Consolidated Financial Statements and Independent Auditor's Report

For the year ended 31 March, 2016

Daiichi-Sankyo

Daiichi Sankyo Company, Limited

Contents

Consolidated Financial Statements

1) Consolidated Statement of Financial Position

(Millions of Yen)

	Note	As of March 31, 2015	As of March 31, 2016
ASSETS			
Current assets			
Cash and cash equivalents	8	189,372	222,159
Trade and other receivables	9	241,547	248,762
Other financial assets	10	186,457	493,768
Inventories	11	150,093	144,273
Other current assets		14,697	15,233
Subtotal		782,168	1,124,196
Assets held for sale	12	3,165	1,071
Total current assets		785,334	1,125,268
Non-current assets			
Property, plant and equipment	6,13	266,491	250,168
Goodwill	6,14	71,366	78,691
Intangible assets	6,14	199,411	210,395
Investments accounted for using the equity method	15	1,347	1,207
Other financial assets	10	593,944	168,189
Deferred tax assets	16	45,330	55,726
Other non-current assets		19,059	10,875
Total non-current assets		1,196,951	775,254
Total assets		1,982,286	1,900,522

(Millions of Yen)

	Note	As of March 31, 2015	As of March 31, 2016
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	17,21	235,546	241,831
Bonds and borrowings	18,30	20,000	20,000
Other financial liabilities	18	7,576	819
Income taxes payable		7,767	53,936
Provisions	19	19,444	28,335
Other current liabilities		6,735	34,770
Subtotal		297,070	379,694
Liabilities directly associated with assets held for sale	12	426	-
Total current liabilities		297,496	379,694
Non-current liabilities			
Bonds and borrowings	18,30	201,000	181,000
Other financial liabilities	18	8,337	9,148
Post-employment benefit liabilities	20	11,631	14,028
Provisions	19	2,713	12,287
Deferred tax liabilities	16	88,357	33,679
Other non-current liabilities	21	65,707	37,161
Total non-current liabilities		377,747	287,306
Total liabilities		675,244	667,000
Equity			
Equity attributable to owners of the Company			
Share capital	22	50,000	50,000
Capital surplus	22	105,267	103,927
Treasury shares	22	(14,198)	(64,155)
Other components of equity	22	169,034	146,717
Retained earnings		993,953	994,916
Total equity attributable to owners of the Company		1,304,057	1,231,406
Non-controlling interests			
Non-controlling interests		2,984	2,115
Total equity		1,307,041	1,233,521
Total liabilities and equity		1,982,286	1,900,522

2) Consolidated Statement of Profit or Loss

(Millions of Yen)

	Note	Year ended March 31, 2015	Year ended March 31, 2016
Revenue	6,24	919,372	986,446
Cost of sales	25	323,087	318,622
Gross profit		596,284	667,823
Selling, general and administrative expenses	25	331,195	328,755
Research and development expenses	25	190,666	208,656
Operating profit		74,422	130,412
Financial income	26	9,600	5,292
Financial expenses	26	3,160	13,028
Share of loss of investments accounted for using the equity method	15	925	287
Profit before tax		79,936	122,388
Income taxes	16	36,370	41,988
Profit from continuing operations		43,566	80,399
Profit from discontinued operations	27	275,357	-
Profit for the year		318,923	80,399
Profit attributable to:			
Owners of the Company		322,119	82,282
Non-controlling interests		(3,195)	(1,883)
Profit for the year		318,923	80,399
Earnings per share	28		
Basic earnings per share (Yen)		457.56	119.37
Continuing operations		66.01	119.37
Discontinued operations		391.55	-
Diluted earnings per share (Yen)		456.62	119.11
Continuing operations		65.88	119.11
Discontinued operations		390.75	-

3) Consolidated Statement of Comprehensive Income

(Millions of Yen)

	Note	Year ended March 31, 2015	Year ended March 31, 2016
Profit for the year		318,923	80,399
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Financial assets measured at fair value through other comprehensive income	16	26,694	(18,942)
Remeasurements of defined benefit plans	16	(4,293)	(5,397)
Items that may be reclassified subsequently to profit or loss			
Exchange differences on translation of foreign operations	16,32	29,131	(31,088)
Cash flow hedges	16,30,32	(4,347)	-
Share of other comprehensive income of investments accounted for using the equity method	16,32	66	(11)
Other comprehensive income for the year		47,252	(55,439)
Total comprehensive income for the year		366,176	24,959
Total comprehensive income attributable to:			
Owners of the Company		366,201	26,961
Non-controlling interests		(24)	(2,001)
Total comprehensive income for the year		366,176	24,959

4) Consolidated Statement of Changes in Equity

(Millions of Yen)

		Equity attributable to owners of the Company						
					Other components of equity			
	Note	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, 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
Profit for the year		-	-	-	-	-	-	-
Other comprehensive income for the year		-	-	-	-	(31,001)	-	(18,942)
Total comprehensive income for the year		-	-	-	-	(31,001)	-	(18,942)
Purchase of treasury shares		-	(201)	(50,037)	-	-	-	-
Cancellation of treasury shares		-	-	80	(45)	-	-	-
Share-based payments	29	-	-	-	220	-	-	-
Dividends	23	-	-	-	-	-	-	-
Acquisition of non-controlling interests		-	(1,138)	-	-	-	-	-
Transfer from other components of equity to retained earnings		-	-	-	-	(6)	4,347	23,109
Others		-	-	-	-	-	-	-
Total transactions with owners of the Company		-	(1,339)	(49,957)	175	(6)	4,347	23,109
Balance as of March 31, 2016		50,000	103,927	(64,155)	1,935	75,195	-	69,586

(Millions of Yen)

	Note	Equity attributable to owners of the Company: Other components of equity: Remeasurements 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, 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
Profit for the year		-	-	82,282	82,282	(1,883)	80,399
Other comprehensive income for the year		(5,378)	(55,321)	-	(55,321)	(118)	(55,439)
Total comprehensive income for the year		(5,378)	(55,321)	82,282	26,961	(2,001)	24,959
Purchase of treasury shares		-	-	-	(50,239)	-	(50,239)
Cancellation of treasury shares		-	(45)	(34)	0	-	0
Share-based payments	29	-	220	-	220	-	220
Dividends	23	-	-	(48,456)	(48,456)	-	(48,456)
Acquisition of non-controlling interests		-	-	-	(1,138)	1,138	-
Transfer from other components of equity to retained earnings		5,378	32,828	(32,828)	-	-	-
Others		-	-	-	-	(5)	(5)
Total transactions with owners of the Company		5,378	33,004	(81,320)	(99,613)	1,133	(98,479)
Balance as of March 31, 2016		-	146,717	994,916	1,231,406	2,115	1,233,521

5) Consolidated Statement of Cash Flows

(Millions of Yen)

