

i) Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortized cost or financial liabilities measured at fair value through profit or loss at initial recognition. At initial recognition, financial liabilities are measured at fair value and, in the case of financial liabilities at amortized cost, deducting the transaction costs that are directly attributable to the issue of financial liabilities.

ii) Subsequent measurement

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

(a) Financial liabilities measured at amortized cost

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

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

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

iii) Derecognition

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

d. Offsetting Financial Assets and Liabilities

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

e. Derivatives and Hedge Accounting

Derivatives are utilized to hedge foreign currency risk, interest rate risk and share price risk. The primary derivatives used by the Group include forward foreign exchange contracts, currency swaps, currency options, interest-rate swaps and call option on specific stocks.

At the inception of the hedge, formal designation and documentation of the relationship and the risk management objective and strategy for undertaking the hedge are established.

On an ongoing basis, it is assessed whether the hedging instrument is highly effective in achieving offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

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

Hedges that meet hedging criteria are accounted for as follows:

(i.) Fair value hedge

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

(ii.) Cash flow hedge

The effective portion of gain or loss on hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss. The cumulative amounts of hedging instruments recognized in other comprehensive income as equity are reclassified to profit or loss when the transactions of the hedged items affect profit or loss. If hedged items result in the recognition of non-financial assets or non-financial liabilities, the cumulative amounts recognized in other comprehensive income as equity are accounted for as adjustments in the carrying amount of non-financial assets or non-financial liabilities. When forecast transactions or firm commitment are no longer expected to be incurred, any related cumulative gain or loss that has been recognized in other comprehensive income as equity is reclassified to profit or loss. When hedging instruments expire or are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked, the cumulative amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the forecast transactions or firm commitments are incurred or is no longer expected to occur.

(5) Cash and Cash Equivalents

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

(6) Inventories

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

(7) Property, Plant and Equipment

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

- Buildings and structures attached to the buildings: 15 to 50 years
- Machinery, equipment and vehicles: 4 to 8 years

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

(8) Goodwill and Intangible Assets

a. Goodwill

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

b. Intangible Assets

Intangible assets are carried at cost less any accumulated amortization and any accumulated impairment loss.
The cost of a separately acquired intangible asset is measured at cost and the cost of an intangible asset acquired in a business combination is measured at its fair value at the acquisition date.
Internally generated research expenditure is recognized as an expense when it is incurred. Internally generated development expenditure is recognized as an intangible asset if all the criteria for capitalization can be demonstrated. However, due to the uncertainties relating to the research and development duration and process, it is considered that the criteria for capitalization are not met until marketing approval from a regulatory authority is obtained. Therefore internally generated development expenditure is recognized as an expense when it is incurred.
Acquisition cost and development expenditure of software for internal use is recognized as an intangible asset if it can be demonstrated that the asset will generate probable future economic benefits.
Intangible assets with finite useful lives are amortized by the straight-line method based on the estimated useful life of the asset. The estimated useful lives of major items of intangible assets are as follows:

- Marketing rights 4 to 22 years
- Trademark 3 to 10 years

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

(9) Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership of an asset, otherwise classified as an operating lease.
Under finance lease transactions, finance leases are recognized as leased assets and lease obligations at the lower of the fair value of the leased property or the present value of the minimum lease payments.
Leased assets are depreciated by the straight-line method over the shorter of the lease term and the useful life.
Under operating lease transactions, lease payments are recognized as an expense on a straight-line basis over the lease term.

(10) Impairment of Non-financial Assets

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

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

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

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

An impairment loss recognized for goodwill is not reversed in a subsequent period. It is assessed whether there is any indication that an impairment loss recognized in prior periods for an asset other than goodwill may no longer exist or may have decreased. If any such indication exists, the recoverable amount of the asset or cash-generating unit is estimated. If the recoverable amount exceeds the carrying amount of the asset or cash-generating unit, an impairment loss recognized in prior periods is reversed and the carrying amount of the asset is increased to the recoverable amount. The reversal of the impairment loss is recognized in profit or loss. The increased carrying amount of an asset other than goodwill attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined (net of amortization or depreciation) if no impairment loss had been recognized for the asset in prior years.

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

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

Discontinued operations include a component of an entity that either has been disposed of or is classified as held-for-sale, and represents separate major line of business or geographic area of operations. It is recognized when there is a plan to dispose it.

(12) Employee Benefits

a. Post-employment Benefits

i) Defined benefit plans

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

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

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

Actuarial gains and losses are recognized in other comprehensive income in the period when they are incurred and transferred to retained earnings immediately.

ii) Defined contribution plans

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

b. Others

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

(13) Provisions

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

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

(14) Treasury Shares

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

(15) Share-based Payment

The Company and certain of its subsidiaries have implemented stock option plans as equity-settled share-based payment plans. The options are measured at the fair value at the date of grant using the Black-Sholes valuation model, and recognized as expenses over the vesting period, with the corresponding increase in equity.

In addition, the Group issues share appreciation right to employees as a cash-settled share-based payment award. For cash-settled share-based payments, the fair value of the amount of payments is recognized as an expense with a corresponding liability, and the change in fair value at each reporting date is recognized in net profit or loss until the liability is settled.

(16) Revenue

a. Sales of Products and Goods

Revenue from the sale of goods is recognized when all the following conditions have been satisfied:

- the significant risks and rewards of ownership of the goods have been transferred to the buyer;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue is measured at the fair value of the consideration received or receivable. Trade discounts, cash discounts, rebates and returns are recognized in the period when the revenue that they result from is recognized, and deducted from revenue.

Taxes such as consumption taxes, sales taxes and value added taxes are excluded from revenue.

b. Rendering of Services

Revenue from rendering of services is recognized when the service is rendered to customers outside of the Group.

c. Royalty Income

Revenue arising from royalties is recognized on an accrual basis in accordance with the substance of the relevant agreement.

(17) Government Grants

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

Government grants related to income which are intended to compensate specific costs is recognized in net profit or loss over the period in which the Group recognizes the corresponding expenses.

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

(18) Income Taxes

Income tax expenses comprise current income tax expenses and deferred income tax expenses.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets and liabilities are recognized for temporary differences that are the differences between the carrying amount of assets or liabilities for accounting purpose and the tax basis, and tax loss carry-forwards. Deferred tax assets are recognized for deductible temporary differences, tax loss carry-forwards and carryforward of unused tax credits to the extent that it is probable that future taxable profit will be available against which they can be utilized.

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

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

- Impairment of non-financial assets (Note 13. Property, Plant and Equipment, Note 14. Goodwill and Intangible Assets)
- Useful lives of intangible assets (Note 14. Goodwill and Intangible Assets)
- Recoverability of deferred tax assets (Note 16. Income Taxes)
- Provisions (Note 19. Provisions)
- Measurement of defined benefit obligations (Note 20. Employee Benefits)
- Measurement of share-based payments (Note 29. Share-based Payments)
- Fair value of financial instruments (Note 30. Financial Instruments)
- Contingent liabilities (Note 34. Contingent Liabilities)

5. Standards and Interpretations Issued but Not Yet Adopted

The major new and revised standards and interpretations that have been issued or amended by the approval date of these consolidated financial statements that the Group has not early adopted are set out below. The Group is currently evaluating the impact of applying those standards and interpretations to the consolidated financial statements, which is not yet estimable.

Standards and Interpretations		Mandatory application (from the year beginning)	To be applied by the Group (year ending)	Summary of new standard or amendment
IAS 19	Employee Benefits	July 1, 2014	March 2016	Simplifying accounting for contributions from employees or third parties not based on the number of years of service
IFRS 11	Joint Arrangements	January 1, 2016	March 2017	Clarification of accounting for acquisition of interests in joint operations
IFRS 14	Regulatory Deferral Accounts	January 1, 2016	March 2017	Establish accounting for regulatory deferral accounts
IAS 1	Presentation of Financial Statements	January 1, 2016	March 2017	Clarification of rules for presentation and disclosure based on materiality
IAS 27	Separate Financial Statements	January 1, 2016	March 2017	Amendments to accounting for subsidiaries and associates in separate financial statements
IAS 16	Property, Plant and Equipment	January 1, 2016	March 2017	Clarification of acceptable methods of depreciation and amortization
IAS 38	Intangible Assets			
IAS 16	Property, Plant and Equipment	January 1, 2016	March 2017	Rules for accounting for biological assets
IAS 41	Agriculture			
IFRS 10	Consolidated Financial Statements	January 1, 2016	March 2017	Amendment to accounting for sale of assets to associates
IAS 28	Investments in Associates			
IFRS 10	Consolidated Financial Statements	January 1, 2016	March 2017	Clarification of exemption from consolidation and equity method accounting for investing entities
IFRS 12	Disclosure of Interests in Other Entities			
IAS 28	Investments in Associates			
IFRS 15	Revenue from Contracts with Customers	January 1, 2017	March 2018	Amendment to accounting for revenue recognition
IFRS 9	Financial Instruments	January 1, 2018	March 2019	Amendment to rules for general hedge accounting Limited amendment to classification and measurement of financial assets and implementation of expected loss model

6. Operating Segment Information

(1) Reportable Segments

The reportable segments of the Group are based on the financial data available for discrete operating units, and are subject to periodic review by the Board of Directors to facilitate decisions related to the allocation of resources and the evaluation of business performance.

For the year ended March 31, 2014, the Group reported two reportable segments, “Daiichi Sankyo Group” and “Ranbaxy Group”. However, this was revised to the use of a single segment, the “Pharmaceutical Operation” (formally “Daiichi Sankyo Group”) from the end of the year ended March 31, 2015. The revision was made as Ranbaxy Laboratories Ltd., which had represented the Ranbaxy Group, was excluded from the scope of consolidation during the year ended March 31, 2015, and its business was classified as a discontinued operation due to the fact that Ranbaxy Laboratories Ltd. was merged into Sun Pharmaceutical Industries Ltd..

Depreciation and amortization relating to the discontinued operation in the years ended March 31, 2014 and 2015 was ¥13,121 million and ¥9,413 million, respectively. In addition, capital expenditure relating to the discontinued operation in the years ended March 31, 2014 and 2015 was ¥13,422 million and ¥5,454 million, respectively.

