Matters for Internet Disclosure under Laws and Regulations, and the Articles of Incorporation

For the 15th Fiscal Period (from April 1, 2019 to March 31, 2020)

[Business Report]

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Daiichi Sankyo Company, Limited

This document is provided to our shareholders by posting them on our website (https://www.daiichisankyo.co.jp/ir/information/shareholder/index.html) pursuant to laws and regulations, and Article 16 of our Articles of Incorporation.

Status of Subscription Rights to Shares

Status of Subscription Rights to Shares Owned by Members of the Board and Members of the Audit and Supervisory Board of the Company Granted as Remuneration for Their Execution of Duties as of the End of the Fiscal Year

	Date of resolution on issuance	Grantees and number of grantees	Number of share options	Class and number of shares subject to Subscription rights to shares	Amount to be paid in for Subscription rights to shares	Value of property contributed upon exercise of Subscription rights to shares	Exercisable period for Subscription rights to shares
No. 1 Subscription rights to shares (Issued on February 15, 2008)	January 31, 2008	One Member of the Board of the Company (excluding Members of the Board (Outside))	30 units	3,000 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	252,800 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From February 16, 2008 to February 15, 2038
No. 2 Subscription rights to shares (Issued on November 17, 2008)	October 31, 2008	One Member of the Board of the Company (excluding Members of the Board (Outside))	50 units	5,000 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	134,200 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From November 18, 2008 to November 17, 2038
No. 3 Subscription rights to shares (Issued on August 17, 2009)	July 31, 2009	Two Members of the Board of the Company (excluding Members of the Board (Outside))	151 units	15,100 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	133,800 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From August 18, 2009 to August 17, 2039
No. 4 Subscription rights to shares (Issued on August 19, 2010)	July 30, 2010	Three Members of the Board of the Company (excluding Members of the Board (Outside))	341 units	34,100 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	119,700 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From August 20, 2010 to August 19, 2040
No. 5 Subscription rights to shares (Issued on July 12, 2011)	June 27, 2011	Four Members of the Board of the Company (excluding Members of the Board (Outside))	431 units	43,100 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	111,200 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 13, 2011 to July 12, 2041
No. 6 Subscription rights to shares (Issued on July 9, 2012)	June 22, 2012	Four Members of the Board of the Company (excluding Members of the Board (Outside))	570 units	57,000 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	88,400 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 10, 2012 to July 9, 2042
No. 7 Subscription rights to shares (Issued on July 8, 2013)	June 21, 2013	Four Members of the Board of the Company (excluding Members of the Board (Outside))	408 units	40,800 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	119,900 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 9, 2013 to July 8, 2043

	Date of resolution on issuance	Grantees and number of grantees	Number of share options	Class and number of shares subject to Subscription rights to shares	Amount to be paid in for Subscription rights to shares	Value of property contributed upon exercise of Subscription rights to shares	Exercisable period for Subscription rights to shares
No. 8 Subscription rights to shares (Issued on July 8, 2014)	June 23, 2014	Five Members of the Board of the Company (excluding Members of the Board (Outside))	462 units	46,200 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	136,100 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 9, 2014 to July 8, 2044
No. 9 Subscription rights to shares (Issued on July 7, 2015)	June 22, 2015	Five Members of the Board of the Company (excluding Members of the Board (Outside))	413 units	41,300 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	185,800 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 8, 2015 to July 7, 2045
No. 10 Subscription rights to shares (Issued on July 5, 2016)	June 20, 2016	Five Members of the Board of the Company (excluding Members of the Board (Outside)) One Member of the Audit and Supervisory Board of the Company (excluding Members of the Audit and Supervisory Board (Outside))	482 units 26 units	48,200 shares of the ordinary share of the Company 2,600 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	196,000 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 6, 2016 to July 5, 2046

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

2. Conditions for exercise of Subscription rights to shares are as follows:
   a. Persons to whom share options are granted (hereinafter referred to as “holders of Subscription rights to shares”) may exercise their Subscription rights to shares until the last day of the last fiscal year that ends within 10 years from the following day of the day when they retired from their office as Member of the Board or Corporate Officer of the Company that they held when the Subscription rights to shares were granted (if the holders of Subscription rights to shares concurrently serve as Member of the Board and Corporate Officer, the day when they retired from office means the day when they retired from the office of Member of the Board, regardless of whether they continued to hold the position of Corporate Officer; and if the holders of Subscription rights to shares served as Corporate Officer when the Subscription rights to shares were granted and if they took office as Member of the Board upon their retirement from office as Corporate Officer, the day when they retired from office means the day when they retired from office as Member of the Board, not the day when they retired from office as Corporate Officer).
   b. Holders of Subscription rights to shares may not dispose of the Subscription rights to shares by any means, including pledging.
   c. When holders of Subscription rights to shares die, their heir may inherit the Subscription rights to shares that have not been exercised as of the day when the cause of their inheritance occurs, and may exercise the rights in accordance with the terms of the Agreement on Allotment of Subscription rights to shares, to be entered between the Company and holders of Subscription rights to shares.
   d. When holders of Subscription rights to shares exercise their Subscription rights to shares, they may not partially exercise one Subscription rights to shares.
   e. Other conditions are set forth in the Agreement on Allotment of Subscription rights to shares, to be entered between the Company and holders of Subscription rights to shares, in accordance with the resolution of the Board of Directors.