	Note	Year ended March 31, 2015	Year ended March 31, 2016
Cash flows from operating activities			
Profit before tax from continuing operations		79,936	122,388
Depreciation and amortization		42,023	44,306
Impairment loss		37,612	4,730
Financial income		(9,600)	(5,292)
Financial expenses		3,160	13,028
Share of (profit) loss of investments accounted for using the equity method		925	287
(Gain) loss on sale and disposal of fixed assets		(1,056)	(7,739)
(Increase) decrease in trade and other receivables		(966)	(15,121)
(Increase) decrease in inventories		(237)	972
Increase (decrease) in trade and other payables		3,661	33,083
Others, net		(1,769)	18,875
Subtotal		153,688	209,519
Interest and dividends received		3,468	3,603
Interest paid		(1,732)	(1,397)
Income taxes paid		(21,874)	(37,443)
Cash flows from operating activities of discontinued operations		9,227	-
Net cash flows from operating activities		142,776	174,281
Cash flows from investing activities			
Payments into time deposits		(64,511)	(674,891)
Proceeds from maturities in time deposits		72,915	419,899
Acquisition of securities		(259,142)	(303,023)
Proceeds from sale of securities		390,984	618,423
Settlement of forward foreign exchange contract for sale of securities		-	(7,024)
Acquisition of property, plant and equipment		(38,500)	(27,136)
Proceeds from sale of property, plant and equipment		453	5,546
Acquisition of intangible assets		(56,130)	(42,261)
Acquisition of subsidiary	7	(33,476)	(11,771)
Proceeds from sale of subsidiary		-	7,004
Payments for loans receivable		(1,728)	(1,616)
Proceeds from collection of loans receivable		1,489	1,913
Others, net		3,080	8,971
Cash flows from investing activities of discontinued operations		(36,712)	-
Net cash flows from investing activities		(21,278)	(5,967)
Cash flows from financing activities			
Proceeds from bonds and borrowings		0	0
Repayments of bonds and borrowings		(90,000)	(22,976)
Purchase of treasury shares		(25)	(50,239)
Proceeds from sale of treasury shares		0	0
Dividends paid		(42,254)	(48,468)
Others, net		(906)	(1,247)
Cash flows from financing activities of discontinued operations		984	-
Net cash flows from financing activities		(132,200)	(122,930)
Net increase (decrease) in cash and cash equivalents		(10,701)	45,383
Cash and cash equivalents at the beginning of the year	8	183,070	189,372
Effect of exchange rate changes on cash and cash equivalents		17,003	(12,596)
Cash and cash equivalents at the end of the year	8	189,372	222,159

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 61 companies including the Company, 58 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, 2016 were approved on June 20, 2016 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 the Group meets the criteria of a "Specified Entity" defined under Article 1-2 of this ordinance.

(2) Basis of Measurement

The Group's consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments and other items as described in Note 3 "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, 2016, the Group adopted the following accounting standards and interpretations in accordance with their effective date. These new standards and interpretations have not had a significant impact on the Group's consolidated financial statements.

IFRS		Overview
IAS 19	Employee Benefits	Simplifying accounting for contributions from employees or third parties not based on the number of years of service

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. The Group controls an entity if the Group has power over the entity, exposure, or rights, to variable returns from its involvement with the entity and the ability to use its power over the entity to affect the amount of its returns. Consolidation of a subsidiary begins from the date the Group obtains control of the subsidiary and 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 intra-group balances and transactions, and any unrealized gains and losses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements.

b. Associates

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

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

When significant influence over an associate is lost, and if there is still remaining ownership interest, the remaining equity interest is measured at fair value. The difference between the fair value and the carrying value at the date on which the equity method is discontinued, is recognized in 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 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 translated into the functional currency using the exchange rates at the dates of the transactions. Foreign currency monetary assets and liabilities are translated into the functional currency using the exchange rates at the end of the reporting period and the exchange differences arising on the settlement of monetary items or on translating monetary items are generally recognized in profit or loss. However, exchange differences arising from the translation of financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

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

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

(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 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 are transferred in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred to another entity.

b. Impairment of Financial Assets

At the end of each reporting period, financial assets measured at amortized cost are assessed to determine whether there is any objective evidence of impairment. Objective evidence that financial assets measured at amortized cost are impaired includes significant financial difficulty of the debtor or a group of debtors, a default or delinquency in interest or principal payments, and bankruptcy of the debtor.

The Group assesses 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 are measured at fair value through profit or loss.

iii) Derecognition

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

d. Offsetting Financial Assets and Liabilities

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

e. Derivatives and Hedge Accounting

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

For derivatives designated as hedging instruments, at the inception of a hedge, the Group formally designates and documents the relationship between the hedging instrument and hedged item, and the risk management objective and strategy for undertaking the hedge are established.

On an ongoing basis, is the Group assesses 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 the criteria for hedge accounting are accounted for as follows:

i) Fair value hedges

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

ii) Cash flow hedges

The effective portion of changes in fair value of hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss. The cumulative amounts of changes in fair value of hedging instruments recognized in other comprehensive income as equity are reclassified to profit or loss in the same period or periods when the hedged forecast cash flows or hedged items affect profit or loss. If hedged items result in the recognition of non-financial assets or non-financial liabilities, the cumulative amounts recognized in other comprehensive income as equity are accounted for as adjustments in the carrying amount of the non-financial assets or non-financial liabilities. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income 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 are 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: 15 to 50 years
- Machinery and vehicles: 4 to 8 years

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

(8) Goodwill and Intangible Assets

a. Goodwill

Goodwill is measured at cost less accumulated impairment loss and is not amortized. Goodwill arising from a business combination is allocated to cash-generating units 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:

- Commercial rights: 5 to 14 years

The amortization 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 it is 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

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

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

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

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

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

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

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

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

(12) Employee Benefits

a. Post-employment Benefits

i) Defined benefit plans

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

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

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

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

ii) Defined contribution plans

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

b. Others

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

(13) Provisions

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

When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. The present value is determined by using 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 recognized as a deduction from equity. No gain or loss is recognized on the purchase, sale or cancellation of the treasury shares. Any difference between the carrying amount and the consideration paid is recognized in capital surplus.

(15) Share-based Payments

The Company and certain of its subsidiaries 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-Scholes option pricing 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 finished goods and merchandise

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 are recognized in net profit or loss on a systematic basis over the period in which the Group recognizes the corresponding expenses.

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

(18) Income Taxes

Income taxes comprise current and deferred income taxes.

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

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

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

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

Deferred tax assets and liabilities are not recognized for temporary differences that arise from the initial recognition of goodwill or that arise from the initial recognition of assets or liabilities in transactions which are not business combinations and, 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 the temporary differences can be utilized.

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

4. Significant Accounting Judgments, Estimates and Assumptions

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

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

- Impairment of non-financial assets (Note 13. Property, Plant and Equipment, Note 14. Goodwill and Intangible Assets)
- Useful lives of intangible assets (Note 14. Goodwill and Intangible Assets)
- Recoverability of deferred tax assets and uncertain tax positions (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 35. Contingent Liabilities)

5. Standards and Interpretations Issued but Not Yet Adopted

The major new and revised standards and interpretations 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.

IFRS		Mandatory application (from years beginning)	To be applied by the Group (year ending)	Overview
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	-	-	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			
IAS 7	Statement of Cash Flows	January 1, 2017	March 2018	Amendment to disclosure requirements for changes in liabilities arising from financing activities
IAS 12	Income Taxes	January 1, 2017	March 2018	Amendment to clarify the recognition of deferred tax assets for unrealized losses
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
IFRS 15	Revenue from Contracts with Customers	January 1, 2018	March 2019	Amendment to accounting for revenue recognition
IFRS 16	Leases	January 1, 2019	March 2020	Amendment to accounting for leases

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 year ended March 31, 2015 was ¥9,413 million and capital expenditure relating to the discontinued operation in the year ended March 31, 2015 was ¥5,454 million.

(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, 2015		Year ended March 31, 2016		Increase / (decrease)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Prescription drugs	868,779	94.5	930,323	94.3	61,544	7.1
Healthcare (OTC) products	47,822	5.2	53,365	5.4	5,543	11.6
Others	2,770	0.3	2,756	0.3	(13)	(0.5)
Total	919,372	100.0	986,446	100.0	67,074	7.3

(3) Information by geographical area

As of and for the year ended March 31, 2015

(Millions of Yen)

	Japan	North America	Europe	Other regions	Consolidated
Revenue from external customers (note 1)	526,980	236,629	85,147	70,614	919,372
Non-current assets (note 2, 3)	290,349	212,121	22,751	12,048	537,270

As of and for the year ended March 31, 2016

(Millions of Yen)

	Japan	North America	Europe	Other regions	Consolidated
Revenue from external customers (note 1)	555,770	279,748	78,472	72,455	986,446
Non-current assets (note 2)	322,849	189,236	18,248	8,920	539,256

Notes:

1. Revenue from continuing operations is classified according to the geographical location of customers.
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.
3. Non-current assets for the continuing business of North America, Europe, and Other regions presented in the consolidated financial statements as of and for the year ended March 31, 2015 contained errors, and the restated amounts for the prior period presented are as follows.