(2) Information about products and services

Sales by products and services for continuing operations are as follows:

(Millions of Yen)

Item name	Year ended March 31, 2014		Year ended March 31, 2015		Increase / (decrease)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Prescription drugs	848,272	94.4	868,779	94.5	20,506	2.4
Healthcare (OTC) products	48,074	5.3	47,822	5.2	(251)	(0.5)
Others	2,779	0.3	2,770	0.3	(9)	(0.3)
Total	899,126	100.0	919,372	100.0	20,245	2.3

(3) Information by geographical area

Year ended March 31, 2014

(Millions of Yen)

	Japan	North America	Europe	India	Other regions	Consolidated
Revenue from external customers (Note 1)	532,586	216,921	86,124	39	63,455	899,126
Non-current assets (Note 2)	259,638	172,768	40,915	79,241	20,675	573,240

Notes:

1. Revenue from continuing operations is classified according to the geographical location.
2. Non-current assets are primarily presented based on the geographical location of assets, and are comprised of property, plant and equipment, goodwill and intangible assets.

Year ended March 31, 2015

(Millions of Yen)

	Japan	North America	Europe	India	Other regions	Consolidated
Revenue from external customers (Note 1)	526,980	236,629	85,147	37	70,576	919,372
Non-current assets (Note 2)	290,349	212,121	22,751	1,149	10,898	537,270

Notes:

1. Revenue from continuing operations is classified according to the geographical location.
2. Non-current assets are primarily presented based on the geographical location of assets, and are comprised of property, plant and equipment, goodwill and intangible assets.

(4) Information on major customers

Year ended March 31, 2014

(Millions of Yen)

Name of customer	Revenue
Alfresa Holdings Corporation and its group companies	172,105
McKesson Corporation	110,755

Year ended March 31, 2015

(Millions of Yen)

Name of customer	Revenue
Alfresa Holdings Corporation and its group companies	172,251
McKesson Corporation	138,514

7. Business Combination

Year ended March 31, 2015

Acquisition of Ambit Biosciences Corporation

(1) Summary of Business Combination

a. Name of the Acquiree and Nature of its Business

Name of acquiree: Ambit Biosciences Corporation

Nature of its business: A bio-venture related to the discovery and development of tysorin kinase inhibitor

b. Reason for the Business Combination

Ambit Biosciences Corporation is a biopharmaceutical venture company related to the discovery and development of tyrosine kinase inhibitor, and owns drug candidates such as a therapeutic drug for acute myeloid leukemia, which is currently in phase III clinical trial. The Company has established a mid- to long-term target to provide innovative medicine in oncology field, and this acquisition will enforce the Company’s portfolio in that area.

c. Date of Acquisition

November 10, 2014, Eastern time in the United States

d. Process of Obtaining Control of the Aquiree and Acquired Equity Share with Voting Rights

The Group acquired all of the outstanding common stock of Ambit Biosciences in cash with contingent consideration to be paid when the milestone is achieved in the future.

(2) Fair Value of Identifiable Assets Acquired and Liabilities Assumed and the Acquisition Cost

(Millions of Yen)

	Amount
Cash and cash equivalents	2,596
Trade and other receivables	217
Property, plant and equipment	77
Intangible assets	29,475
Trade and other payables	(1,145)
Deferred tax liabilities	(12,011)
Goodwill	19,689
Total	38,898
Cash	36,072
Contingent consideration (additional payment at launch of products)	2,826
Total acquisition cost	38,898

In the third quarter of the year ended March 31, 2015, certain intangible assets were reported on a provisional basis because evaluation had not been completed, but by March 31, 2015, the evaluation was completed. The impact of the completion of the evaluation is not material.

Goodwill is attributable mainly to the reasonably estimated increase in future revenue due to the enhanced ability to earn additional revenue. The goodwill is not a deductible expense for taxation purposes.

The fair value of the assets acquired and liabilities assumed are determined based on the financial and assets condition for which due diligence was performed by a third party specialist, as well as the corporate value calculated (discounted cash flow method) by the third party.

Expenses related to the acquisition was ¥187 million which are reported in “Selling, general and administrative expenses ”.

The contingent consideration in this business combination relates to commercial milestone for Ambit Biosciences Corporation’s drug candidate for acute myeloid leukemia which is currently in phase III clinical trials (Generic name: Quizartinib, Development code: AC220) and is measured at its acquisition date fair value. Potential future cash outflows associated with the contingent consideration total ¥11,461 million (undiscounted).

The fair value hierarchy level for this contingent consideration is level 3. The fair value hierarchy is summarized in Note 30 “Financial Instruments”.

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

Year ended March 31, 2015

(Millions of Yen)

	Total
Balance at the beginning of the year	—
Increase arising from business combination	2,826
Changes in fair value during the period	—
Settled during the period	—
Exchange differences	145
Balance at the end of the year	2,971

(3) Payments for Acquisition of Subsidiary

(Millions of Yen)

	Amount
Total acquisition cost	38,898
Contingent consideration included in the acquisition cost	(2,826)
Cash and cash equivalents in the acquired subsidiary	(2,596)
Acquisition of subsidiary, Net of Cash Acquired	33,476

(4) Impact on the Group's Business Results

The net loss of Ambit Biosciences Corporation for the post-acquisition period ended March 31, 2015 was ¥1,059 million. Assuming that this business combination were executed at the beginning of the year, revenue would be increased by ¥9 million to ¥919,381 million, and operating profit would be decreased by ¥4,391 million to ¥70,031 million for the year ended March 31, 2015.

8. Cash and Cash Equivalents

Details of "Cash and Cash Equivalents" are as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Cash and bank deposits	92,258	97,894
Short-term investments	90,812	91,477
Total	183,070	189,372

9. Trade and Other Receivables

Details of "Trade and Other Receivables" in the consolidated statements of financial position are as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Notes and accounts receivable - trade	246,071	218,463
Other receivables	26,194	23,367
Allowance for doubtful accounts	(3,070)	(282)
Total	269,194	241,547

10. Other Financial Assets

(1) Breakdown of Other Financial Assets

Breakdown of "Other Financial Assets" are as follows:

a. Current Assets

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Financial assets measured at amortized cost:		
Loans receivable	998	1,121
Bonds	214,867	97,911
Others	103,398	85,551
Financial assets measured at fair value through profit or loss:		
Derivative assets	899	—
Bonds	3,963	1,873
Financial assets measured at fair value through other comprehensive income:		
Shares	32	—
Total	324,160	186,457

b. Non-current Assets

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Financial assets measured at amortized cost:		
Loans receivable	2,603	2,063
Bonds	10	—
Others	8,705	6,922
Financial assets measured at fair value through profit or loss:		
Derivative assets	3,093	—
Bonds	2,452	1,772
Others	5,619	7,242
Financial assets measured at fair value through other comprehensive income:		
Shares	111,503	569,265
Others	7,566	6,677
Total	141,553	593,944

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

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

(Millions of Yen)

Shares	Fair Value	
	As of March 31, 2014	As of March 31, 2015
Ranbaxy Laboratories Ltd.	—	424,338
Ono Pharmaceutical Co., Ltd.	12,498	18,984
Santen Pharmaceutical Co., Ltd.	8,408	16,065
Shizuoka Bank, Ltd.	9,408	11,211
Others	88,787	105,343

Notes:

1. Shares are held to reinforce transactions and business relationships. These securities are designated as financial assets measured at fair value through other comprehensive income.
2. During the year ended March 31, 2015, shares of Ranbaxy Laboratories Ltd. is designated as financial assets measured at fair value through other comprehensive income following the completion of the merger with Sun Pharmaceutical Industries Ltd.. As stated in Note 36 “Subsequent Events,” the sale of the Group’s shares in Sun Pharmaceutical Industries Ltd was completed on April 21, 2015..

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

In the years ended March 31, 2014 and 2015, the Group disposed and derecognized some financial assets measured at fair value through other comprehensive income to improve the efficiency of assets by reassessing the business relationships. Their fair value and accumulated gains and losses at the time of disposal are as follows:

(Millions of Yen)

	Year ended March 31, 2014		Year ended March 31, 2015	
	Fair value	Accumulated gains (losses)	Fair value	Accumulated gains (losses)
Shares	24,993	16,224	4,897	1,790
Others	609	—	374	—

Note:

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

11. Inventories

(1) Details of Inventories

Details of “inventories” in the consolidated statements of financial position are as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Merchandise and finished goods	124,489	108,750
Work in process	20,281	15,253
Raw materials	44,638	26,089
Total	189,408	150,093

(2) Write-down of Inventories

The amount of write-down of inventories during the period which is included in “Cost of sales” in the consolidated statements of profit or loss is as follows:

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Write-down of inventories	2,733	3,506

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

Details of "Assets held for sale" and "Liabilities directly associated with assets held for sale" on the consolidated statements of financial position are as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Assets held for sale		
Inventories	—	421
Other current assets	—	2
Property, plant and equipment	—	2,480
Deferred tax assets	—	260
Total	—	3,165
Liabilities directly associated with assets held for sale		
Trade and other payables	—	420
Other non-current liabilities	—	5
Total	—	426

Note:

Assets held for sale and liabilities directly associated with assets held for sale at March 31, 2015 are related to the property, plant and equipment of the Group's Akita manufacturing facility. The Group assessed the global competency of its manufacturing structure for drug substance in Japan, and decided to sell the Akita manufacturing facility to a third party. A wholly owned subsidiary of the Group which was established in September 2014 took over the business operation of the Akita manufacturing facility, and the subsidiary's shares were sold to the third party on April 1, 2015.