3. Events and conditions for the acquisition of Subscription rights to shares are as follows:
   a. When holders of Subscription rights to shares can no longer exercise their rights pursuant to the provisions specified in the above-mentioned Note 2, the Company may acquire, free of charge, the said Subscription rights to shares held by the said holders of Subscription rights to shares on the day separately determined by the Board of Directors.
   b. When an absorption-type merger agreement, under which the Company is absorbed and disappears, is approved at a General Meeting of Shareholders of the Company (a meeting of the Board of Directors if a resolution of a General Meeting of Shareholders is not required), or when a proposal on approval of a share exchange agreement, under which the Company will become a wholly-owned subsidiary company in the share exchange, or a proposal on approval for a share transfer plan, under which the Company will become a wholly-owned subsidiary company in the share transfer, is approved at a General Meeting of Shareholders of the Company (a meeting of the Board of Directors if a resolution of a General Meeting of Shareholders is not required), the Company may acquire, free of charge, the Subscription rights to shares held by the holders of Subscription rights to shares on the day separately determined by the Board of Directors.

c. When holders of Subscription rights to shares offer in writing to abandon all or part of their Subscription rights to shares, the Company may acquire, free of charge, the said Subscription rights to shares held by those holders of Subscription rights to shares on the day separately determined by the Board of Directors.

4. The total number of shares subject to Subscription rights to shares that were unexercised as of the end of the fiscal year under review and their ratio to the total number of issued shares (excluding treasury shares) are as shown below.

Total number of shares subject to unexercised Subscription rights to shares	Ratio to the total number of issued shares (excluding treasury shares)
336,400 shares	0.05%

Consolidated Statement of Changes in Equity
(From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Equity attributable to owners of the Company					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	50,000	94,633	(162,964)	1,805	66,628	46,732
Changes in accounting policies	–	–	–	–	–	–
Adjusted balance as of April 1, 2019	50,000	94,633	(162,964)	1,805	66,628	46,732
Profit for the year	–	–	–	–	–	–
Other comprehensive income for the year	–	–	–	–	(15,409)	(7,682)
Total comprehensive income for the year	–	–	–	–	(15,409)	(7,682)
Purchase of treasury shares	–	–	(85)	–	–	–
Cancellation of treasury shares	–	–	530	(194)	–	–
Dividends	–	–	–	–	–	–
Changes associated with obtaining control of subsidiaries	–	–	–	–	–	–
Changes associated with losing control of subsidiaries	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(9,785)
Total transactions with owners of the Company	–	–	445	(194)	–	(9,785)
Balance as of March 31, 2020	50,000	94,633	(162,519)	1,611	51,218	29,264

	Equity attributable to owners of the Company				Non-controlling interests	Total equity
	Other components of equity		Retained earnings	Total equity attributable to owners of the Company		
	Remeasurements of defined benefit plans	Total other components of equity				
Balance as of April 1, 2019	–	115,166	1,152,806	1,249,642	62	1,249,705
Changes in accounting policies	–	–	(375)	(375)	–	(375)
Adjusted balance as of April 1, 2019	–	115,166	1,152,431	1,249,267	62	1,249,329
Profit for the year	–	–	129,074	129,074	(107)	128,967
Other comprehensive income for the year	(4,272)	(27,364)	–	(27,364)	–	(27,364)
Total comprehensive income for the year	(4,272)	(27,364)	129,074	101,710	(107)	101,602
Purchase of treasury shares	–	–	–	(85)	–	(85)
Cancellation of treasury shares	–	(194)	(64)	271	–	271
Dividends	–	–	(45,354)	(45,354)	–	(45,354)
Changes associated with obtaining control of subsidiaries	–	–	–	–	576	576
Changes associated with losing control of subsidiaries	–	–	–	–	(67)	(67)
Transfer from other components of equity to retained earnings	4,272	(5,512)	5,512	–	–	–
Total transactions with owners of the Company	4,272	(5,707)	(39,905)	(45,167)	509	(44,658)
Balance as of March 31, 2020	–	82,094	1,241,600	1,305,809	464	1,306,274

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

Notes to Consolidated Financial Statements

1. Basis of Preparation of Consolidated Financial Statements

(1) Basis of Preparation of Consolidated Financial Statements

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

(2) Scope of Consolidation

- Number of consolidated subsidiaries: 47
- Major consolidated subsidiaries:

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

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

- Change in the number of consolidated subsidiaries
  Increase: 4 companies (increase mainly due to establishment)
  Decrease: 4 companies (decrease mainly due to liquidation and merger)

(3) Application of the Equity Method

- Number of associates which are accounted for under the equity method: 1
- Associates: Hitachi Pharma Information Solutions, Ltd.
- Change in the number of associates which are accounted for under the equity method
  Decrease: 2 companies (decrease mainly due to disposal)