(Millions of Yen)

	Japan	North America	Europe	Other regions	Consolidated
Amounts originally reported	290,349	160,360	74,139	12,420	537,270
Correction	-	51,760	(51,388)	(372)	-
Restated amount	290,349	212,121	22,751	12,048	537,270

(4) Information on major customers

External customers that account for more than 10% of the net sales reported on the Consolidated Statements of Profit or Loss are as follows.

(Millions of Yen)

Name of customer	Year ended March 31, 2015	Year ended March 31, 2016
Alfresa Holdings Corporation and its group companies	172,251	182,593
McKesson Corporation	138,514	164,957
Cardinal Health, Inc.	91,523	121,245

7. Business Combination

(1) Significant business combination

Year ended March 31, 2015

Acquisition of Ambit Biosciences Corporation

a. Summary of Business Combination

i) 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

ii) Reason for the Business Combination

Ambit Biosciences Corporation is a biopharmaceutical venture company involved in 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 the oncology field, and this acquisition will enforce the Company’s portfolio in that area.

iii) Date of Acquisition

November 10, 2014, Eastern time in the United States

iv) Process of Obtaining Control of the Acquiree and Acquired Ownership Interest

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

b. 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

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 physical 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 were ¥187 million which are reported in “Selling, general and administrative expenses.”

c. 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 was 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.

d. 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	33,476

Year ended March 31, 2016

There were no significant business combinations for the year ended March 31, 2016.

(2) Contingent consideration

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 ¥10,739 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:

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Balance at the beginning of the year	-	2,971
Increase arising from business combination	2,826	-
Changes in fair value during the period	-	75
Settled during the period	-	-
Exchange differences	145	(187)
Balance at the end of the year	2,971	2,859

8. Cash and Cash Equivalents

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

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Cash and bank deposits	97,894	102,584
Short-term investments	91,477	119,574
Total	189,372	222,159

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, 2015	As of March 31, 2016
Notes and accounts receivable - trade	218,463	228,982
Other receivables	23,367	20,141
Allowance for doubtful accounts	(282)	(361)
Total	241,547	248,762

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, 2015	As of March 31, 2016
Financial assets measured at amortized cost:		
Bank deposits	85,191	200,674
Loans receivable	1,121	918
Bonds	97,911	149,286
Others	359	275
Financial assets measured at fair value through profit or loss:		
Bonds	1,873	6,305
Others	-	136,307
Total	186,457	493,768

Note:

“Others” in “Financial assets measured at fair value through profit or loss” as of March 31, 2016 are foreign-currency bank deposits embedding forward foreign exchange contracts.

b. Non-current Assets

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Financial assets measured at amortized cost:		
Loans receivable	2,063	1,778
Bonds	-	10
Others	6,922	7,485
Financial assets measured at fair value through profit or loss:		
Bonds	1,772	1,530
Others	7,242	6,544
Financial assets measured at fair value through other comprehensive income:		
Equity securities	569,265	146,920
Others	6,677	3,918
Total	593,944	168,189

(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)

Equity Securities	Fair Value	
	As of March 31, 2015	As of March 31, 2016
Ono Pharmaceutical Co., Ltd.	18,984	33,307
Santen Pharmaceutical Co., Ltd.	16,065	15,541
Shizuoka Bank, Ltd.	11,211	7,586
Alfresa Holdings Corporation	5,427	6,913
Others	524,254	87,490

Notes:

1. Equity securities are held to reinforce transactions and business relationships. These securities are designated as financial assets measured at fair value through other comprehensive income.
2. “Others” at March 31, 2015 includes securities of Ranbaxy Laboratories Ltd. of ¥424,338 million.

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

In the years ended March 31, 2015 and 2016, 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, 2015		Year ended March 31, 2016	
	Fair value	Accumulated gains (losses)	Fair value	Accumulated gains (losses)
Equity securities	4,897	1,790	380,594	(45,003)
Others	374	-	959	(3,006)

Notes:

1. 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.
2. In the year ended March 31, 2016, the Group sold all of its shares in Sun Pharmaceutical Industries Ltd. to further increase its corporate value. The fair value at the time of sale and the accumulated loss (recognized in other comprehensive income) are ¥378,493 million and ¥46,276 million (before consideration of tax effect), respectively.

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, 2015	As of March 31, 2016
Merchandise and finished goods	108,750	99,977
Work in process	15,253	17,706
Raw materials	26,089	26,588
Total	150,093	144,273

(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, 2015	Year ended March 31, 2016
Write-down of inventories	3,506	2,918

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, 2015	As of March 31, 2016
Assets held for sale		
Inventories	421	-
Other current assets	2	-
Property, plant and equipment	2,480	1,071
Deferred tax assets	260	-
Total	3,165	1,071
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 mainly related to the property, plant and equipment of the Group's Akita manufacturing facility. The said assets and directly associated liabilities were transferred to Alfresa Pharma Corporation in the year ended March 31, 2016. The assets held for sale as of March 31, 2016 include some of the Group's property, plant and equipment at manufacturing facilities.

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, 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
Individual acquisitions	12,453	15,191	5,288	21,939	54,872
Acquisitions through business combinations	5,930	91	158	-	6,180
Sales or disposals	(14,606)	(15,203)	(6,141)	-	(35,952)
Reclassification to assets held for sale	(1,629)	(1,274)	(51)	(236)	(3,191)
Exchange differences	(1,989)	(2,554)	(1,652)	(2,572)	(8,767)
Other increases and decreases	29	(169)	(654)	(29,959)	(30,754)
Balance as of March 31, 2016	326,908	224,351	95,663	29,180	676,103

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, 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
Depreciation	9,155	11,506	7,026	-	27,688
Impairment loss	1,101	1,157	242	-	2,502
Acquisitions through business combinations	4,201	89	135	-	4,426
Sales or disposals	(9,777)	(13,272)	(5,981)	-	(29,031)
Reclassification to assets held for sale	(1,208)	(1,170)	(36)	-	(2,415)
Exchange differences	(1,019)	(1,646)	(1,521)	-	(4,187)
Other increases and decreases	250	(91)	(430)	-	(271)
Balance as of March 31, 2016	175,397	169,650	80,886	-	425,934

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, 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
Balance as of March 31, 2016	151,510	54,701	14,776	29,180	250,168

Note:
Depreciation of property, plant and equipment is included in “Cost of sales,” “Selling, general and administrative expenses,” “Research and development expenses,” and “Profit 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 tests, an impairment loss of ¥1,951 million in the year ended March 31, 2015 and ¥2,502 million in the year ended March 31, 2016 were recognized and included in “Cost of sales,” “Selling, general and administrative expenses,” and “Research and development expenses” in the consolidated statements of profit or loss.