13. Property, Plant and Equipment

(1) Reconciliation of carrying amount

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

a. Acquisition cost

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2013	337,807	281,844	96,919	47,522	764,094
Individual acquisitions	15,513	15,506	8,463	45,672	85,155
Sales or disposals	(4,624)	(19,920)	(4,718)	(209)	(29,473)
Exchange differences	4,909	7,659	2,696	1,238	16,503
Other increases and decreases	(9,642)	(130)	73	(34,948)	(44,648)
Balance as of March 31, 2014	343,963	284,958	103,433	59,275	791,631
Individual acquisitions	22,643	22,273	6,582	34,188	85,687
Acquisitions through business combinations	—	—	551	—	551
Sales or disposals	(2,760)	(9,685)	(4,332)	—	(16,778)
Reclassification to assets held for sale	(7,564)	(13,082)	(615)	(29)	(21,292)
Exchange differences	2,112	2,399	832	1,396	6,741
Decrease related to deconsolidation	(31,673)	(58,218)	(7,652)	(6,289)	(103,834)
Other increases and decreases	(0)	(376)	(82)	(48,531)	(48,990)
Balance as of March 31, 2015	326,719	228,269	98,716	40,009	693,715

b. Accumulated depreciation and accumulated impairment loss

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2013	176,992	216,175	80,277	−	473,445
Depreciation	9,553	13,946	6,439	−	29,940
Impairment loss	350	525	13	−	889
Sales or disposals	(4,073)	(18,854)	(4,605)	−	(27,533)
Exchange differences	1,675	4,440	1,977	−	8,094
Other increases and decreases	(9,491)	(61)	43	−	(9,509)
Balance as of March 31, 2014	175,006	216,172	84,147	−	475,326
Depreciation	9,507	10,337	6,701	−	26,546
Impairment loss	1,923	27	0	−	1,951
Acquisitions through business combinations	−	−	474	−	474
Sales or disposals	(2,293)	(8,637)	(4,232)	−	(15,162)
Reclassification to assets held for sale	(6,221)	(12,046)	(544)	−	(18,811)
Exchange differences	1,161	1,481	904	−	3,547
Decrease related to deconsolidation	(6,390)	(34,304)	(5,930)	−	(46,625)
Other increases and decreases	0	46	(69)	−	(22)
Balance as of March 31, 2015	172,694	173,077	81,452	−	427,223

c. Carrying amounts

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Construction in progress	Total
Balance as of April 1, 2013	160,815	65,669	16,641	47,522	290,648
Balance as of March 31, 2014	168,957	68,786	19,285	59,275	316,304
Balance as of March 31, 2015	154,025	55,192	17,264	40,009	266,491

Note: Depreciation of property, plant and equipment are included in “Cost of sales,” “Selling, general and administrative expenses,” “Research and development expenses,” and “Profit (loss) from discontinued operations” in the consolidated statements of profit or loss.

(2) Impairment of Property, Plant and Equipment

The Group performed impairment tests for certain property, plant and equipment for which a potential indication of impairment was identified.

As a result of the impairment test, impairment loss of ¥889 million (discontinued operation: ¥733 million) in the year ended March 31, 2014 and ¥1,951 million (discontinued operation: ¥- million) in the year ended March 31, 2015 were recognized and included in "Cost of sales," "Selling, general and administrative expenses," and "Profit (loss) from discontinued operations" in the consolidated statements of profit or loss.

The impairment loss in the year ended March 31, 2015 are mainly related to the Company's land, buildings and structures, and their carrying amounts were reduced to the recoverable amounts due to a decline of profitability resulting from a market downturn. The total recoverable amount was estimated at ¥2,749 million which is measured at fair value less cost of disposal.

(3) Finance Lease Contracts

Details of carrying amounts of property, plant and equipment held under finance lease contracts which are included in "Property, plant and equipment" in the consolidated statement of position are as follows:

(Millions of Yen)

	Land, buildings and structures	Machinery and vehicles	Tools, furniture and fixtures	Total
Balance as of April 1, 2013	433	2,643	81	3,158
Balance as of March 31, 2014	298	2,767	65	3,131
Balance as of March 31, 2015	131	3,475	25	3,632

14. Goodwill and Intangible Assets

(1) Reconciliation of Carrying Amount

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

a. Acquisition cost

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trade marks	Software	Total
Balance as of April 1, 2013	436,048	39,077	243,896	19,641	302,615
Individual acquisitions	—	578	6,147	3,946	10,673
Sales or disposals	(2,070)	—	(8,905)	(234)	(9,139)
Exchange differences	2,849	3,012	25,183	1,628	29,824
Other increases and decreases	—	(5,657)	5,966	(41)	266
Balance as of March 31, 2014	436,828	37,011	272,288	24,941	334,241
Individual acquisitions	—	22,106	36,452	5,674	64,233
Acquisitions through business combinations	19,689	29,475	—	—	29,475
Sales or disposals	—	(134)	(13,978)	(571)	(14,683)
Exchange differences	6,704	6,514	13,147	1,699	21,362
Decrease related to deconsolidation	(391,856)	—	(67,582)	(3,514)	(71,096)
Other increases and decreases	—	(5,286)	3,656	(3,104)	(4,734)
Balance as of March 31, 2015	71,366	89,687	243,984	25,124	358,796

b. Accumulated amortization and accumulated impairment loss

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trade marks	Software	Total
Balance as of April 1, 2013	351,309	—	121,822	9,655	131,478
Amortization	—	—	17,447	3,588	21,035
Impairment loss	2,070	—	2,457	40	2,497
Sales or disposals	(2,070)	—	(8,878)	(227)	(9,105)
Exchange differences	—	—	15,634	1,179	16,813
Other increases and decreases	—	—	81	23	104
Balance as of March 31, 2014	351,309	—	148,565	14,258	162,824
Amortization	—	—	11,671	3,380	15,051
Impairment loss	—	134	35,354	—	35,488
Sales or disposals	—	(134)	(13,178)	(308)	(13,621)
Exchange differences	—	—	5,751	1,415	7,166
Decrease related to deconsolidation	(351,309)	—	(43,431)	(2,559)	(45,990)
Other increases and decreases	—	—	(1,629)	96	(1,532)
Balance as of March 31, 2015	—	—	143,102	16,282	159,385

c. Carrying amounts

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trade marks	Software	Total
Balance as of April 1, 2013	84,738	39,077	122,073	9,986	171,137
Balance as of March 31, 2014	85,518	37,011	123,723	10,682	171,417
Balance as of March 31, 2015	71,366	89,687	100,882	8,842	199,411

Note:

Amortization expenses of intangible assets are included in “Cost of sales,” “Selling, general and administrative expenses,” “Research and development expenses,” and “Profit (loss) from discontinued operations” in the consolidated statements of profit or loss.

(2) Significant Goodwill and Intangible Assets

The carrying amount of goodwill in the consolidated statements of financial positions included amounts related to the acquisition of Plexxikon Inc. of ¥30,136 million and ¥35,216 at March 31, 2014 and 2015, respectively. In addition, goodwill at March 31, 2015 includes amounts related to the acquisition of Ambit Biosciences Corporation of ¥20,699 million.

The carrying amount of intangible assets mainly consist of commercial rights of Zelboraf owned by Plexxikon Inc. of ¥60,758 million and ¥33,634 at March 31, 2014 and 2015, respectively. These intangible assets are amortized based on the straight-line method mainly over a period of 14 years. In addition, intangible assets include in-process research and development of PLX3397 of Plexxikon Inc. of ¥25,390 million and ¥29,670 million at March 31, 2014 and 2015, respectively, and in-process research and development of Quizartinib of ¥30,987 at March 31, 2015 which was obtained through the acquisition of Ambit Biosciences Corporation, as well as the commercial rights of MOVANTIK owned by Daiichi Sankyo, Inc. of ¥24,054 million at March 31, 2015.

(3) Research and Development Expenditure

Research and development costs which do not meet the criteria for capitalization are expensed when incurred. The amount of expensed research and development expenditure are ¥180,664 million and ¥190,666 million for the years ended March 31, 2014 and 2015, respectively.

(4) Impairment of Goodwill

The carrying amounts of goodwill allocated to each cash-generating unit are as follows.

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Domestic pharmaceutical operations	11,191	11,191
Overseas pharmaceutical operations	33,780	60,175
Ranbaxy Group	40,546	—
Total	85,518	71,366

Note:

The Group previously reported two reportable segments, “Daiichi Sankyo Group” and “Ranbaxy Group”. However, this was revised to the use of a single segment, the “Pharmaceutical Operation” (formally “Daiichi Sankyo Group”) from the end of the year ended March 31, 2015. The revision was made as Ranbaxy Laboratories Ltd., which had represented the Ranbaxy Group, was excluded from the scope of consolidation during the year ended March 31, 2015, and its business was classified as a discontinued operation due to the fact that Ranbaxy Laboratories Ltd. was merged into Sun Pharmaceutical Industries Ltd.. As a result, the carrying amount of the goodwill for “Ranbaxy Group” at March 31, 2015 is zero.

Impairment tests for major items of goodwill were performed as follows:

a. Plexxikon Inc. (Overseas pharmaceutical operations)

The recoverable amount was estimated with value in use based on the mid-term business plan through 2017 which was approved by management, and the valuation includes a terminal value after 2017.

The value in use was calculated using a pre-tax discount rate of 13.55% - 13.68% and exceeded the carrying amount, therefore no impairment loss was recognized at March 31, 2015.

b. Ambit Biosciences Corporation (Overseas pharmaceutical operations)

The recoverable amount was measured at value in use which was calculated based on the estimated product duration approved by management considering development period and life cycle of pharmaceutical products. Value in use was calculated using a pre-tax discount rate of 8.02% - 14.85% and exceeded the carrying amount, therefore no impairment loss was recognized at March 31, 2015.

(5) Impairment of Intangible Assets

The Group performs an impairment test on certain intangible assets for which an indicator of impairment was identified.

As a result of the impairment test performed, impairment loss of ¥2,497 million (discontinued operation: ¥38 million) for the year ended March 31, 2014 and ¥35,488 million (discontinued operation: ¥ - million) for the year ended March 31, 2015 were recognized and included in “Cost of sales,” “Selling, general and administrative expenses,” “Research and development expenses,” and “Profit (loss) from discontinued operations” on the consolidated statements of profit or loss.

Majority of the impairment loss for the year ended March 31, 2015 relates to the commercial rights of Plexxikon Inc.’s Zelboraf, the anticancer agents, whose carrying amount was written down to the recoverable amount due to a decline in expected profitability as a result of market entries of competing products.

The recoverable amount of ¥34,228 million was measured at value in use, which was calculated using a pre-tax discount rate of 13.68%.