(4) Significant Accounting Policies

1) Basis and Method of Valuation of Significant Assets

a. Non-derivative Financial Assets

(i) Initial recognition and measurement

Financial assets are recognized on the contract date when the Group becomes a party to the contractual provisions of the instruments.
Financial assets, except for financial assets measured at fair value through profit or loss, are measured at fair value plus transaction costs that are attributable to the acquisition of the financial asset. However, trade receivables that do not contain a significant financing component are initially recognized at transaction price.
At initial recognition, financial assets are classified as (a) financial assets measured at amortized cost; (b) financial assets measured at fair value through other comprehensive income; or (c) financial assets measured at fair value through profit or loss.

(a) Financial assets measured at amortized cost
Financial assets are classified as financial assets measured at amortized cost if both of

the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows: and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

Debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:
- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

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

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

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

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

Financial assets measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

(iii) Derecognition

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

b. Impairment of Financial Assets

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

If the credit risk on financial assets has not increased significantly since initial recognition, a loss allowance is measured at an amount equal to 12-month expected credit losses. If the credit

risk on financial assets has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses. However, a loss allowance for trade receivables that do not contain a significant financing component is measured at an amount equal to lifetime expected credit losses.
The Group considers, as a general rule, that there has been a significant increase in the credit risk when payments have not been made for more than 30 days passed contractual due date. The Group considers not only the information regarding due date but also other reasonable and supportable information when determining whether credit risk has increased significantly since initial recognition. The Group considers that there has not been a significant increase in the credit risk when the financial assets are determined to have low credit risk at the end of reporting period.
Expected credit losses on financial assets are measured in a way that reflects the following factors:
- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.
Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received. When expected credit losses are recognized, the carrying amount of the financial asset is reduced through use of a loss allowance for expected credit losses, and expected credit losses are recognized in profit or loss. If, in a subsequent period, the amount of the expected credit losses decreases, the previously recognized credit losses are reversed by adjusting the loss allowance and the reversal is recognized in profit or loss. The carrying amount of financial assets measured at amortized cost is reduced directly when they are expected to become uncollectible in the future and all collaterals are implemented or transferred to the Group.

c. Non-derivative Financial Liabilities

(i) Initial recognition and measurement

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

(ii) Subsequent measurement

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

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

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

(iii) Derecognition

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

d. Offsetting Financial Assets and Liabilities

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

e. Derivatives and Hedge Accounting

Derivatives are utilized to hedge foreign currency risk and interest rate risk. The derivatives primarily used by the Group include forward foreign exchange contracts and interest-rate swaps. At the inception of the hedging relationship the Group formally designates and documents the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements.
The Group assesses at the inception of the hedging relationship, and on an ongoing basis, whether the hedging relationship meets the hedge effectiveness requirements. At a minimum, the Group performs the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes earlier.
Derivatives are initially recognized at fair value with transaction costs recognized in profit or loss when they are incurred. After initial recognition, derivatives are measured at fair value.
Hedges that meet the criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

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

(ii) Cash flow hedges

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

f. Inventories

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

2) Depreciation and Amortization of Significant Depreciable Assets

a. Property, Plant and Equipment

An item of property, plant and equipment, except for land, is depreciated by the straight-line method based on the estimated useful life of the asset. The estimated useful lives of major items of property, plant and equipment are as follows:

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

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

b. Intangible Assets

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

- Commercial rights: 9 to 18 years

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

c. Right-of-use Assets

Right-of-use assets are depreciated using the straight-line method from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of the self-owned property, plant and equipment.

3) Method of Accounting for Significant Provisions

A provision is recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. The present value is determined by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent in the liabilities. The increase in the carrying amount of a provision reflecting the passage of time is recognized as a financial expense.

4) Employee Benefits

a. Post-employment Benefits

(i) Defined benefit plans

The present value of defined benefit obligations and related current service cost and, where applicable, past service cost are determined using the projected unit credit method for each plan separately.
The discount rate is determined by reference to market yields at the end of the reporting period on high-rated corporate bonds, reflecting the estimated timing of benefit payments.
Past service costs are recognized in profit or loss as incurred.
Actuarial gains and losses are recognized in other comprehensive income in the period when they are incurred and transferred to retained earnings immediately.

(ii) Defined contribution plans

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

b. Others

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

5) 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.

6) Other Significant Matters for Preparation of the Consolidated Financial Statements

Accounting method for consumption taxes:
The tax-exclusion method is used to account for national and local consumption taxes.

(5) Matters Related to Goodwill

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

(6) Changes in 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 standard.