(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, 2014	298	2,767	65	3,131
Balance as of March 31, 2015	131	3,475	25	3,632
Balance as of March 31, 2016	183	2,475	13	2,671

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, 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
Individual acquisitions	-	25,896	8,669	1,632	36,199
Acquisitions through business combinations	11,117	-	1,816	205	2,021
Sales or disposals	-	-	(2,193)	(599)	(2,792)
Reclassification to assets held for sale	-	-	-	(668)	(668)
Exchange differences	(3,792)	(3,822)	(9,656)	(1,013)	(14,492)
Other increases and decreases	-	(773)	3,745	318	3,290
Balance as of March 31, 2016	78,691	110,986	246,367	25,001	382,355

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, 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
Amortization	-	-	13,089	3,193	16,282
Impairment loss	-	-	1,908	319	2,228
Acquisitions through business combinations	-	-	30	119	150
Sales or disposals	-	-	(2,193)	(578)	(2,771)
Reclassification to assets held for sale	-	-	-	(304)	(304)
Exchange differences	-	-	(5,891)	(922)	(6,814)
Other increases and decreases	-	-	2,972	831	3,803
Balance as of March 31, 2016	-	-	153,018	18,941	171,959

c. Carrying amounts

(Millions of Yen)

	Goodwill	Intangible Assets			
		Research and development	Commercial rights and trade marks	Software	Total
Balance as of April 1, 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
Balance as of March 31, 2016	78,691	110,986	93,349	6,059	210,395

Note:

Amortization expenses of intangible assets are included in “Cost of sales,” “Selling, general and administrative expenses,” “Research and development expenses,” and “Profit 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 position at March 31, 2015 and 2016 included amounts related to the acquisition of Plexxikon Inc. of ¥35,216 million and ¥32,996 million, respectively, and amounts related to the acquisition of Ambit Biosciences Corporation of ¥20,699 million and ¥19,395million, respectively.

The carrying amount of intangible assets mainly consist of:

- commercial rights of Zelboraf owned by Plexxikon Inc. of ¥33,634 million and ¥29,290 million at March 31, 2015 and 2016, respectively, which are amortized based on the straight-line method over a period of 13 years;
- commercial rights of MOVANTIK owned by Daiichi Sankyo Inc. of ¥24,054 million and ¥20,746 million at March 31, 2015 and 2016, respectively, which are amortized based on the straight-line method over a period of 12 years;
- in-process research and development of Pexidartinib owned by Plexxikon Inc. of ¥29,670 million and ¥27,800 million at March 31, 2015 and 2016, respectively; and
- in-process research and development of Quizartinib owned by Ambit Biosciences Corporation of ¥30,987 million and ¥29,034 million at March 31, 2015 and 2016, respectively.

(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 is ¥190,666 million and ¥208,656 million for the years ended March 31, 2015 and 2016, 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, 2015	As of March 31, 2016
Domestic pharmaceutical operations	11,191	22,309
Overseas pharmaceutical operations	60,175	56,382
Total	71,366	78,691

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

a. Plexxikon Inc. (Overseas pharmaceutical operations)

The recoverable amount was estimated based on value in use using the mid-term business plan through 2020, which was approved by management, and the valuation includes a terminal value after 2020.

The value in use was calculated using a pre-tax discount rate of 15.69% to 16.16% and exceeded the carrying amount, therefore no impairment loss was recognized at March 31, 2016. The value in use exceeds the carrying amount, and the Group determined that the possibility of the value in use becoming lower than the carrying amount is remote, even if the discount rate were to increase within a reasonable range.

b. Ambit Biosciences Corporation (Overseas pharmaceutical operations)

The recoverable amount was estimated based on value in use using the mid-term business plan through 2020, which was approved by management, and the valuation includes a terminal value after 2020.

The value in use was calculated using a pre-tax discount rate of 10.93% to 15.56% and exceeded the carrying amount, therefore no impairment loss was recognized at March 31, 2016. The value in use exceed the carrying amount, and the Group determined that the possibility of the value in use becoming lower than the carrying amount is remote, even if the discount rate were to increase within a reasonable range.

(5) Impairment of Intangible Assets

The Group performs 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 ¥35,488 million for the year ended March 31, 2015 and ¥2,228 million for the year ended March 31, 2016 were recognized and included in “Cost of sales,” “Selling, general and administrative expenses,” and “Research and development expenses” in the consolidated statements of profit or loss.

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

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

The impairment loss for the year ended March 31, 2016 mainly relates to commercial rights and trademarks of overseas subsidiaries, which was recognized as indicator of impairment, including decline in profitability, was identified.

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, 2015	As of March 31, 2016
Current assets	9,323	10,636
Non-current assets	1,101	1,014
Total assets	10,424	11,651
Current liabilities	7,145	8,628
Non-current liabilities	553	575
Total liabilities	7,698	9,204
Total equity	2,726	2,447

(2) Statements of Profit or Loss

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Revenue	33,715	36,321
Expenses	35,438	36,552
Loss for the year	(1,723)	(230)

16. Income Taxes

(1) Deferred Tax Assets and Liabilities

Sources of deferred tax assets and liabilities are as follows:

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
Unused tax losses	50,164	(6,951)	426	(19,032)	24,606
Accrued expenses	21,292	(3,734)	-	61	17,619
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
Impairment loss	731	14,608	-	-	15,340
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.

Year ended March 31, 2016

(Millions of Yen)

	Balance as of April 1, 2015	Recognized in net profit or loss	Recognized in other comprehensive income	Others	Balance as of March 31, 2016
Deferred tax assets					
Prepaid outsourced research expenses and co-development expenses	14,378	1,119	-	-	15,498
Depreciation and amortization	7,625	(3,401)	-	0	4,224
Unrealized gain and valuation loss of inventories	23,473	(4,110)	-	-	19,363
Unused tax losses	24,606	(9,836)	(13,974)	168	963
Accrued expenses	17,619	2,472	-	8	20,100
Post-employment benefit liabilities	5,694	476	2,737	11	8,920
Valuation loss of securities	2,557	809	(1,044)	-	2,322
Impairment loss	15,340	(14,714)	-	-	625
Others	25,216	4,758	-	(1,986)	27,988
Total	136,512	(22,426)	(12,282)	(1,797)	100,006
Deferred tax liabilities					
Intangible assets	52,327	(17,914)	-	-	34,413
Financial assets measured at fair value through other comprehensive income	32,190	-	(530)	-	31,659
Reserve for advanced depreciation of property, plant and equipment	11,094	(1,966)	-	-	9,127
Gains arising from loss of control of a consolidated subsidiary	81,471	-	(81,471)	-	-
Others	2,455	388	(84)	-	2,759
Total	179,539	(19,493)	(82,087)	-	77,959
Net balance	(43,027)	(2,933)	69,804	(1,797)	22,046

Notes:

1. 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.
2. The Group recognized current and deferred tax assets and liabilities based on the most probable of outcomes related to uncertain tax positions. The amounts exposed to uncertainties (possibilities of favorable settlement) at March 31, 2016 are income taxes payable of ¥51,520 million and deferred tax of ¥65,470 million.

(2) Unrecognized Deferred Tax Assets

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

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Deductible temporary differences	108,261	51,768
Unused tax losses		
Within 1 year	2,075	384
Over 1 year within 5 years	3,409	26,775
Over 5 years	42,136	38,880
Total	47,622	66,040
Unused tax credits		
Within 1 year	-	-
Over 1 year within 5 years	-	-
Over 5 years	589	640
Total	589	640

(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 ¥150,389 million and ¥86,273 million at March 31, 2015 and 2016, 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, 2015	Year ended March 31, 2016
Current period income taxes	38,431	40,055
Deferred income taxes		
Origination and reversal of temporary differences	(10,204)	1,481
Change in income tax rate or imposition of new taxation	4,230	1,701
Adjustments and reversal of deferred tax assets	3,912	(1,249)
Total	(2,061)	1,933
Total income tax expenses	36,370	41,988

Note:

Income tax expenses related to discontinued operations is ¥81,700 million in the year ended March 31, 2015.