15. Investments Accounted for Using the Equity Method

Summarized financial information of associates accounted for using the equity method is as follows:

(1) Statements of Financial Position

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Current assets	11,021	9,323
Non-current assets	1,070	1,101
Total assets	12,092	10,424
Current liabilities	7,157	7,145
Non-current liabilities	456	553
Total liabilities	7,613	7,698
Total equity	4,478	2,726

(2) Statements of Profit or Loss

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Revenue	37,080	33,715
Expenses	38,323	35,438
Loss for the year	(1,243)	(1,723)

16. Income Taxes

(1) Deferred Tax Assets and Liabilities

Sources of deferred tax assets and liabilities are as follows:

Year ended March 31, 2014

(Millions of Yen)

	Balance as of April 1, 2013	Recognized in net profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2014
Deferred tax assets					
Prepaid outsourced research expenses, co-development expenses and others	72,977	(50,615)	−	−	22,361
Depreciation and amortization	13,353	(1,585)	−	−	11,768
Unrealized gain and valuation loss of inventories	19,899	(2,632)	−	−	17,267
Tax loss carry-forwards	16,170	33,993	−	−	50,164
Accrued expenses	20,248	1,043	−	−	21,292
Impairment loss	1,185	(454)	−	−	731
Post-employment benefit liabilities	9,168	162	(7,053)	−	2,277
Valuation loss of securities	2,693	262	−	−	2,956
Others	31,496	12,522	2,740	−	46,759
Total	187,194	(7,301)	(4,312)	−	175,580
Deferred tax liabilities					
Intangible assets	43,088	(21)	−	−	43,066
Financial assets measured at fair value through other comprehensive income	23,671	(5)	(1,339)	−	22,326
Reserve for advanced depreciation of property, plant and equipment	9,902	3,888	−	−	13,791
Others	7,313	4,526	1,844	−	13,683
Total	83,976	8,388	504	−	92,868
Net balance	103,217	(15,689)	(4,816)	−	82,711

Note:

The difference between the total amounts recognized in net profit or loss and other comprehensive income in the table above and the total deferred income taxes in net profit or loss and total income taxes recognized through other comprehensive income, respectively, relates to income tax expenses associated with foreign currency translation differences and the discontinued operations.

Year ended March 31, 2015

(Millions of Yen)

	Balance as of April 1, 2014	Recognized in net profit or loss	Recognized in other comprehensive income	Change in scope of consolidation	Balance as of March 31, 2015
Deferred tax assets					
Prepaid outsourced research expenses and co-development expenses	22,361	(7,836)	—	(146)	14,378
Depreciation and amortization	11,768	(2,884)	—	(1,258)	7,625
Unrealized gain and valuation loss of inventories	17,267	6,153	—	52	23,473
Tax loss carry-forwards	50,164	(6,951)	426	(19,032)	24,606
Accrued expenses	21,292	(3,734)	—	61	17,619
Impairment loss	731	14,608	—	—	15,340
Post-employment benefit liabilities	2,277	4,625	(1,211)	3	5,694
Valuation loss of securities	2,956	(1,481)	1,082	—	2,557
Others	46,759	(3,495)	529	(18,578)	25,216
Total	175,580	(996)	827	(38,898)	136,512
Deferred tax liabilities					
Intangible assets	43,066	2,839	—	6,421	52,327
Financial assets measured at fair value through other comprehensive income	22,326	—	9,864	—	32,190
Reserve for advanced depreciation of property, plant and equipment	13,791	(2,697)	—	—	11,094
Gains arising from loss of control of a consolidated subsidiary	—	81,471	—	—	81,471
Others	13,683	(6,258)	(1,896)	(3,072)	2,455
Total	92,868	75,355	7,967	3,348	179,539
Net balance	82,711	(76,351)	(7,140)	(42,247)	(43,027)

Note:

The difference between the total amounts recognized in net profit or loss and other comprehensive income in the table above and the total deferred income taxes in net profit or loss and total income taxes recognized through other comprehensive income, respectively, relates to income tax expenses associated with foreign currency translation differences and the discontinued operations.

(2) Unrecognized Deferred Tax Assets

Deductible temporary differences, tax loss carry-forwards (detail by expiry) and unused tax credits carried forward (detail by expiry) for which deferred tax assets are not recognized in the consolidated statements of financial position are as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Deductible temporary differences	165,779	108,261
Tax loss carry-forwards		
Within 1 year	177	2,075
Over 1 year within 5 years	3,781	3,409
Over 5 years	27,225	42,136
Total	31,184	47,622
Unused tax credits		
Within 1 year	29,850	—
Over 1 year within 5 years	—	—
Over 5 years	540	589
Total	30,391	589

(3) Unrecognized Deferred Tax Liabilities

The total temporary differences associated with equity investments in subsidiaries and associates for which deferred tax liabilities are not recognized are ¥96,818 million and ¥150,389 million at March 31, 2014 and 2015, respectively. When the Group can control the timing of the reversal of the temporary differences and it is not probable that the temporary differences will be reversed in the foreseeable future, deferred tax liabilities are not recognized.

(4) Income Taxes Recognized through Net Profit or Loss

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

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Current period income taxes	27,514	38,431
Deferred income taxes		
Origination and reversal of temporary differences	14,406	(10,204)
Change in income tax rate or imposition of new taxation	3,987	4,230
Adjustments and reversal of deferred tax assets	1,249	3,912
Total	19,643	(2,061)
Total of income tax expenses	47,157	36,370

Note:

Income tax expenses related to discontinued operations are (¥740) million and ¥81,700 million in the years ended March 31, 2014 and 2015, respectively.

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

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

(Millions of Yen)

	Year ended March 31, 2014			Year ended March 31, 2015		
	Before tax effect	Tax effect	After tax effect	Before tax effect	Tax effect	After tax effect
Financial assets measured at fair value through other comprehensive income	12,445	(4,477)	7,968	36,546	(9,851)	26,694
Remeasurements of defined benefit plans	11,854	(4,166)	7,688	(5,011)	718	(4,293)
Exchange differences on translation of foreign operations	43,054	(1)	43,053	29,144	(12)	29,131
Cash flow hedges	(2,294)	784	(1,510)	(6,480)	2,132	(4,347)
Share of other comprehensive income of investments accounted for using the equity method	75	—	75	66	—	66
Total	65,135	(7,860)	57,275	54,265	(7,013)	47,252

(6) Reconciliation of Effective Tax Rate

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

	Year ended March 31, 2014	Year ended March 31, 2015
Statutory tax rate	37.8%	35.5%
Permanent non-deductible expenses such as entertainment expenses	3.1%	5.5%
Permanent non-taxable income such as dividends received	(1.2%)	(1.6%)
Changes in unrecognized deferred tax assets	1.1%	4.9%
Effect of different tax rates in foreign jurisdictions	(0.4%)	(2.5%)
Tax credit for research and development expenses	(0.9%)	(2.9%)
Adjustment to period-end deferred tax assets due to change in tax rate	3.5%	5.3%
Others	(1.2%)	1.3%
Effective tax rate	41.8%	45.5%

Note:

The Company is subject to corporate tax, inhabitants tax, and enterprise tax, which is tax deductible against taxable income for corporate tax purposes when paid. The applicable tax rate based on these taxes are 37.8% and 35.5% for the years ended March 31, 2014 and 2015, respectively. Overseas operations are subject to income taxes of the jurisdictions in which they are located.

17. Trade and Other Payables

Details of "Trade and other payables" in the consolidated statements of financial position are as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Notes and accounts payable-trade	66,537	50,049
Other accounts payable	69,725	70,807
Others	109,160	114,690
Total	245,422	235,546

18. Bonds and Borrowings, and Other Financial Liabilities

(1) Breakdown of Bonds and Borrowings

Breakdown of "Bonds and borrowings" in the consolidated statements of financial position is as follows:

a. Current Liabilities

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Unsecured corporate bonds	60,000	—
Unsecured bank loans	91,523	20,000
Secured bank loans	8,802	—
Total	160,326	20,000

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Unsecured corporate bonds	80,000	80,000
Secured corporate bonds	8,600	—
Unsecured bank loans	174,689	121,000
Total	263,289	201,000

(2) Breakdown of Other Financial Liabilities

Breakdown of "Other financial liabilities" in the consolidated statements of financial position is as follows:

a. Current Liabilities

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Derivative liabilities	14,032	6,492
Finance lease obligations	1,082	1,083
Total	15,115	7,576

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Derivative liabilities	6,866	1,515
Finance lease obligations	2,140	2,556
Others	5,170	4,265
Total	14,177	8,337

(3) Terms of Bonds

Terms of bonds are as follows:

(Millions of Yen)

Company name	Name of bond	Date of issuance	As of March 31, 2014	As of March 31, 2015	Interest rate	Maturity date
Daiichi Sankyo Co., Ltd.	1st Unsecured corporate bonds	June 24, 2009	60,000	―	1.08%	June 24, 2014
Daiichi Sankyo Co., Ltd.	2nd Unsecured corporate bonds	June 24, 2009	40,000	40,000	1.78%	June 24, 2019
Daiichi Sankyo Co., Ltd.	3rd Unsecured corporate bonds	September 18, 2013	20,000	20,000	0.55%	September 18, 2020
Daiichi Sankyo Co., Ltd.	4th Unsecured corporate bonds	September 19, 2013	20,000	20,000	0.85%	September 15, 2023
Ranbaxy Laboratories Ltd.	Secured corporate bonds	November 23, 2012	8,600	―	9.20%	November 23, 2015
Total	―	―	148,600	80,000	―	―

(4) Terms of Borrowings

Terms of borrowings are as follows:

(Millions of Yen)

Category	As of March 31, 2014	As of March 31, 2015	Average interest rate	Repayment period
Short-term borrowings	67,027	―	―	―
Current portion of long-term borrowings	33,298	20,000	0.27%	―
Long-term borrowings	174,689	121,000	0.16%	Year 2016 - 2023
Total	275,015	141,000	―	―

Note:

Average interest rate is calculated using the ending balance of the borrowings and the interest rates for the year ended March 31, 2015.