[IFRS 16 "Leases"]
The Group adopted IFRS 16 "Leases" (issued in January 2016; hereafter "IFRS 16") from the year ended March 31, 2020. In adopting IFRS 16, the Group did not restate the comparative information and recognized the cumulative effect from initial application as an adjustment to the opening balance of retained earnings.
Regarding the determination of whether a contract is or contains a lease on transition to IFRS 16, the Group elected the practical expedient prescribed in IFRS 16 paragraph C3 and continued to apply the assessment under IAS 17 "Leases" (hereafter "IAS 17") and IFRIC 4 "Determining whether an Arrangement Contains a Lease". From the date of initial application, this assessment is determined based on the provisions of IFRS 16.
The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.
A right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of the equivalent tangible fixed assets. In addition, a right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.
A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments are allocated to financial expenses and repayments of lease liabilities so that the interest expenses in each period during the lease term will result in a constant interest rate on the outstanding lease liability. A lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.
As for leases as lessee which the Group previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities were recognized at the date of initial application. Lease liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate is 0.61%. Right-of-use assets were measured at either:
・carrying amounts as if IFRS 16 had been applied since the commencement date of the leases, but discounted using the lessee's incremental borrowing rate at the date of initial application; or
・amounts equal to lease liabilities as adjusted for prepaid or accrued lease payments.
As for leases as lessee which the Group previously classified as finance leases applying IAS 17, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application are measured respectively as the carrying amounts of lease assets and lease liabilities based on IAS 17 immediately before the date of initial application.
As a result, compared to the application of the previous accounting standards, at the beginning of the year ended March 31, 2020, right-of-use assets included in "Property, plant and equipment", "Trade and other receivables", "Other financial assets", "Deferred tax assets" and lease liabilities included in "Other financial liabilities" increased by 28,698 million yen, 2,881 million yen, 2,884 million yen, 46 million yen and 40,874 million yen, respectively, and "Intangible assets", "Other non-current liabilities", "Provisions" and "Retained earnings" decreased by 479 million yen, 3,424 million yen, 3,040 million yen and 375 million yen, respectively.
The Group applied following practical expedients in adopting IFRS 16:

・Right-of-use assets and lease liabilities for short-term leases and leases of low-value assets are not recognized;
・Leases for which the lease term will end within 12 months from the date of initial application are accounted for in the same way as short-term leases;
・Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.

2. Notes to Consolidated Statement of Financial Position

(1) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables ··················· 529 million yen

Other financial assets ··················· 0 million yen

(2) Accumulated depreciation and accumulated impairment losses on property, plant and equipment ··················· 503,020 million yen

(3) Contingent Liabilities

1) Loan guarantees

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

Employees (housing and other loans) ··················· 391 million yen

2) Others

a. Contingent liabilities related to environmental measures on the site of the former Yasugawa Plant

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

(i) Removal of contaminated soil storage facilities
There are two storage facilities of contaminated soil on the site, which were built in 1993, and the Company has managed the facilities and monitored the quality of groundwater there without any issues noted. However, 26 years have passed since the installment of the facilities and the perception toward "Safety and Security" has changed globally during that period. Therefore, considering the risk of unexpected events, the Company, which values environmental stewardship, has decided to remove those facilities in order to avoid any potential business risks and issues related to managing those facilities.

(ii) Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site
From March 2018 to September 2019, the Company examined the soil and groundwater of the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, since endrin exceeding the guideline value was continuously observed in some observation wells through monitoring. Consequently, the Company identified an area where endrin is excessively distributed. Complying with the Soil Contamination Countermeasures Act of Japan, the Company is continuously examining the area. The

Company decided to begin a consultation process with the government and other authorities, and discuss countermeasures with them.

The expected cost of (i) Removal of contaminated soil storage facilities is included in "Provisions for environmental measures" as of March 31, 2020 and the amount is disclosed in "10. Other Notes, Notes Concerning Provisions for environmental measures".
Regarding (ii) Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, the Company is going to discuss and plan countermeasures with the government and other authorities once the examination of the area is completed, which reflects that the area to implement countermeasure against contamination is partly under the jurisdiction of the government. Without consultation with the government, at this time the Company by itself cannot design a civil engineering plan against contamination and make a reliable cost estimation. As of March 31, 2020, therefore, the Company does not recognize any provision for the cost of countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site.

b. Possible compensation to Sun Pharmaceutical Industries Ltd.
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 325 million U.S. dollar. 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.

3. Notes to Consolidated Statement of Income

Cost of Sales

On October 1, 2019, the assets of the Takatsuki Plant owned by Daiichi Sankyo Propharma Co., Ltd. were transferred to Taiyo Pharmatec Co., Ltd. through a corporate split. On the same day, the land and structures of the Takatsuki Plant owned by the Company were transferred to Taiyo Pharmatec Co., Ltd. through a corporate split. Subsequently, on the same day, all shares of Taiyo Pharmatec Co., Ltd. owned by the Company were transferred to Taiyo Holdings Co., Ltd. As a result, a gain on sale of subsidiary of 18,811 million yen was recorded and deducted from cost of sales for the year ended March 31, 2020.