(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, 2015			Year ended March 31, 2016		
	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	36,546	(9,851)	26,694	(44,121)	25,179	(18,942)
Remeasurements of defined benefit plans	(5,011)	718	(4,293)	(8,200)	2,803	(5,397)
Exchange differences on translation of foreign operations	29,144	(12)	29,131	(31,088)	-	(31,088)
Cash flow hedges	(6,480)	2,132	(4,347)	-	-	-
Share of other comprehensive income of investments accounted for using the equity method	66	-	66	(11)	-	(11)
Total	54,265	(7,013)	47,252	(83,422)	27,982	(55,439)

(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, 2015	Year ended March 31, 2016
Statutory tax rate	35.5%	32.9%
Permanent non-deductible expenses such as entertainment expenses	5.5%	2.4%
Permanent non-taxable income such as dividends received	(1.6%)	(1.8%)
Changes in unrecognized deferred tax assets	4.9%	(1.0%)
Effect of different tax rates in foreign jurisdictions	(2.5%)	0.5%
Tax credit for research and development expenses	(2.9%)	(2.3%)
Adjustment to period-end deferred tax assets due to change in tax rate	5.3%	1.4%
Others	1.3%	2.2%
Effective tax rate	45.5%	34.3%

Note:

The Company is subject to corporate tax, inhabitant tax, and enterprise tax, which is tax deductible against taxable income for corporate tax purposes when paid. The applicable tax rate based on these taxes are 35.5% and 32.9% for the years ended March 31, 2015 and 2016, respectively. At March 31 2015, the statutory tax rates used for the calculation of deferred tax assets and liabilities are 32.9% for temporary differences expected to reverse from April 1, 2015 to March 31, 2016 and 32.1% for temporary differences expected to reverse after April 1,2016 . At March 31, 2016, the statutory tax rates used for the calculation of deferred tax assets and liabilities are 30.7% for temporary differences expected to reverse from April 1, 2016 to March 31, 2018, and 30.5% for temporary differences expected to reverse after April 1, 2018. 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, 2015	As of March 31, 2016
Notes and accounts payable-trade	50,049	50,972
Other accounts payable	70,807	58,385
Others	114,690	132,473
Total	235,546	241,831

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, 2015	As of March 31, 2016
Unsecured bank loans	20,000	20,000
Total	20,000	20,000

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Unsecured corporate bonds	80,000	80,000
Unsecured bank loans	121,000	101,000
Total	201,000	181,000

(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, 2015	As of March 31, 2016
Derivative liabilities	6,492	34
Finance lease obligations	1,083	785
Total	7,576	819

b. Non-current Liabilities

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Derivative liabilities	1,515	2,862
Finance lease obligations	2,556	1,832
Others	4,265	4,453
Total	8,337	9,148

(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, 2015	As of March 31, 2016	Interest rate	Maturity date
Daiichi Sankyo Company Limited	2nd Unsecured corporate bonds	June 24, 2009	40,000	40,000	1.78%	June 24, 2019
Daiichi Sankyo Company Limited	3rd Unsecured corporate bonds	September 18, 2013	20,000	20,000	0.55%	September 18, 2020
Daiichi Sankyo Company Limited	4th Unsecured corporate bonds	September 19, 2013	20,000	20,000	0.85%	September 15, 2023
Total	-	-	80,000	80,000	-	-

(4) Terms of Borrowings

Terms of borrowings are as follows:

(Millions of Yen)

Category	As of March 31, 2015	As of March 31, 2016	Average interest rate	Repayment period
Current portion of long-term borrowings	20,000	20,000	0.21%	-
Long-term borrowings	121,000	101,000	0.03%	Year 2018 to 2023
Total	141,000	121,000	-	-

Note:

Average interest rate is calculated using the ending balance of the borrowings and the interest rates for the year ended March 31, 2016.

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:

Year ended March 31, 2015

(Millions of Yen)

	Sales returns	Sales rebates and deductions	Restructuring	Others	Total
Balance as of April 1, 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
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

Year ended March 31, 2016

(Millions of Yen)

	Sales returns	Sales rebates and deductions	Restructuring	Others	Total
Balance as of April 1, 2015	5,179	6,240	3,794	6,942	22,157
Increase during the period	5,970	9,059	20,656	1,528	37,215
Utilized	(5,179)	(6,282)	(1,997)	(1,747)	(15,206)
Reversed unused	-	-	(774)	(878)	(1,653)
Interest cost due to unwinding of discount	-	-	-	14	14
Exchange differences	(202)	(357)	(1,144)	(142)	(1,847)
Other increases and decreases	-	-	8	(65)	(56)
Balance as of March 31, 2016	5,767	8,659	20,543	5,651	40,623
Current liabilities	5,767	8,659	9,076	4,832	28,335
Non-current liabilities	-	-	11,467	819	12,287
Total	5,767	8,659	20,543	5,651	40,623

(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, 2015 and 2016.

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. Provisions for restructuring are recognized when the Company and some consolidated subsidiaries have a detailed formal plan and have raised a valid expectation in those affected that it is certain that the Company and some consolidated subsidiaries will carry out the restructuring by starting to implement the plan or announcing its main features to those affected by it.

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

20. Employee Benefits

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

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

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

Certain overseas components have defined benefit and defined contribution plans.

(1) Present Value of Defined Benefit Obligations

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

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 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
Current service cost	4,779	568	5,347
Interest cost	1,605	315	1,921
Benefits paid	(4,308)	(870)	(5,178)
Employee contributions	-	157	157
Remeasurement – Actuarial losses/(gains) due to changes in demographic assumptions	(1,287)	(110)	(1,397)
Remeasurement – Actuarial losses/(gains) due to changes in financial assumptions	12,212	(1,712)	10,499
Past service cost	-	(36)	(36)
Increase arising from business combination	90	-	90
Exchange differences	-	(848)	(848)
Other increases and decreases	-	12	12
Balance as of March 31, 2016	136,778	16,928	153,707

Note:

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

(2) Fair Value of Plan Assets

Changes in fair value of plan assets are as follows:

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Balance as of April 1, 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
Interest income	1,607	237	1,844
Benefits paid	(4,276)	(562)	(4,839)
Employer contributions	4,798	377	5,175
Employee contributions	-	157	157
Remeasurement – Return on plan assets	939	(38)	901
Exchange differences	-	(584)	(584)
Balance as of March 31, 2016	126,705	13,225	139,931

Note:

The Group expects to contribute ¥5,135 million to defined benefit pension plans for the year ending March 31, 2017.

(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, 2015	As of March 31, 2016	As of March 31, 2015	As of March 31, 2016
Equity securities	50,851	47,694	-	-
Bonds	44,546	49,210	-	-
Real estate	-	-	2,158	2,928
Life insurance general accounts	-	-	14,761	18,129
Others	3,307	1,206	8,011	7,536
Total	98,706	98,111	24,931	28,594

(Millions of Yen)

	Overseas plans			
	With quoted prices in active markets		No quoted prices in active markets	
	As of March 31, 2015	As of March 31, 2016	As of March 31, 2015	As of March 31, 2016
Equity securities	1,543	1,346	-	-
Bonds	584	539	-	-
Others	1,708	1,754	9,801	9,586
Total	3,836	3,639	9,801	9,586

(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, 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	-	-	-
Remeasurement – Effects of limitation to net plan assets due to asset ceiling	-	-	-
Exchange differences	-	-	-
Balance as of March 31, 2016	-	-	-

(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, 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	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

As of March 31, 2016

(Millions of Yen)

	Plans in Japan	Overseas plans	Total
Present value of defined benefit obligations	136,778	16,928	153,707
Fair value of plan assets	(126,705)	(13,225)	(139,931)
Funding deficit	10,072	3,702	13,775
Post-employment benefit assets	25	1	26
Others	223	3	226
Post-employment benefit liabilities	10,320	3,707	14,028

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

a. Significant actuarial assumptions

Significant actuarial assumptions are as follows:

	As of March 31, 2015	As of March 31, 2016
Discount rate		
Plans in Japan	1.3%	0.7%
Overseas plans	0.8%~8.3%	0.5%~10.4%

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, 2015	As of March 31, 2016
Discount rate		
Effect on defined benefit obligations of 1% increase	(20,535)	(22,107)
Effect on defined benefit obligations of 1% decrease	25,312	27,155

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 adequate high quality plan assets within acceptable risk levels, in order to ensure future payments of pension benefits and lump-sum payments.