(5) Collateral

Assets pledged as collateral for “Bonds and borrowings” and “Other financial liabilities” are as follows:

(Millions of Yen)

Category	As of March 31, 2014	As of March 31, 2015
Trade and other receivables	716	―
Inventories	8,802	―
Property, plant and equipment	3,912	―
Total	13,431	―

19. Provisions

(1) Movement in provisions

Details of the movement in "Provisions" in the consolidated statements of financial position by class of provision are as follows:

(Millions of Yen)

	Sales returns	Sales rebates and deductions	Restructuring	Settlement	Others	Total
Balance as of April 1, 2013	5,455	6,614	6	43,290	5,890	61,257
Increase during the period	6,135	5,937	4,759	—	6,205	23,037
Utilized	(5,656)	(7,182)	(7)	(48,884)	(1,531)	(63,262)
Reversed unused	—	—	—	—	(1,697)	(1,697)
Interest cost due to unwinding of discount	—	—	—	—	16	16
Exchange differences	417	823	256	5,594	(80)	7,012
Other increases and decreases	0	—	—	—	85	86
Balance as of March 31, 2014	6,352	6,192	5,015	—	8,889	26,450
Increase during the period	4,964	6,201	1,654	—	1,902	14,723
Utilized	(4,497)	(5,953)	(2,729)	—	(1,120)	(14,301)
Reversed unused	—	—	(73)	—	(309)	(383)
Interest cost due to unwinding of discount	—	—	—	—	9	9
Exchange differences	330	117	(71)	—	(106)	270
Decrease related to deconsolidation	(1,969)	(318)	(0)	—	(2,318)	(4,607)
Other increases and decreases	—	—	—	—	(3)	(3)
Balance as of March 31, 2015	5,179	6,240	3,794	—	6,942	22,157

(Millions of Yen)

Balance as of March 31, 2014	Sales returns	Sales rebates and deductions	Restructuring	Settlement	Others	Total
Current liabilities	6,352	6,192	4,718	—	5,439	22,702
Non-current liabilities	—	—	297	—	3,449	3,747
Total	6,352	6,192	5,015	—	8,889	26,450

(Millions of Yen)

Balance as of March 31, 2015	Sales returns	Sales rebates and deductions	Restructuring	Settlement	Others	Total
Current liabilities	5,179	6,240	3,667	—	4,356	19,444
Non-current liabilities	—	—	127	—	2,586	2,713
Total	5,179	6,240	3,794	—	6,942	22,157

(2) Summary of Provisions and Expected Timing of Economic Benefit Outflow

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

The summary of provisions recorded by the Group and the periods in which the outflow of economic benefit is expected to occur are as set out below. There were no significant asset retirement obligations at March 31, 2014 and 2015.

a. Sales Returns

Provisions for sales returns are recorded by the Company and some consolidated subsidiaries at the amount of estimated loss of sales profit and costs of disposal. These payments are expected to be made mainly within one year.

b. Sales Rebates and Deductions

Provisions for sales rebates and deductions are recorded by the Company and some consolidated subsidiaries based on historical experience to make such payments. These payments are expected to be made mainly within one year.

c. Restructuring

Provisions for restructuring are recognized at the estimated amount of losses for planned restructurings mainly in relation to reduction of the number of employees in North America and Europe.

Although the timing of payments is affected by the stages of negotiation with the employees, it is expected to be settled mainly within one year.

d. Settlement

Provision for settlement was recorded for costs of settlement in relation to a dispute with the U.S. Department of Justice relating to data submitted for the application of pharmaceutical products by Ranbaxy Laboratories Ltd.

20. Employee Benefits

The Company and domestic subsidiaries mainly adopt the Group's joint defined benefit corporate pension plan and defined contribution plan. Certain overseas components have defined benefit and defined contribution plans. The benefits of the Group's joint defined benefit pension plan are determined based on the individual's accumulated points earned by the time of retirement.

The Group may also pay additional retirement lump-sum benefits, which are not subject to actuarial calculation.

(1) Present Value of Defined Benefit Obligations

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

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2013	114,475	23,741	138,217
Current service cost	4,647	1,079	5,726
Interest cost	1,819	1,417	3,237
Benefits paid	(3,879)	(3,972)	(7,851)
Employee contributions	—	871	871
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	273	(59)	214
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	(2,328)	661	(1,666)
Past service cost	(77)	24	(52)
Curtailment and settlement	(277)	(368)	(645)
Exchange differences	—	3,134	3,134
Other increases and decreases	—	(400)	(400)
Balance as of March 31, 2014	114,654	26,130	140,784
Current service cost	4,574	510	5,085
Interest cost	2,061	487	2,548
Benefits paid	(6,661)	(629)	(7,290)
Employee contributions	—	175	175
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	(108)	(80)	(188)
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	9,167	4,743	13,910
Past service cost	—	4	4
Curtailment and settlement	—	(54)	(54)
Decrease related to deconsolidation	—	(11,061)	(11,061)
Exchange differences	—	(775)	(775)
Other increases and decreases	—	1	1
Balance as of March 31, 2015	123,687	19,452	143,139

(2) Fair Value of Plan Assets

Changes in fair value of plan assets are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2013	89,065	18,045	107,111
Interest income	1,425	1,273	2,698
Benefits paid	(3,863)	(1,576)	(5,439)
Employer contributions	17,807	1,539	19,347
Employee contributions	―	871	871
Remeasurement – Return on plan assets	10,312	112	10,425
Curtailment and Settlement	―	(44)	(44)
Exchange differences	―	2,587	2,587
Other increases and decreases	―	263	263
Balance as of March 31, 2014	114,747	23,072	137,820
Interest income	2,065	438	2,503
Benefits paid	(6,631)	(382)	(7,014)
Employer contributions	5,044	408	5,453
Employee contributions	―	175	175
Remeasurement – Return on plan assets	8,411	215	8,626
Decrease related to deconsolidation	―	(9,772)	(9,772)
Exchange differences	―	(517)	(517)
Balance as of March 31, 2015	123,637	13,638	137,276

Note:

The Group expects to contribute ¥5,082 million to defined benefit pension plans for the year ending March 31, 2016.

(3) Fair Value of Plan Assets by Class

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

(Millions of Yen)

	Plans in Japan			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2014	As of March 31, 2015	As of March 31, 2014	As of March 31, 2015
Shares	46,893	50,851	—	—
Bonds	47,744	44,546	—	—
Real estate	—	—	202	2,158
Life insurance general accounts	—	—	14,510	14,761
Others	835	3,307	4,562	8,011
Total	95,473	98,706	19,274	24,931

(Millions of Yen)

	Overseas plans			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2014	As of March 31, 2015	As of March 31, 2014	As of March 31, 2015
Shares	1,291	1,543	—	—
Bonds	8,358	584	—	—
Others	3,437	1,708	9,985	9,801
Total	13,087	3,836	9,985	9,801

(4) Asset Ceiling

Changes in the effect of asset ceiling are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 2013	—	245	245
Remeasruement – Effects of limitation to net plan assets due to asset ceiling	—	13	13
Exchange differences	—	30	30
Balance as of March 31, 2014	—	289	289
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	—	(83)	(83)
Decrease related to deconsolidation	—	(204)	(204)
Exchange differences	—	(1)	(1)
Balance as of March 31, 2015	—	—	—

(5) Breakdown of Post-employment Benefit Liabilities

Breakdown of Post-employment Benefit Liabilities in the consolidated statements of financial position is as follows:

As of March 31, 2014

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	114,654	26,130	140,784
Fair value of plan assets	(114,747)	(23,072)	(137,820)
Funding deficit (surplus)	(93)	3,057	2,963
Effects of asset ceiling	－	289	289
Post-employment benefit assets	5,183	74	5,258
Others	286	149	436
Post-employment benefit liabilities	5,376	3,570	8,947

As of March 31, 2015

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	123,687	19,452	143,139
Fair value of plan assets	(123,637)	(13,638)	(137,276)
Funding deficit (surplus)	49	5,813	5,863
Post-employment benefit assets	5,479	1	5,481
Others	284	2	287
Post-employment benefit liabilities	5,814	5,817	11,631

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

a. Significant actuarial assumptions

Significant actuarial assumptions are as follows:

As of March 31, 2014

	Plans in Japan	Overseas plans
Discount rate	1.8%	1.5%～10.1%

As of March 31, 2015

	Plans in Japan	Overseas plans
Discount rate	1.3%	0.8%～8.3%

b. Sensitivity Analysis

Effect of a 1% change in actuarial assumptions on the defined benefit obligations is as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Discount rate		
Effect on defined benefit obligations of 1% increase	(18,227)	(20,535)
Effect on defined benefit obligations of 1% decrease	22,413	25,312

c. Sensitivity Analysis Method, Assumptions and Limitations

The results of the sensitivity analysis show how a 1% increase or decrease in the discount rate would lead to a decrease or increase in the defined benefit obligations as of the reporting date. The effect of the notional discount rate is calculated as an approximation provided by the logarithmic interpolation method, which reflects a conceptual average discount period, based on the notional balances of the defined benefit obligations provided by multiple discount rates.

d. Investment Policy and Management of Plan Assets

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

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

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

e. Funding Policy and Rules Affecting Future Contributions

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

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

f. Maturity Analysis of Defined Benefit Obligations

The weighted average duration of the defined benefit obligations is 15.8 years.

(7) Defined Contribution Plans

Expenses related to defined contribution plans which are mainly employer contributions were ¥15,935 million and ¥16,280 million for the years ended March 31, 2014 and 2015, respectively.

21. Government Grants

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

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Trade and other payables	36	28
Other non-current liabilities	336	272

Note:

Government grants are received mainly to acquire property, plant and equipment. There are no conditions attached to the grants with which the Group has not complied or other contingencies.

22. Capital and Other Components of Equity

(1) Share Capital and Capital Surplus

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

a. Number of Authorized Shares

(Thousands of shares)

	Number of ordinary shares
April 1, 2013	2,800,000
March 31, 2014	2,800,000
March 31, 2015	2,800,000

b. Number of Issued Shares

(Thousands of shares)

	Number of ordinary shares
April 1, 2013	709,011
March 31, 2014	709,011
March 31, 2015	709,011

c. Details of Fully Paid Issued Shares

	Number of issued shares (Thousands of shares)	Share Capital (Millions of Yen)	Capital surplus (Millions of Yen)
April 1, 2013	709,011	50,000	105,194
March 31, 2014	709,011	50,000	105,267
March 31, 2015	709,011	50,000	105,267

Note:

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

(2) Treasury Shares

The number and amount of treasury shares are as follows:

	Number of treasury shares (Thousands of shares)	Amount (Millions of Yen)
April 1, 2013	5,063	14,460
March 31, 2014	5,051	14,408
March 31, 2015	4,983	14,198

Notes:

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

(3) Other Components of Equity

a. Subscription Rights to Shares

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

b. Exchange Differences on Translation of Foreign Operations

Exchange differences arise from translating financial statements of foreign operations.

c. Cash flow Hedges

Effective portion of the cumulative net change in fair value of cash flow hedging instruments.

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

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

e. Remeasurements of Defined Benefit Plans

Remeasurements of defined benefit liabilities and assets.