4. Notes to Consolidated Statement of Changes in Equity

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

Class of shares	Number of shares at April 1, 2019	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2020
Ordinary shares	709,011 thousand shares	– shares	– shares	709,011 thousand shares

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

Class of shares	Number of shares at April 1, 2019	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2020
Ordinary shares	61,124 thousand shares	12 thousand shares	193 thousand shares	60,943 thousand shares

Notes:

1. The increase in the number of treasury shares was due to purchases of 12 thousand shares of less than one unit.

2. The decrease in the number of treasury shares was due to sale of 0 thousand shares to meet top-up demands for shares of less than one unit, a decrease of 153 thousand shares as a result of exercise of subscription rights to shares and a decrease of 40 thousand shares by granting restricted stocks.

(3) Matters Related to Dividends from Surplus

1) Amount of dividends paid

a. Dividends based on a resolution made at the 14th Ordinary General Meeting of Shareholders held on June 17, 2019

- Total amount of dividends: 22,676 million yen
- Dividend per share: 35 yen
- Record date: March 31, 2019
- Effective date: June 18, 2019

b. Dividends based on a resolution made at the Board of Directors Meeting held on October 31, 2019

- Total amount of dividends: 22,678 million yen
- Dividend per share: 35 yen
- Record date: September 30, 2019
- Effective date: December 2, 2019

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

The following shall be referred to the 15th Ordinary General Meeting of Shareholders, which will be held on June 15, 2020.

- Total amount of dividends: 22,682 million yen
- Resource of dividends: Retained earnings
- Dividend per share: 35 yen
- Record date: March 31, 2020
- Effective date: June 16, 2020

(4) Matters Related to Subscription Rights to Shares

Issuer	Grant of subscription rights to shares	Class of shares to be converted	Number of shares to be converted
The Company	No. 1 Subscription Rights to Shares granted in February 2008 (Share remuneration-type stock option)	Ordinary shares	25 thousand shares
The Company	No. 2 Subscription Rights to Shares granted in November 2008 (Share remuneration-type stock option)	Ordinary shares	38 thousand shares
The Company	No. 3 Subscription Rights to Shares granted in August 2009 (Share remuneration-type stock option)	Ordinary shares	90 thousand shares
The Company	No. 4 Subscription Rights to Shares granted in August 2010 (Share remuneration-type stock option)	Ordinary shares	131 thousand shares
The Company	No. 5 Subscription Rights to Shares granted in July 2011 (Share remuneration-type stock option)	Ordinary shares	145 thousand shares
The Company	No. 6 Subscription Rights to Shares granted in July 2012 (Share remuneration-type stock option)	Ordinary shares	225 thousand shares
The Company	No. 7 Subscription Rights to Shares granted in July 2013 (Share remuneration-type stock option)	Ordinary shares	169 thousand shares
The Company	No. 8 Subscription Rights to Shares granted in July 2014 (Share remuneration-type stock option)	Ordinary shares	133 thousand shares
The Company	No. 9 Subscription Rights to Shares granted in July 2015 (Share remuneration-type stock option)	Ordinary shares	110 thousand shares
The Company	No. 10 Subscription Rights to Shares granted in July 2016 (Share remuneration-type stock option)	Ordinary shares	135 thousand shares

5. Notes Concerning Tax Effect Accounting

Sources of deferred tax assets and liabilities are as follows:

	(Millions of yen)
Deferred tax assets	
Prepaid outsourced research expenses and co-development expenses	18,306
Depreciation and amortization	3,146
Unrealized gain and valuation loss of inventories	16,335
Unused tax losses	47,130
Accrued expenses	20,830
Post-employment benefit liabilities	3,726
Valuation loss of securities	1,395
Impairment loss	7,929
Lease liabilities	11,891
Others	21,028
Total deferred tax assets	151,720
Deferred tax liabilities	
Intangible assets	(15,667)
Financial assets measured at fair value through other comprehensive income	(13,726)
Reserve for advanced depreciation of property, plant and equipment	(6,247)
Right-of-use assets	(9,092)
Others	(7,880)
Total deferred tax liabilities	(52,613)
Net deferred tax assets (liabilities)	99,106

6. Notes Concerning Financial Instruments

(1) Matters Related to Financial Instruments

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

(2) Matters Related to Fair Value of Financial Instruments

Carrying amounts of the financial instruments on the consolidated statement of financial position, the fair values of each type of financial instruments and the difference as of March 31, 2020, are as follows:

(Millions of yen)

	Amount recorded in consolidated statement of financial position(*)	Fair value	Difference
(1) Cash and cash equivalents	424,184	424,184	-
(2) Trade and other receivables	309,363	309,363	-
(3) Other financial assets	564,503	564,677	174
(4) Trade and other payables	(270,867)	(270,867)	-
(5) Bonds and borrowings	(224,201)	(226,634)	(2,432)
(6) Other financial liabilities	(46,608)	(46,608)	-

(*) Liabilities are shown in parentheses.

Notes: Measurement method of fair values of financial instruments

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

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

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

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

(5) Bonds and borrowings

The fair value of bonds is determined by reference to the quoted market price. 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.