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

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

e. Funding Policy and Rules Affecting Future Contributions

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

The Company and its domestic subsidiaries, which have adopted the joint corporate pension fund, are required to make additional required contributions when the amount of the fund reserve as of the year-end falls below the minimum base amount. They are also required to make a contribution necessary to cover the cost associated with the payments of 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 are 15.8 years and 15.7 years as of March 31, 2015 and 2016, respectively.

(7) Defined Contribution Plans

Expenses related to defined contribution plans which are mainly employer contributions were ¥16,280 million and ¥15,749 million for the years ended March 31, 2015 and 2016, 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, 2015	As of March 31, 2016
Trade and other payables	28	27
Other non-current liabilities	272	494

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 and details of fully paid issued shares are as follows:

a. Number of Authorized Shares

(Thousands of shares)

	Number of ordinary shares
April 1, 2014	2,800,000
March 31, 2015	2,800,000
March 31, 2016	2,800,000

b. 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, 2014	709,011	50,000	105,267
March 31, 2015	709,011	50,000	105,267
March 31, 2016	709,011	50,000	103,927

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, 2014	5,051	14,408
March 31, 2015	4,983	14,198
March 31, 2016	25,618	64,155

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 and subscription rights to shares are 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, 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

Year ended March 31, 2016

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
Board of Directors' meeting held on October 30, 2015	Ordinary shares	27,335	40.0	September 30, 2015	December 1, 2015

Note:

Dividends per share determined by the Board of Directors' meeting on October 30, 2015 include commemorative dividend of ¥10.0 per share for the Company's 10th foundation anniversary.

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

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

Year ended March 31, 2016

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 20, 2016	Ordinary shares	20,501	30.0	March 31, 2016	June 21, 2016

24. Revenue

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

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Sales of finished goods and merchandise	883,186	940,375
Others	36,185	46,071
Total	919,372	986,446

25. Major Expenses by Nature

Information related to major expenses by nature is as follows:

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Advertisement and promotional expenses	83,288	91,237
Salaries and bonuses	175,011	178,419
Statutory benefits	20,689	19,264
Post employment benefits	21,670	21,690
Other employee benefit expenses	1,919	2,009
Rent and leases	17,644	16,929
Depreciation and amortization	42,023	44,221
Gain on sale of property, plant and equipment	(3,350)	(11,213)
Loss on disposal of property, plant and equipment	2,294	3,474
Impairment loss	37,612	2,708
Restructuring costs	15,546	28,673

26. Financial Income and Financial Expenses

(1) Financial Income

Breakdown of financial income is as follows:

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Interest income		
Financial assets measured at amortized cost:		
Bank deposits	698	899
Loans receivable	23	50
Bonds	412	639
Others	1	27
Financial assets measured at fair value through profit or loss	91	125
Dividend income		
Financial assets measured at fair value through other comprehensive income:		
Dividend income from financial assets held at the end of the year	1,832	1,965
Dividend income from financial assets derecognized during the year	129	51
Financial assets measured at fair value through profit or loss	27	28
Gain on sale of financial assets		
Financial assets measured at fair value through profit or loss	46	0
Gain from change in fair value and realized gain		
Financial assets and liabilities measured at fair value through profit or loss	513	1,190
Net foreign exchange gains	4,316	-
Others	1,507	313
Total	9,600	5,292

(2) Financial Expenses

Breakdown of financial expense is as follows:

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Interest expenses		
Financial liabilities measured at amortized cost:		
Borrowings	377	254
Bonds	1,139	989
Finance lease liabilities	30	50
Others	31	74
Others	163	16
Loss on sale of financial assets		
Financial assets measured at fair value through profit or loss	7	1
Loss on change in fair value and realized loss		
Financial assets and liabilities measured at fair value through profit or loss:		
Derivatives	1,240	1,781
Others	38	1,020
Net foreign exchange losses	-	3,854
Others	131	4,987
Total	3,160	13,028

Note:

“Others” in “Financial Expenses” for the year ended March 31, 2016 mainly includes commission related to the sale of shares in Sun Pharmaceutical Industries Ltd.

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 Operation

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

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Revenue	174,621	-
Expenses	177,795	-
Operating result	(3,174)	-
Income tax expenses	228	-
Operating results after income taxes	(3,403)	-
Gain from merger of subsidiary	360,232	-
Income tax associated with merger of subsidiary	81,471	-
Profit from discontinued operation	275,357	-
Profit from discontinued operation (attributable to owners of the Company)	275,646	-

(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

	Year ended March 31, 2015	Year ended March 31, 2016
a. Profit Attributable to owners of the Company		
Profit attributable to owners of the Company (Millions of Yen)	322,119	82,282
Profit not attributable to owners of the Company (Millions of Yen)	-	-
Profit used to calculate basic earnings per share (Millions of Yen)	322,119	82,282
Continuing operations (Millions of Yen)	46,473	82,282
Discontinued operations (Millions of Yen)	275,646	-
b. Weighted-average Number of Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	703,989	689,313
c. Basic Earnings per Share		
Basic earnings per share (Yen)	457.56	119.37
Continuing operations (Yen)	66.01	119.37
Discontinued operations (Yen)	391.55	-

(2) Diluted Earnings per Share

	Year ended March 31, 2015	Year ended March 31, 2016
a. Diluted Profit Attributable to owners of the Company		
Profit used to calculate basic earnings per share (Millions of Yen)	322,119	82,282
Adjustments to profit (Millions of Yen)	-	-
Profit used to calculate diluted earnings per share (Millions of Yen)	322,119	82,282
Continuing operations (Millions of Yen)	46,473	82,282
Discontinued operations (Millions of Yen)	275,646	-
b. Weighted-average Number of Diluted Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousand of shares)	703,989	689,313
Potential effect of issue of subscription right to shares (Thousand of shares)	1,445	1,506
Weighted-average number of ordinary shares (diluted) (Thousand of shares)	705,435	690,819
c. Diluted Earnings per Share		
Diluted earnings per share (Yen)	456.62	119.11
Continuing operations (Yen)	65.88	119.11
Discontinued operations (Yen)	390.75	-

29. Share-based Payments

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

(1) Details of Stock Option Plans and Unexercised Balances as of March 31, 2016

Details of stock option plans and unexercised balances as of March 31, 2016 are as follows:

	Number of stock options		Grant date	Exercise period of granted options
	Granted (shares)	Unexercised (shares)		
1st issuance subscription rights to shares (as stock options)	101,900	52,700	February 15, 2008	From February 16, 2008 to February 15, 2038
2nd issuance subscription rights to shares (as stock options)	172,200	108,000	November 17, 2008	From November 18, 2008 to November 17, 2038
3rd issuance subscription rights to shares (as stock options)	230,800	186,600	August 17, 2009	From August 18, 2009 to August 17, 2039
4th issuance subscription rights to shares (as stock options)	237,100	222,900	August 19, 2010	From August 20, 2010 to August 19, 2040
5th issuance subscription rights to shares (as stock options)	232,800	220,500	July 12, 2011	From July 13, 2011 to July 12, 2041
6th issuance subscription rights to shares (as stock options)	295,400	279,100	July 9, 2012	From July 10, 2012 to July 9, 2042
7th issuance subscription rights to shares (as stock options)	192,800	192,800	July 8, 2013	From July 9, 2013 to July 8, 2043
8th issuance subscription rights to shares (as stock options)	145,000	145,000	July 8, 2014	From July 9, 2014 to July 8, 2044
9th issuance subscription rights to shares (as stock options)	118,700	118,700	July 7, 2015	From July 8, 2015 to July 7, 2045
Total	1,726,700	1,526,300	-	-