23. Dividends

(1) Amount of Dividends Paid

Year ended March 31, 2014

Resolution	Class of shares	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 21, 2013	Ordinary shares	21,118	30.0	March 31, 2013	June 24, 2013
Board of Directors' meeting held on October 31, 2013	Ordinary shares	21,118	30.0	September 30, 2013	December 2, 2013

Year ended March 31, 2015

Resolution	Class of shares	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 23, 2014	Ordinary shares	21,118	30.0	March 31, 2014	June 24, 2014
Board of Directors' meeting held on October 31, 2014	Ordinary shares	21,119	30.0	September 30, 2014	December 1, 2014

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

Year ended March 31, 2014

Resolution	Class of shares	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 23, 2014	Ordinary shares	21,118	30.0	March 31, 2014	June 24, 2014

Year ended March 31, 2015

Resolution	Class of shares	Total amount of dividends (Millions of Yen)	Dividend per share (Yen)	Record date	Effective date
General shareholders' meeting held on June 22, 2015	Ordinary shares	21,120	30.0	March 31, 2015	June 23, 2015

24. Revenue

Breakdown of "Revenue" in the consolidated financial statements of profit or loss are as follows:

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Sales of finished goods and merchandise	861,423	883,186
Others	37,702	36,185
Total	899,126	919,372

25. Major Expenses by Nature

Information related to major expenses by nature is as follows:

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Advertisement and promotional expenses	93,487	83,288
Salaries and bonuses	173,103	175,011
Statutory benefits	19,788	20,689
Post employment benefits	21,556	21,670
Other employee benefit expenses	2,061	1,919
Rent and leases	17,446	17,644
Depreciation and amortization	38,364	42,023
Gain on sale of property, plant and equipment	(15,076)	(3,350)
Loss on disposal of property, plant and equipment	2,102	2,294
Impairment loss	4,684	37,612
Restructuring costs	12,874	15,546

26. Financial Income and Financial Expenses

(1) Financial Income

Breakdown of financial income is as follows:

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Interest income		
Financial assets measured at amortized cost:		
Bank deposits	532	698
Loans receivable	20	23
Bonds	406	412
Others	1	1
Financial assets measured at fair value through profit or loss	89	91
Dividends income		
Financial assets measured at fair value through other comprehensive income:		
Dividends income from financial assets held at the end of year	1,808	1,832
Dividends income from financial assets derecognized during the year	450	129
Financial assets measured at fair value through profit or loss	22	27
Shares in associated companies	25	―
Gain on sale of financial assets		
Financial assets measured at fair value through profit or loss	2	46
Gain on fair value valuation and realized gain		
Financial assets and liabilities measured at fair value through profit or loss	567	513
Net foreign exchange gains (losses)	1,194	4,316
Others	42	1,507
Total	5,163	9,600

(2) Financial Expenses

Breakdown of financial expense is as follows:

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Interest expenses		
Financial liabilities measured at amortized cost:		
Borrowings	436	377
Bonds	1,506	1,139
Finance lease liabilities	32	30
Others	17	31
Others	473	163
Loss on sale of financial assets		
Financial assets measured at fair value through profit or loss	―	7
Loss on fair value valuation and realized gain		
Financial assets and liabilities measured at fair value through profit or loss:		
Derivatives	986	1,240
Others	0	38
Others	1,088	131
Total	4,543	3,160

27. Discontinued Operations

Ranbaxy Laboratories Ltd., which had represented the “Ranbaxy Group”, was merged into Sun Pharmaceutical Industries Ltd. on March 24, 2015, and its business is classified as a discontinued operation for the year ended March 31, 2015.

(1) Gains and Losses from Discontinued Operations

Gains and losses arising from the discontinued operations are as follows:

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Revenue	219,115	174,621
Expenses	232,291	177,795
Operating result	(13,175)	(3,174)
Income tax expenses	(740)	228
Operating results after income taxes	(12,435)	(3,403)
Gain from merger of subsidiary	—	360,232
Income tax associated with merger of subsidiary	—	81,471
Profit (loss) from discontinued operation	(12,435)	275,357
Profit (loss) from discontinued operation (attributable to owners of the Company)	(7,863)	275,646

Note:

¥15,136 million was reclassified from exchange differences on translation of foreign operations in the year ended March 31, 2015.

(2) Merger Consideration Received, and Assets and Liabilities of Discontinued Operation on the Effective Date of Merger

Breakdowns of merger consideration received, and assets and liabilities of discontinued operation on the effective date of merger are as follows:

(Millions of Yen)

	Amount
Cash and cash equivalents	33,471
Trade and other receivables	45,148
Inventories	46,370
Property, plant and equipment	63,768
Goodwill	40,427
Intangible assets	25,224
Deferred tax assets	39,017
Others	18,478
Total assets	311,906
Trade and other payables	38,153
Bonds and borrowings	130,306
Other financial liabilities	11,349
Deferred tax liabilities	9,284
Others	17,440
Total liabilities	206,534
Non-controlling interests	25,016
Exchange differences on translation of foreign operations	15,136
Others	681
Net assets	64,536
Consideration received (non-cash)	424,769

28. Earnings Per Share

(1) Basis for calculation of basic earnings per share

a. Profit Attributable to owners of the Company

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Profit attributable to owners of the Company	60,943	322,119
Profit not attributable to owners of the Company	—	—
Profit used to calculate basic earnings per share	60,943	322,119
Continuing operations	68,806	46,473
Discontinued operations	(7,863)	275,646

b. Weighted-average Number of Ordinary Shares

(Thousands of shares)

	Year ended March 31, 2014	Year ended March 31, 2015
Weighted-average number of ordinary shares (basic)	703,957	703,989

(2) Diluted Earnings per Share

a. Diluted Profit Attributable to owners of the Company

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Profit used to calculate basic earnings per share	60,943	322,119
Adjustments to profit	—	—
Profit used to calculate diluted earnings per share	60,943	322,119
Continuing operations	68,806	46,473
Discontinued operations	(7,863)	275,646

b. Weighted-average Number of Diluted Ordinary Shares

(Thousands of shares)

	Year ended March 31, 2014	Year ended March 31, 2015
Weighted-average number of ordinary shares (basic)	703,957	703,989
Effect of issue of stock acquisition rights	1,335	1,445
Weighted-average number of ordinary shares (diluted)	705,292	705,435

29. Share-based Payments

The Company operates stock option plans and some subsidiaries issue share appreciation rights as cash-settled share-based payments.

(1) Conditions of Stock Option Plans

Conditions of stock option plans are as follows:

Company name	Daiichi Sankyo Co., Ltd.	Daiichi Sankyo Co., Ltd.	Daiichi Sankyo Co., Ltd.
	Year 2007 Stock options	Year 2008 Stock options	Year 2009 Stock options
Classification of qualified personnel	Members of the board of the Company (excluding Members of the Board (outside)) Corporate Officers of the Company	Members of the board of the Company (excluding Members of the Board (outside)) Corporate Officers of the Company	Members of the board of the Company (excluding Members of the Board (outside)) Corporate Officers of the Company
Number of stock options (Note 1)	101,900 shares	172,200 shares	230,800 shares
Method of settlement	Equity-settled	Equity-settled	Equity-settled
Grant date	February 15, 2008	November 17, 2008	August 17, 2009
Exercisable period of granted options	From February 16, 2008 to February 15, 2038 (Note 2)	From November 18, 2008 to November 17, 2038 (Note 2)	From August 18, 2009 to August 17, 2039 (Note 2)
Vesting conditions	None	None	None

Company name	Daiichi Sankyo Co., Ltd.	Daiichi Sankyo Co., Ltd.	Daiichi Sankyo Co., Ltd
	Year 2010 Stock options	Year 2011 Stock options	Year 2012 Stock options
Classification of qualified personnel	Members of the board of the Company (excluding Members of the Board (outside)) Corporate Officers of the Company	Members of the board of the Company (excluding Members of the Board (outside)) Corporate Officers of the Company	Members of the board of the Company (excluding Members of the Board (outside)) Corporate Officers of the Company
Number of stock options (Note 1)	237,100 shares	232,800 shares	295,400 shares
Method of settlement	Equity-settled	Equity-settled	Equity-settled
Grant date	August 19, 2010	July 12, 2011	July 9, 2012
Exercisable period of granted options	From August 20, 2010 to August 19, 2040 (Note 2)	From July 13, 2011 to July 12, 2041 (Note 2)	From July 10, 2012 to July 9, 2042 (Note 2)
Vesting conditions	None	None	None

Company name	Daiichi Sankyo Co., Ltd	Daiichi Sankyo Co., Ltd
	Year 2013 Stock options	Year 2014 Stock options
Classification of qualified personnel	Members of the board of the Company (excluding Members of the Board (outside)) Corporate Officers of the Company	Members of the board of the Company (excluding Members of the Board (outside)) Corporate Officers of the Company
Number of stock options (Note 1)	192,800 shares	145,000 shares
Method of settlement	Equity-settled	Equity-settled
Grant date	July 8, 2013	July 8, 2014
Exercisable period of granted options	From July 9, 2013 to July 8, 2043 (Note 2)	From July 9, 2014 to July 8, 2044 (Note 2)
Vesting conditions	None	None

Notes:

1. Number of stock options is stated with the number of common stocks to be granted by exercise of the stock options.
2. Persons to whom share options are granted (hereinafter referred to as "holders of Subscription rights to shares") may exercise their Subscription rights to shares until the last day of the last fiscal year that ends within 10 years from the following day of the day when they retired from their office as Member of the Board or Corporate Officer of the Company that they held when the Subscription rights to shares were granted (if the holders of Subscription rights to shares concurrently serve as Member of the Board and Corporate Officer, the day when they retired from office means the day when they retired from the office of Member of the Board, regardless of whether they continued to hold the position of Corporate Officer; and if the holders of Subscription rights to shares served as Corporate Officer when the Subscription rights to shares were granted and if they took office as Member of the Board upon their retirement from office as Corporate Officer, the day when they retired from office means the day when they retired from office as Member of the Board, not the day when they retired from office as Corporate Officer).

(2) Share-based Payment Expenses

Breakdown of share-based payment expenses is as follows:

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Equity-settled	231	197
Cash-settled	1,944	3,292
Total	2,175	3,489

Note:

The carrying amount of the liability arising from share based payments is ¥5,016 million and ¥6,455 million at March 31, 2014 and 2015, respectively.