7. Notes Concerning Revenue Recognition

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

(1) Sales of finished goods and merchandise

The promised goods or services to be transferred to customers are mainly the sales of prescription drugs and healthcare (OTC) products. Regarding this type of sale, the Group recognizes revenue when finished goods and merchandise are transferred to and accepted by customers, because control of finished goods and merchandise is transferred and the performance obligation is satisfied at that time.

(2) License fee revenue

The Group receives consideration for upfront payments, milestone revenue and running royalties by entering into agreements to grant rights to third parties for the research and development of products, manufacturing and marketing of products, and usage of technologies.
Revenue from upfront payments is recognized at the time of granting a license if the performance obligation is satisfied at a point in time, and milestone revenue is recognized when a milestone agreed among parties such as application for approval to regulatory agencies is achieved, considering a possibility that significant reversal of revenue might occur subsequently. If a performance obligation is not satisfied at a point in time, its consideration is accounted for as a contract liability and recognized as revenue over a period in accordance with satisfaction of the performance obligation. Running royalties are measured based on sales of counterparties or other indexes, and recognized as revenue considering the timing of occurrence.

8. Notes Concerning Per Share Information

(1) Equity per share attributable to owners of the Company: 2,014.93 yen
(2) Basic earnings per share: 199.21 yen
(3) Diluted earnings per share: 198.80 yen

9. Notes Concerning Significant Subsequent Events

At the meeting of the Board of Directors held on Monday, April 27, 2020, a share split and partial amendment to the Company's articles of incorporation was resolved as follows:

(1) Purpose of the share split
The share split aims to increase the liquidity of the shares by reducing the investment unit price for the Company's share, and to further expand the investor base.

(2) Outline of the share split

1) Method
Fixing Wednesday, September 30, 2020 as the record date, the Company will split its ordinary shares, owned by shareholders listed or recorded in the shareholder registry three-for-one.

2) Number of shares to be increased by the share split
a. Total number of shares issued before the share split 709,011,343
b. Increase in the number of shares upon the share split 1,418,022,686
c. Total number of shares issued after the share split 2,127,034,029
d. Total number of shares issuable after the share split 8,400,000,000

3) Schedule
a. Announcement of record date Friday, September 11, 2020
b. Record date Wednesday, September 30, 2020
c. Effective date Thursday, October 1, 2020

4) Others
The share split will not change the amount of stated capital.

(3) Effect of the share split on per share information
Per-share information calculated as if the share split had taken place at the beginning of the year ended March 31, 2020 is as follows:

	Year Ended March 31, 2020
Equity per share attributable to owners of the Company (yen)	671.64
Basic earnings per share (yen)	66.40
Diluted earnings per share (yen)	66.27

(4) Partial amendment to the articles of incorporation

1) Reason for the amendment

In line with the share split, pursuant to the Article 184.2 of the Companies Act of Japan, the Company will amend, as of Thursday, October 1, 2020, the total number of shares issuable set by Article 6 in the Articles of Incorporation of the Company.

2) Details of the amendment to the articles of incorporation

Details are as follows:

(Underlined points indicate changes)

Before the amendment	After the amendment
(Total Number of Shares Issuable) Article 6. The total number of shares issuable by the Company shall be <u>2.8 billion shares</u>.	(Total Number of Shares Issuable) Article 6. The total number of shares issuable by the Company shall be <u>8.4 billion shares</u>.

3) Schedule for the amendment to the articles of incorporation

Date resolved at the Board of Directors meeting : Monday, April 27, 2020

Effective date of the amendment to the articles of incorporation : Thursday, October 1, 2020

10. Other Notes

Notes Concerning Income Taxes

The Company and certain domestic consolidated subsidiaries applied for approval of a consolidated taxation system during the year ended March 31, 2020, and it will be adopted from the year ending March 31, 2021. Therefore, the relevant accounting as of and for the year ended March 31, 2020 assumes such adoption of a consolidated taxation system. As a result, “Deferred tax assets” increased by 13,050 million yen and “Income taxes” decreased by the same amount as of March 31, 2020.

Notes Concerning Provisions for environmental measures

In the year ended March 31, 2020, the Company decided to start removal work for contaminated soil storage facilities on the site of the former Yasugawa Plant from the following financial year. Consequently, the estimated cost of the removal work of 8,198 million yen is recorded in “Provisions for environmental measures” as of March 31, 2020, and this cost is expected to be incurred from the years ending March 31, 2021 to 2024. Details of the removal work are provided in “2. Notes to Consolidated Statement of Financial Position, (3) Contingent Liabilities, 2) Others, a. Contingent liabilities relevant to environmental measures on the site of the former Yasugawa Plant”.

Notes Concerning Lawsuits

Multiple lawsuits were filed against Daiichi Sankyo Company, Limited, Daiichi Sankyo Inc., Daiichi Sankyo U.S. Holdings, Inc., as well as Forest Laboratories, LLC (currently Allergan Sales, LLC) and subsidiaries of Forest Laboratories, LLC, in various federal and state courts in the United States 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). All named defendants entered into a settlement agreement with the claimants in August 2017, which was amended in March 2018.