Notes:

1. The stock options plans are equity-settled.
2. Stock options are granted to members of the Company's Board of Directors and Corporate Officers, excluding external Board members.
3. Persons to whom stock options are granted ("holders of subscription rights to shares") may exercise their subscription rights to shares until the end of the fiscal year that ends within 10 years from the day following their resignation from the office as a

Member of the Board of Directors or as a Corporate Officer of the Company which they held when the subscription rights to shares were granted. If the holders of subscription rights to shares concurrently serve as a Member of the Board of Directors and Corporate Officer, the day of resignation from the office is the day they retire from the office as a Member of the Board of Directors, regardless of whether they continued to hold the position of a Corporate Officer. If the holders of subscription rights to shares served as a Corporate Officer when the subscription rights to shares were granted and if they took office as a Member of the Board of Directors upon their resignation as a Corporate Officer, the day when they resigned from the office is the day when they resign from the office as a Member of the Board of Directors, and not the day when they retire as a Corporate Officer.

4. There are no vesting conditions for the stock options.
5. Number of stock options represents the number of ordinary shares that would be issued upon exercise of the stock options.

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

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

	Year ended March 31, 2015		Year ended March 31, 2016	
	Number of stock options (Shares)	Weighted average exercise price (Yen)	Number of stock options (Shares)	Weighted average exercise price (Yen)
Unexercised balance at the beginning of the year	1,375,900	1	1,439,100	1
Granted	145,000	1	118,700	1
Exercised	(81,800)	1	(31,500)	1
Expired	-	-	-	-
Unexercised balance at the end of the year	1,439,100	1	1,526,300	1
Options outstanding	1,439,100	1	1,526,300	1
Range of exercise prices	1 Yen		1 Yen	
Weighted average remaining contractual life	26.31 years		25.64 years	

Notes:

1. Number of stock options represents the number of ordinary shares that would be issued upon exercise of the stock options.
2. Weighted average share price at the exercise date for the stock options which were exercised during the period is ¥1,759 and ¥2,375 for the year ended March 31, 2015 and 2016, respectively.

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

The fair value of stock options granted during the year ended March 31, 2015 and 2016 is measured based on the Black-Scholes option pricing model.

Basic inputs and assumptions used for the Black-Scholes option pricing model are primarily as follows:

	Year ended March 31, 2015	Year ended March 31, 2016
	8th issuance subscription rights to shares (as stock options)	9th issuance subscription rights to shares (as stock options)
Fair value	1,361 Yen	1,858 Yen
Share price at grant date	1,876 Yen	2,387 Yen
Exercise price	1 Yen	1 Yen
Expected volatility	30.5% (note 1)	29.7% (note 2)
Remaining life of options (note 3)	10 years	10 years
Expected dividends (note 4)	60 Yen / share	60 Yen / share
Risk-free interest rate (note 5)	0.60%	0.50%

Notes:

1. Calculated based on historical share price in the period from September 28, 2005 to July 8, 2014.
2. Calculated based on historical share price in the period from September 28, 2005 to July 7, 2015.
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.
5. Interest rate of government bonds for the period corresponding to the expected remaining life.

(4) Share-based Payment Expenses

Breakdown of share-based payment expenses is as follows:

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Equity-settled	197	220
Cash-settled	3,292	6,592
Total	3,489	6,813

Notes:

1. Cash-settled share-based payment transaction consists of Stock Appreciation Right (“SAR”) and Restricted Stock Unit (“RSU”), which some consolidated subsidiaries grant to specific employees.
   For a SAR, the Company pays cash based on the difference between the stock price on the grant date and the exercise date, and rights are vested three years after the grant date and are exercisable within the following seven years.
   RSU rights are vested three years after the grant date, and the Company pays cash based on the stock price as of the date the rights are vested and applicable dividends.
2. Liabilities arising from cash-settled share-based payment transactions are ¥6,455 million as of March 31, 2015 and ¥7,515 million as of March 31, 2016.

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 financing activities. The Group uses derivative instruments only to hedge these risks, and the Group's policy is not to enter into speculative derivative transactions. Each group company's finance department executes and manages derivative transactions. A derivative transaction management policy is established, which states limitation of authorities and transaction amounts. Derivative transactions are executed and managed in accordance with this policy and are reported to the Board of Directors.

a. Credit Risk

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

The 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, 2015	As of March 31, 2016
Past due by 1-30 days	3,001	3,656
Past due by 31-60 days	88	48
Past due by 61-90 days	9	45
Past due by 91-120 days	8	92
Past due by more than 120 days	175	180

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, 2015	Year ended March 31, 2016
Balance at the beginning of the year	3,074	285
Increase during the period	111	79
Increase arising from business combination	-	79
Utilized	(656)	(25)
Reversed unused	(48)	(20)
Decrease related to deconsolidation	(2,498)	-
Others (including exchange differences)	303	(14)
Balance at the end of the year	285	382

b. Foreign Currency Exchange Risks

Trade receivables, trade payables and borrowings denominated in foreign currencies, which arise from the Company's global operations, are exposed to foreign currency exchange risks. The Company enters into forward foreign exchange contracts to hedge the foreign currency exchange risks of those receivables and payables 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.

	As of March 31, 2015	As of March 31, 2016
U.S. dollar (Thousands of U.S. dollar)	67,404	458
Euro (Thousands of Euro)	4,710	123,792

ii) Foreign Exchange Sensitivity Analysis

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

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
U.S. dollar	(81)	(0)
Euro	(6)	(157)

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 set out below. The amount does not include the exposure to interest rate risks that are hedged by derivatives.

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Borrowings with variable interest rates	40,000	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 year-end is set out below. This analysis is based on the assumptions that other factors remain constant.

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Impact on profit before tax	(400)	(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 cash-settled share-based payment transactions based on the Company’s shares, which are exposed to share price fluctuation risks.

e. Liquidity Risk

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

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

As of March 31, 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

As of March 31, 2016

(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	84,249	989	989	989	40,634	20,224	20,423
Unsecured bank loans	121,000	121,258	20,066	34	20,034	33	20,031	61,057
Derivative liabilities	2,897	2,862	457	429	429	429	429	685
Total	203,897	208,370	21,513	1,454	21,453	41,097	40,685	82,165

(2) Fair Value of Financial Instruments

a. Fair value and carrying amount of financial instruments

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

(Millions of Yen)

	As of March 31, 2015		As of March 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Financial liabilities				
Bonds	80,000	83,694	80,000	83,374
Borrowings	141,000	141,036	121,000	121,040

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, 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:				
Equity securities	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.”

As of March 31, 2016

(Millions of Yen)

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets measured at fair value through profit or loss:				
Bonds	143	7,692	-	7,836
Others	6,048	136,803	-	142,851
Financial assets measured at fair value through other comprehensive income:				
Equity securities	132,474	-	14,446	146,920
Others	-	-	3,918	3,918
Total	138,665	144,496	18,365	301,527
Financial liabilities				
Financial liabilities measured at fair value through profit or loss:				
Derivative liabilities	-	2,897	-	2,897
Total	-	2,897	-	2,897

Notes:

1. There were no transfers of financial instruments between the levels.
2. The above table does not include contingent consideration arising from business combinations which is included in Note 7 “Business Combination.”
3. ”Others” categorized as level 2 under “Financial assets measured at fair value through profit or loss” includes ¥136,307 million of foreign-currency bank deposits embedding forward foreign exchange contracts.

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, 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 (Loss)	(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.