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

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

	Daiichi Sankyo Co., Ltd.		Ranbaxy Laboratories Ltd.	
	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Indian Rupee)
Unexercised balance as of April 1, 2013	1,212,100	1	6,527,575	350.37
Granted	192,800	1	677,155	5.00
Exercised	(29,000)	1	(931,896)	87.40
Expired	―	―	(1,706,347)	397.67
Unexercised balance as of March 31, 2014	1,375,900	1	4,566,487	335.14
Granted	145,000	1	―	―
Exercised	(81,800)	1	―	―
Expired	―	―	―	―
Unexercised balance as of March 31, 2015	1,439,100	1	―	―
Options outstanding as of March 31, 2015	1,439,100	1	―	―
Range of exercise prices	1 Yen		―	
Weighted average remaining contractual life	26.31 years		―	

Notes:

1. Presented in the number of Daiichi Sankyo's common stock shares that would be granted upon exercise of the options.
2. Ranbaxy Laboratories Ltd. was excluded from the scope of consolidation during the year ended March 31, 2015, therefore its stock option is not presented for the year ended March 31, 2015
3. Weighted average share price at the exercise date for the stock options which were exercised during the period is as follows:

	Year ended March 31, 2014	Year ended March 31, 2015
Daiichi Sankyo Co., Ltd.	1,727 Yen	1,759 Yen
Ranbaxy Laboratories Ltd.	432.80 Indian Rupee	―

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

Measurement method of stock options granted during the year ended March 31, 2014 and 2015 is as follows:

a. Valuation Method Used

Black-Scholes option pricing model

b. Major Inputs and Estimation Method

Company name	Daiichi Sankyo Co., Ltd.	Daiichi Sankyo Co., Ltd.
	Year ended March 31, 2014	Year ended March 31, 2015
	Year 2013 Stock options	Year 2014 Stock options
Fair value	1,199 Yen	1,361 Yen
Share price at grant date	1,703 Yen	1,876 Yen
Exercise price	1 Yen	1 Yen
Expected volatility	31.1% (note 1)	30.5% (note 2)
Remaining life of options	10 years (note 3)	10 years (note 3)
Expected dividends	60 Yen / share (note 4)	60 Yen / share (note 5)
Risk-free interest rate	0.90% (note 6)	0.60% (note 6)

Notes:

1. Calculated based on historical share price in the period from September 28, 2005 to July 8, 2013.
2. Calculated based on historical share price in the period from September 28, 2005 to July 8, 2014.
3. Estimated based on the assumption that the stock options will be exercised in the middle of the exercise period since historical data is not sufficiently available to support a reasonable estimate.
4. Based on historical dividends in the preceding 12 months (September 2012 and March 2013).
5. Based on historical dividends in the preceding 12 months (September 2013 and March 2014).
6. Interest rate of government bonds for the period corresponding to the expected remaining life.

30. Financial Instruments

(1) Risk Management

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

a. Credit Risk

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

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

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

The maximum exposure to credit risks at the reporting date is the carrying value of instruments stated in the consolidated statement of financial position. The Group does not hold securities as collateral.

(i) Ageing Analysis of Financial Assets that are Past Due at the End of Reporting Period and Not Impaired

Ageing Analysis of financial assets that are past due at the end of reporting period and not impaired is as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Past due by 1-30 days	6,306	3,001
Past due by 31-60 days	452	88
Past due by 61-90 days	889	9
Past due by 91-120 days	266	8
Past due by more than 120 days	1,060	175

Note: There are no assets which are held as collateral or other compensation for the above balances.

(ii) Movement in Allowance for Doubtful Accounts

The Group considers collectability of receivables based on credit conditions of the counterparties and recognizes an allowance for doubtful accounts. The movement of allowance for doubtful accounts is as follows:

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Balance at the beginning of the year	2,455	3,074
Increase during the period	952	111
Utilized	(461)	(656)
Reversed unused	(102)	(48)
Decrease related to deconsolidation	—	(2,498)
Others (including Exchange differences)	229	303
Balance at the end of the year	3,074	285

b. Foreign Currency Exchange Risks

Trade receivables, trade payables and borrowings denominated in foreign currencies, which are connected with the Company's global operation, are exposed to foreign currency exchange risks. The Company and certain consolidated subsidiaries enter into forward exchange contracts, currency options, and currency swaps to hedge the foreign currency exchange risks of those receivables, payables and borrowings by currency.

(i) Exposure to Foreign Currency Exchange Risks

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

(Thousands of U.S. dollar)

	As of March 31, 2014	As of March 31, 2015
U.S. dollar	(620,765)	67,404

(ii) Foreign Exchange Sensitivity Analysis

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

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Impact on profit before tax	638	(81)

c. Interest Rate Risks

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

(i) Exposure to Interest Rate Risk

Exposure to the interest rate risk is as follows. The amount does not include the exposure to interest rate risks that are hedged by derivatives.

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Borrowings with variable interest rates	144,218	40,000

(ii) Interest Rate Sensitivity Analysis

The impact of a 1% increase in the interest rate on profit before tax for the financial instruments held by the Group at each fiscal year-end is as follows. This analysis is based on the assumptions that other factors remain constant.

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Impact on profit before tax	(1,442)	(400)

d. Market Price Fluctuation Risk

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

A consolidated subsidiary uses share appreciation rights based on the Company's shares, which are exposed to share price fluctuation risks. The consolidated subsidiary uses individual stock options to hedge the share price fluctuation risks of the Company's shares.

e. Liquidity Risk

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

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

As of March 31, 2014

(Millions of Yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year within 2 years	Over 2 years within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Unsecured Corporate bonds	140,000	146,551	61,312	989	989	989	989	81,281
Secured Corporate bonds	8,600	9,904	791	9,113	—	—	—	—
Unsecured bank loans	266,213	270,696	93,430	35,664	23,168	6,512	30,462	81,458
Secured bank loans	8,802	8,889	8,889	—	—	—	—	—
Derivative liabilities	20,898	20,898	14,130	6,200	168	73	73	253
Total	444,514	456,941	178,553	51,968	24,327	7,574	31,524	162,993

As of March 31, 2015

(Millions of Yen)

	Carrying amount	Contractual cash flows	Within 1 year	Over 1 year Within 2 years	Over 2 years Within 3 years	Over 3 years Within 4 years	Over 4 years Within 5 years	Over 5 years
Unsecured corporate bonds	80,000	85,238	989	989	989	989	40,634	40,647
Unsecured bank loans	141,000	142,047	20,234	20,179	137	20,126	115	81,253
Derivative liabilities	8,008	9,337	6,883	385	368	368	368	963
Total	229,008	236,623	28,107	21,554	1,495	21,484	41,118	122,864

(2) Fair Value of Financial Instruments

a. Comparison between fair value and carrying amount of financial instruments

Comparison between fair value and carrying amount of financial instruments is as follows:

(Millions of Yen)

	As of March 31, 2014		As of March 31, 2015	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	148,600	152,172	80,000	83,694
Borrowings	275,015	275,053	141,000	141,036

b. Measurement of Fair Values

Measurement methods of fair values are as follows:

(i) Other Financial Assets and Other Financial Liabilities

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

(ii) Bonds

The fair value of bonds is determined by reference to the quoted market price. The bonds are categorized as Level 1 in the fair value hierarchy.

(iii) Borrowings

Fair value of borrowings with variable interest rates reflects the market rate in the short-term and therefore approximates the carrying value. Fair value of borrowings with fixed interest rates is discounted using an expected market interest rate based on the assumption that the total principal amount is newly borrowed on the same terms and conditions. The borrowings are categorized as level 3 in the fair value hierarchy.

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

(3) Fair Value Hierarchy

a. Fair Value Hierarchy

Fair value hierarchy of financial instruments is summarized as follows:

Level 1: Fair value measured at quoted prices in active markets for identical assets or liabilities

Level 2: Fair value measured using inputs other than quoted prices included in Level 1that are observable for the asset or liability, either directly or indirectly

Level 3: Fair value measured by appropriate valuation methods using inputs that are not based on observable market data

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

As of March 31, 2014

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss:				
Derivative assets	—	3,992	—	3,992
Bonds	1,000	5,416	—	6,416
Others	4,961	657	—	5,619
Financial assets measured at fair value through other comprehensive income:				
Shares	91,554	—	19,981	111,536
Others	—	—	7,566	7,566
Total	97,516	10,066	27,547	135,130
Financial liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	—	20,898	—	20,898
Total	—	20,898	—	20,898

Note:

There were no transfers of financial instruments among these levels.

As of March 31, 2015

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss:				
Bonds	1,000	2,645	—	3,645
Others	6,634	607	—	7,242
Financial assets measured at fair value through other comprehensive income:				
Shares	554,930	—	14,335	569,265
Others	—	—	6,677	6,677
Total	562,564	3,253	21,012	586,831
Financial liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	—	1.527	—	1,527
Financial liabilities measured at fair value through other comprehensive income:				
Derivative liabilities	—	6,480	—	6,480
Total	—	8,008	—	8,008

Notes:

1. There are no financial instruments transferred between level 1 and level 2.
2. The above table does not include contingent consideration arising from business combinations which is included in Note 7 “Business Combination”.

b. Reconciliation of Level 3 Fair Values

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

Year ended March 31, 2014

(Millions of Yen)

	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value though net profit or loss	Total
Balance at the beginning of the year	25,455	－	25,455
Gain	1,796	－	1,796
Purchase	940	－	940
Sale and settlement	(619)	－	(619)
Others	(25)	－	(25)
Balance at the end of the year	27,547	－	27,547

Year ended March 31, 2015

(Millions of Yen)

	Financial assets measured at fair value through other comprehensive income	Financial assets measured at fair value though net profit or loss	Total
Balance at the beginning of the year	27,547	－	27,547
Gain	(566)	－	(566)
Purchase	323	－	323
Sale and settlement	(4,748)	－	(4,748)
Transfers out of Level 3	(1,540)	－	(1,540)
Decrease related to deconsolidation	(2)	－	(2)
Balance at the end of the year	21,012	－	21,012

Notes:

1. The fair value of unlisted shares is categorized as Level 3 and measured at fair value using comparable peer company analysis and other valuation models, such as the net asset method. Since unobservable inputs, such as EBITDA, are used in these valuation models, the fair value of these shares is categorized as Level 3. To measure fair value, EBITDA ratio in the range of 5.8~24.4 is used based on the corresponding comparable peer companies. When the EBITDA ratio increases, the fair value also increases.
2. The above table does not include contingent consideration arising from business combinations which is included in Note 7 “Business Combination”.
3. Transfers out of Level 3 are due to the stock exchange listing of the shares held.