The agreement became effective in June 2018 because more than 97% of the plaintiffs and those who did not participate in the lawsuit but met certain criteria expressed their agreement to opt-in to the settlement. Consequently, the Group completed the payment of 358 million U.S. dollar to the settlement fund in December 2019. Of this amount, 353 million U.S. dollar was paid out of proceeds from several insurance policies covering product liability claims against the Group.

Non-Consolidated Statement of Changes in Net Assets
(From April 1, 2019 to March 31, 2020)

(Millions of yen)

	Shareholders' equity						
		Capital surplus			Retained earnings		
					Other retained earnings		
	Share Capital	Legal reserve	Other capital surplus	Total capital surplus	Reserve for advanced depreciation of property, plant and equipment	Retained earnings carried forward	Total retained earnings
Balance as of April 1, 2019	50,000	179,858	476,301	656,159	6,662	370,582	377,244
Movement in the current year							
Reversal of reserve for advanced depreciation of property, plant and equipment					(1,094)	1,094	-
Dividends from surplus						(45,354)	(45,354)
Net income						111,374	111,374
Purchase of treasury shares							
Cancellation of treasury shares			(64)	(64)			
Movement in the year (net) other than shareholders' equity							
Total movement in the current year	-	-	(64)	(64)	(1,094)	67,114	66,020
Balance as of March 31, 2020	50,000	179,858	476,237	656,095	5,568	437,696	443,265

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury shares	Total Shareholders' equity	Net unrealized gain or loss on investment securities	Total valuation and translation adjustments		
Balance as of April 1, 2019	(162,964)	920,440	35,434	35,434	1,805	957,680
Movement in the current year						
Reversal of reserve for advanced depreciation of property, plant and equipment		-				-
Dividends from surplus		(45,354)				(45,354)
Net income		111,374				111,374
Purchase of treasury shares	(85)	(85)				(85)
Cancellation of treasury shares	530	466				466
Movement in the year (net) other than shareholders' equity			(18,390)	(18,390)	(194)	(18,584)
Total movement in the current year	445	66,401	(18,390)	(18,390)	(194)	47,816
Balance as of March 31, 2020	(162,519)	986,841	17,044	17,044	1,611	1,005,497

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

Notes to Non-Consolidated Financial Statements

1. Significant Accounting Policies

(1) Basis and Method of Valuation of Assets

1) Securities

(i) Held-to-maturity securities

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

(ii) Shares in subsidiaries and associates

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

(iii) Available-for-sale securities

With quoted market price:

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

Without quoted market price:

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

2) Inventories

Inventories held for sale in the ordinary course of business:

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

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

1) Property, plant and equipment

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

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

2) Intangible assets

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

(3) Provisions

1) Provisions for doubtful accounts

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

2) Provisions for retirement benefits

Provisions are recorded for retirement benefits to employees based on the estimated amount of projected benefit obligations and the pension plan assets as of the end of the fiscal year.
Past service costs are amortized within one year (12 months) after they are incurred.
Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 years) within the average remaining years of service of the employees from the fiscal year following the year in which the differences occurred.

3) Provisions for business restructuring

Provisions for business restructuring are recorded based on the estimated amount of losses associated with restructuring of the businesses.

4) Provisions for environmental measures

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

(4) Translation of Foreign Currency Assets and Liabilities

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

(5) Hedge Accounting

1) Hedge accounting

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

2) Hedging instruments and hedged items

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

3) Hedge Policy

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

4) Method of Assessing Hedge Effectiveness

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

(6) Accounting Method for Consumption Taxes

The tax-exclusion method is used to account for national and local consumption taxes.

(7) Adoption of consolidated taxation system

The Company and certain domestic consolidated subsidiaries applied for approval of a consolidated taxation system during the year ended March 31, 2020, and it will be adopted from the year ending March 31, 2021. Therefore, the relevant accounting as of and for the year ended March 31, 2020 assumes such adoption of a consolidated taxation system.
Regarding the items for which the stand-alone tax regulations were revised in line with the transition to the Group Tax Sharing System, established under the "Act Partially Amending the Income Tax Act (Act No.8 of 2020)", the Company recorded deferred tax assets and liabilities as of March 31, 2020 based on the provisions of the income tax act before the revisions and not applying clause 44 of the "Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No.28; February 16, 2018)". This treatment is in accordance with clause 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (ASBJ PITF No.39; March 31, 2020)".

(8) Changes in presentation

1) Non-Consolidated Statement of Income

"Provision for environmental measures," which was included in "Other" under "Extraordinary losses" in the year ended March 31, 2019, is presented separately for the year ended March 31, 2020 due to an increase in quantitative materiality.

2. Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ·········· 149,819 million yen.