Year ended March 31, 2016

(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	21,012	-	21,012
Gain (Loss)	(2,362)	-	(2,362)
Purchase	696	-	696
Sale and settlement	(981)	-	(981)
Balance at the end of the year	18,365	-	18,365

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 7.8~25.4 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.”

(4) Derivatives and Hedge Accounting

a. Cash Flow Hedges

The Group uses forward foreign exchange contracts to hedge movements of cash flows associated with future business transactions denominated in foreign currencies. When criteria for hedge accounting are met, they are designated as cash flow hedges. The effective portion of changes in fair value related to hedging instruments is recognized in other comprehensive income, and the ineffective portion of changes in fair value is recognized in 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, 2015 and 2016, 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:

- Forward foreign exchange contracts to hedge the foreign currency exchange risk associated with trade receivables and trade payables which are denominated in foreign currency;
- Interest rate swaps to hedge fluctuations of variable interest rates for borrowings;

The Group does not hold derivatives for speculative purposes.

c. Fair Values of Derivatives

Fair values of derivatives are as follows:

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Derivative liabilities		
Currency related	6,480	-
Interest related	1,527	2,897
Total	8,008	2,897

(5) Capital Management

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

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

In addition, one of the Group's objectives is to achieve ROE of more than 8% in 2020 through implementing business-operations strategies and investments for future growth, as set out in the fourth mid-term business plan for the period between 2016 and 2020.

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

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Cash plus marketable securities (note 1)	374,349	714,743
Bonds and borrowings	221,000	201,000
Net cash	153,349	513,743
Total return (note 2)	13.1%	118.9%

Notes

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

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

31. Lease Transactions

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, 2015	As of March 31, 2016	As of March 31, 2015	As of March 31, 2016
Within 1 year	1,111	821	1,083	785
Over 1 year within 5 years	2,589	1,872	2,556	1,832
Over 5 years	-	-	-	-
Total	3,701	2,693	3,640	2,617
Less - Interest	(61)	(75)	-	-
Present value of future minimum lease payments	3,640	2,617	3,640	2,617

(2) Operating Leases

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

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Within 1 year	5,299	5,711
Over 1 year within 5 years	13,853	13,113
Over 5 years	6,815	6,255
Total	25,968	25,081

32. Other Comprehensive Income

Reclassification adjustments related to “Other Comprehensive Income” are as follows:

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Other comprehensive income that are or may be reclassified to profit or loss		
Exchange differences on translation of foreign operations		
Change for the year	44,281	(30,790)
Reclassification adjustments	(15,136)	(297)
Subtotal	29,144	(31,088)
Cash flow hedges		
Change for the year	(6,480)	-
Reclassification adjustments	-	-
Subtotal	(6,480)	-
Share of other comprehensive income of investments accounted for using the equity method		
Change for the year	66	(11)
Reclassification adjustments	-	-
Subtotal	66	(11)
Other comprehensive income, before adjustments for tax effects	22,731	(31,100)
Tax effects	2,119	-
Total	24,851	(31,100)

33. Related Parties

(1) Transactions with Related Parties

Transactions with related parties are on the same terms as the normal course of business. There were no material transactions with related parties for the years ended March 31, 2015 and 2016.

(2) Remuneration of Key Management Personnel

(Millions of Yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Remuneration and bonuses	558	611
Stock options	100	105
Total	658	716

34. 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, 2015	As of March 31, 2016
Property, plant and equipment	17,753	5,324
Intangible assets	303,942	337,626
Total	321,696	342,951

Note:

Commitments for intangible assets mainly relate to acquisition of technology and sales licenses. The commitments presented above represent the maximum total payments if all milestones for medical research and development and sales objectives are achieved. The achievement of milestones is uncertain and the above amount may materially differ from the actual payment amount.

35. Contingent Liabilities

(1) Loan Guarantees

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

(Millions of Yen)

	As of March 31, 2015	As of March 31, 2016
Japan Vaccine Co., Ltd. (working capital)	-	1,000
Employees (including in relation to mortgages)	1,254	1,013

(2) Lawsuits

Multiple lawsuits have been filed against Daiichi Sankyo Company, Limited, Daiichi Sankyo Inc., Daiichi Sankyo U.S. Holdings, Inc. as well as Forest Laboratories, LLC (head office: New York, U.S.A.) and the subsidiaries and associates thereof in U.S. federal and state courts by claimants alleging to have experienced sprue-like enteropathy (primary symptoms of sprue-like enteropathy include severe diarrhea) and other complications as a result of taking pharmaceuticals containing Olmesartan medoxomil (sold under Benicar® or other brand names in the United States). Although the Company and its consolidated subsidiaries could incur damages as a result of the above-mentioned litigation, it is not considered possible at present to reasonably estimate the monetary amount of any such damages.

(3) Others

The Company concluded an agreement with Sun Pharmaceutical Industries Ltd. ("Sun Pharma") in April 2014 under which Sun Pharma acquired Ranbaxy Laboratories Ltd. ("Ranbaxy") in exchange for receipt by Daiichi Sankyo of shares in Sun Pharma on March 24, 2015 ("the closing date").

Based on the agreement with Sun Pharma, the Company could be required to indemnify Sun Pharma for 63.5% of penalties and damages arising from quality issues of Ranbaxy prior to the closing date, which are paid to U.S. federal or state governmental authorities by Sun Pharma or Ranbaxy, with a maximum cap amount of US$325 million. This obligation lasts for seven years from the closing date. In April 2015, Daiichi Sankyo sold all of the acquired Sun Pharma shares, while the aforementioned agreement remains in effect.

Although the Company could incur damages as a result of the above-mentioned contingent liabilities, it is not considered possible at present to reasonably estimate the monetary amount of any such damages.

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

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

36. Major Consolidated Subsidiaries and Associates

Major consolidated subsidiaries and associates as of March 31, 2016 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.	Chuo-ku, Tokyo, 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	80.0
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
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

37. Subsequent Events

(1) Purchase of Treasury Shares

The Company's Board of Directors resolved at the board meeting on June 20, 2016, 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)
(4.1% of issued shares (excluding existing treasury shares))

d. Total Amount of Purchasing Costs
¥50,000 million (maximum)

e. Purchasing Period
From June 21, 2016 to October 28, 2016

f. Purchasing Method
Open-market purchase on the Tokyo Stock Exchange

(2) Issuance of Unsecured Corporate Bonds

The Company's Board of Directors made a comprehensive decision at the board meeting on June 20, 2016, to issue unsecured corporate bonds as follows:

a. Total Issuance Amount

Up to ¥100 billion (however, may be issued in multiple tranches)

b. Estimated Period of Issuance

From June 21, 2016 to December 31, 2016

c. Paid-in Amount

¥100 for each corporate bond amount of ¥100

d. Interest Rate

No more than 1.5% above the market yield of Japanese national government bonds of comparable maturity as the corporate bond.

e. Maturity Period

Within 30 years

f. Repayment Period

Lump-sum repayments at maturity

g. Use of Funds

Funds to repay corporate bonds and borrowings, funds to purchase treasury shares, funds for investments, and funds for capital expenditures and working capital

h. Determining Conditions of Issuance

Decisions regarding provisions necessary to issue corporate bonds, such as timing of issuance and interest rate shall be made solely by the Representative Director (President and CEO), within parameters determined in the comprehensive decision.

KPMG

<u>**Independent Auditor's Report**</u>

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, 2016, 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, 2016, 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 37 to the consolidated financial statements as follows:

- The Company's Board of Directors resolved at the board meeting on June 20, 2016, to purchase the Company's own shares.
- The Company's Board of Directors resolved at the board meeting on June 20, 2016, to issue unsecured corporate bonds.

KPMG AZSA LLC

KPMG AZSA LLC
June 20, 2016
Tokyo, Japan