(4) Derivatives and Hedge Accounting

a. Cash Flow Hedges

The Group uses foreign exchange forward contracts to hedge movements of cash flows associated with future business transactions denominated in foreign currencies. When criteria for hedge accounting are met, they are designated as cash flow hedges. The effective portion of changes in fair value related to hedging instruments is recognized in other comprehensive income, and the ineffective portion of changes in fair value is recognized in net profit or loss. The accumulated amount recognized in equity through other comprehensive income is reclassified to net profit or loss when the hedged transaction affects net profit or loss. In the year ended March 31, 2014, ¥1,510 million was reclassified to net profit or loss. In the year ended March 31, 2015, there is no reclassification to net profit or loss.

b. Derivatives Not Designated as Hedging Instruments

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

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

- Foreign currency forward contracts to hedge the foreign currency exchange risk associated with trade receivables, trade payables and borrowings which are denominated in foreign currency;
- Currency options (zero cost options which offset call and put option premium);
- Currency swaps;
- Interest rate swaps to hedge fluctuations of interest rates for borrowings;
- Individual stock options trading to hedge the share appreciation rights to the Company's shares.

The Group does not hold derivatives for speculative purposes.

c. Fair Values of Derivatives

Fair values of derivatives are as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Derivative assets		
Currency related	3,983	—
Interest related	—	—
Share related	9	—
Total	3,992	—
Derivative liabilities		
Currency related	20,222	6,480
Interest related	675	1,527
Total	20,898	8,008

(5) Capital Management

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

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

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

31. Lease Transactions

The Group has lease contracts as lessee for certain real estate and machinery. Certain lease arrangements include renewal options and rent escalation clauses. There are no limitations arising from the lease contracts.

(1) Finance Leases

Future lease payments for finance leases are as follows:

(Millions of Yen)

	Future minimum lease payments		Present value of future minimum lease payments	
	As of March 31, 2014	As of March 31, 2015	As of March 31, 2014	As of March 31, 2015
Within 1 year	1,117	1,111	1,082	1,083
Over 1 year within 5 years	2,149	2,589	2,119	2,556
Over 5 years	21	—	21	—
Total	3,288	3,701	3,223	3,640
Less - Interest	(65)	(61)	—	—
Present value of future minimum lease payments	3,223	3,640	3,223	3,640

(2) Operating Leases

Future minimum lease payments for non-cancellable operating lease are as follows:

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Within 1 year	5,799	5,299
Over 1 year within 5 years	13,689	13,853
Over 5 years	6,620	6,815
Total	26,109	25,968

32. Related Parties

(1) Transactions with Related Parties

Transactions with related parties are on the same terms as the normal course of business.

(2) Remuneration of Key Management Personnel

(Millions of Yen)

	Year ended March 31, 2014	Year ended March 31, 2015
Remuneration and bonuses	648	558
Stock options	125	100
Total	773	658

33. Commitments

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

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Property, plant and equipment	24,954	17,753
Intangible assets	123,427	303,942
Total	148,381	321,696

34. Contingent Liabilities

The Company provides loan guarantees in relation to employees' borrowings from financial institutions as shown below. In the event that employees are unable to repay their debt, the Group will need to bear the unpaid amounts. The Maximum duration of the guarantees extends to 2032.

(Millions of Yen)

	As of March 31, 2014	As of March 31, 2015
Employees (including in relation to mortgages)	1,665	1,254

The Group estimates the possible outflow of economic benefits due to settlement under the guarantees by using all available inputs at the reporting date. Except for the item noted above, there are no contingent liabilities that have a significant impact to the operations going forward.

No provision is recognized for the above guarantees since the possibility of outflow of economic benefits is considered remote, or the provision cannot be reasonably estimated.

35. Major Consolidated Subsidiaries and Associates

Major consolidated subsidiaries and Associates as of March 31, 2015 are as follows:

Consolidated Subsidiaries

Company	Location	Function	Percentage of voting rights (%)
Daiichi Sankyo Espha Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Healthcare Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Propharma Co., Ltd.	Chuo-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Chemical Pharma Co., Ltd.	Hiratsuka, Kanagawa, Japan	Pharmaceuticals	100.0
Asubio Pharma Co.,Ltd.	Kobe, Hyogo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo RD Novare Co.,Ltd.	Edogawa-ku, Tokyo, Japan	Pharmaceuticals	100.0
Daiichi Sankyo Business Associe Co., Ltd.	Chuo-ku, Tokyo, Japan	Other	100.0
Kitasato Daiichi Sankyo Vaccine Co., Ltd.	Kitamoto, Saitama, Japan	Pharmaceuticals	51.0
Japan Vaccine Distribution Co., Ltd.	Chiyoda-ku, Tokyo, Japan	Pharmaceuticals	50.0
Daiichi Sankyo U.S. Holdings, Inc.	New Jersey, United States	Pharmaceuticals	100.0
Daiichi Sankyo Inc.	New Jersey, United States	Pharmaceuticals	100.0
Plexxikon Inc.	California, United States	Pharmaceuticals	100.0
Luitpold Pharmaceutical, Inc.	New York, United States	Pharmaceuticals	100.0
Ambit Biosciences Corp.	California, United States	Pharmaceuticals	100.0
Daiichi Sankyo Europe GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo France SAS	Ryu El Malmaison, France	Pharmaceuticals	100.0
Daiichi Sankyo Deutschland GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo Italia S.p.A.	Rome, Italy	Pharmaceuticals	100.0
Daiichi Sankyo España S.A.	Madrid, Spain	Pharmaceuticals	100.0
Daiichi Sankyo UK Ltd.	Buckinghamshire, United Kingdom	Pharmaceuticals	100.0
Daiichi Sankyo (Schweiz) AG	Tar Ville, Switzerland	Pharmaceuticals	100.0
Daiichi Sankyo Portugal, Lda.	Porto Salvo, Portugal	Pharmaceuticals	100.0
Daiichi Sankyo Austria GmbH	Vienna, Austria	Pharmaceuticals	100.0
Daiichi Sankyo Belgium N.V.-S.A.	Louvain-la-Neuve, Belgium	Pharmaceuticals	100.0
Daiichi Sankyo Nederland B.V.	Zwanenburg, Netherlands	Pharmaceuticals	100.0
Daiichi Sankyo Altkirch Sarl	Altkirch, France	Pharmaceuticals	100.0
U3 Pharma GmbH	Munich, Germany	Pharmaceuticals	100.0
Daiichi Sankyo Development Ltd.	Buckinghamshire, United Kingdom	Pharmaceuticals	100.0
Daiichi Sankyo (China) Holdings Co., Ltd.	Shanghai, China	Pharmaceuticals	100.0
Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.	Beijing, China	Pharmaceuticals	100.0
Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd.	Shanghai, China	Pharmaceuticals	100.0
Daiichi Sankyo Taiwan Ltd.	Taipei, Taiwan	Pharmaceuticals	100.0
Daiichi Sankyo Korea Co., Ltd.	Seoul, South Korea	Pharmaceuticals	100.0
Daiichi Sankyo Brasil Farmacêutica LTDA.	Sao Paulo, Brazil	Pharmaceuticals	100.0

Associates accounted for using the equity method

Company	Location	Function	Percentage of voting rights (%)
Japan Vaccine Co., Ltd.	Chiyoda-ku, Tokyo, Japan	Pharmaceuticals	50.0
Hitachi Pharma Evolutions Ltd.	Chiyoda-ku, Tokyo, Japan	Other	49.0

36. Subsequent Events

(1) Disposal of Sun Pharmaceutical Industries Ltd. Shares

The Company's Board of Directors resolved at the board meeting on April 20, 2015, to dispose of all or part of the Company's shares in Sun Pharmaceutical Industries Ltd. The transaction for sale of all of the shares was completed on April 21, 2015.

a. Rationale for Disposal of Shares

The Company received shares in Sun Pharmaceutical Industries Ltd. in exchange for the Group's shares in Ranbaxy Laboratories Ltd., which was merged into Sun Pharmaceutical Industries Ltd.
The Company has deliberated possible course of action with regard to the Sun Pharmaceutical Industries Ltd. shares and reached the conclusion to dispose of all of the shares from the perspective of increasing corporate value. While the Company loses its position as a shareholder of Sun Pharmaceutical Industries Ltd. upon the merger, the business alliance with Sun Pharmaceutical Industries Ltd. will continue.

b. Method of Sale

Sale through stock exchange of India

c. Change in shareholding due to sale

Number of shares held prior to sale	214,969,058 shares
Number of shares sold	214,969,058 shares
Number of shares held after sale	0 shares

d. Impact on Business Results and Financial Position

In the first quarter of the year ending March 31, 2016, due to the sale of ¥424,338 million in Sun Pharmaceutical Industries Ltd. shares recorded as other financial assets, a loss of ¥45,845 million is scheduled to be recorded in other comprehensive income. The sale of Sun Pharmaceutical Industries Ltd. shares is not expected to have any material impact on profit attributable to the owners of the Company in the consolidated statement of profit or loss for the year ending March 31, 2016.

(2) Purchase of Treasury Shares

The Company's Board of Directors resolved at the board meeting on May 14, 2015, to purchase the Company's own shares based on the provisions of Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to the provisions of Article 165, Paragraph 3 of the same act.

a. Reasons for Purchasing Treasury Shares

To enhance shareholder returns and capital efficiency.

b. Class of Shares to be Purchased

Ordinary shares of the Company

c. Total Number of Shares to be Purchased

28,000,000 shares (maximum)
(3.98% of issued shares (excluding existing treasury shares))

d. Total Amount of Purchasing Costs

¥50,000 million (maximum)

e. Purchasing Period

From May 15, 2015 to August 31, 2015

f. Purchasing Method

Open-market purchase on the Tokyo Stock Exchange

Independent Auditor's Report

To the Board of Directors of Daiichi Sankyo Co., Ltd.:

We have audited the accompanying consolidated financial statements of Daiichi Sankyo Co., Ltd. and its subsidiaries, which comprise the consolidated statement of financial position as at March 31, 2015, and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Daiichi Sankyo Co., Ltd. and its subsidiaries as at March 31, 2015, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 36 to the consolidated financial statements as follows:

- The Company's Board of Directors resolved at the board meeting on April 20, 2015, to dispose of all or part of the Company's shares in Sun Pharmaceutical Industries Ltd. The transaction for sale of all of the shares was completed on April 21, 2015.
- The Company's Board of Directors resolved at the board meeting on May 14, 2015, to purchase the Company's own shares based on the provisions of Article 156 of the Companies Act as applied by replacing the relevant terms pursuant to the provisions of Article 165, Paragraph 3 of the same act.

KPMG AZSA LLC

KPMG AZSA LLC
June 22, 2015
Tokyo, Japan