(2) Contingent liabilities

1) Loan guarantees

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

Daiichi Sankyo Inc. ··· 7 million yen

Employees (housing and other loans)······································ 391 million yen

2) Others

(i) Contingent liabilities related to environmental measures on the site of the former Yasugawa Plant

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

a. Removal of contaminated soil storage facilities
There are two storage facilities of contaminated soil on the site, which were built in 1993, and the Company has managed the facilities and monitored the quality of groundwater there without any issues noted. However, 26 years have passed since the installment of the facilities and the perception toward "Safety and Security" has changed globally during that period. Therefore, considering the risk of unexpected events, the Company, which values environmental stewardship, has decided to remove those facilities in order to avoid any

potential business risks and issues related to managing those facilities.

b. Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site
From March 2018 to September 2019, the Company examined the soil and groundwater of the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, since endrin exceeding the guideline value was continuously observed in some observation wells through monitoring. Consequently, the Company identified an area where endrin is excessively distributed. Complying with the Soil Contamination Countermeasures Act of Japan, the Company is continuously examining the area. The Company decided to begin a consultation process with the government and other authorities, and discuss countermeasures with them.

The expected cost of a. Removal of contaminated soil storage facilities is included in "Provisions for environmental measures" as of March 31, 2020 and the amount is disclosed in "10. Other Notes, Notes Concerning Provisions for environmental measures".
Regarding b. Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, the Company is going to discuss and plan countermeasures with the government and other authorities once the examination of the area is completed, which reflects that the area to implement countermeasure against contamination is partly under the jurisdiction of the government. Without consultation with the government, at this time the Company by itself cannot design a civil engineering plan against contamination and make a reliable cost estimation. As of March 31, 2020, therefore, the Company does not recognize any provision for the cost of countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site.

(ii) Possible compensation to Sun Pharmaceutical Industries Ltd.

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 325 million U.S. dollar. 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.

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

1) Short-term monetary assets ………………………………………… 40,610 million yen

2) Long-term monetary assets ………………………………………… 16,196 million yen

3) Short-term monetary liabilities ……………………………………112,491 million yen

3. Notes to Non-Consolidated Statement of Income

(1) Transactions with subsidiaries and associates

1) Net Sales ········ 102,953 million yen
2) Purchases of goods ········ 135,309 million yen
3) Selling, general and administrative expenses ········ 156,510 million yen
4) Non-operating transactions ········ 35,374 million yen

(2) Extraordinary gains

Gain on sales of subsidiaries and associates' shares

The gain was incurred mainly due to the disposal of the shares of Taiyo Pharmatec Co., Ltd.

(3) Extraordinary losses

Provisions for environmental measures

The loss was related to the estimated cost of the removal of contaminated soil storage facilities on the site of the former Yasugawa Plant.

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

Matters Related to Class and Number of Treasury Shares

Class of shares	Number of shares at April 1, 2019	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2020
Ordinary shares	61,124 thousand shares	12 thousand shares	193 thousand shares	60,943 thousand shares

Notes:

1. The increase in the number of treasury shares was due to purchases of 12 thousand shares of less than one unit.
2. The decrease in the number of treasury shares was due to sale of 0 thousand shares to meet top-up demands for shares of less than one unit, a decrease of 153 thousand shares as a result of exercise of subscription rights to shares and a decrease of 40 thousand shares by granting restricted stocks.

5. Notes Concerning Tax Effect Accounting

Sources of deferred tax assets and liabilities are as follows:

	(Millions of yen)
Deferred tax assets	
Unused tax losses	66,022
Prepaid outsourced research expenses and co-development expenses	18,264
Depreciation and amortization	14,117
Valuation loss of inventories	6,467
Accrued bonuses	4,704
Prepaid expenses	3,213
Valuation loss of securities	1,923
Accrued enterprise taxes	793
Others	9,276
Subtotal of deferred tax assets	124,783
Valuation allowance	(21,594)
Total deferred tax assets	103,188
Deferred tax liabilities	
Net unrealized gain or loss on investment securities	(7,483)
Prepaid pension cost	(5,937)
Reserve for advanced depreciation of Property, plant and equipment	(4,905)
Others	(252)
Total deferred tax liabilities	(18,578)
Net deferred tax assets (liabilities)	84,609

6. Notes Concerning Revenue Recognition

This note is omitted as it is included in “7. Notes Concerning Revenue Recognition” in the Notes to Consolidated Financial Statements.

7. Notes Concerning Related Party Transactions

Subsidiaries

Nature of related party	Name	Business	Ownership percentage	Relationship		Transactions	Transaction amount (Millions of yen)	Accounts	Balance at the end of year (Millions of yen)
				Concurrent directors	Business relationship				
Subsidiary	Daiichi Sankyo Healthcare Co., Ltd.	Research and development, manufacturing and marketing of healthcare products	Directly 100.0	Directors: 1	Lending and borrowing of funds	Custody of funds	21,989	Deposit received	21,989
Subsidiary	Daiichi Sankyo Propharma Co., Ltd.	Manufacturing of pharmaceuticals	Directly 100.0	Directors: 1	Purchase of merchandise	Purchase of merchandise	33,499	Accounts payable - trade	2,236
Subsidiary	Daiichi Sankyo Chemical Pharma Co., Ltd.	Manufacturing of pharmaceuticals	Directly 100.0	Directors: 1	Purchase of merchandise	Lending of funds	18,455	Short-term loans receivable	2,567
								Long-term loans receivable	15,888
Subsidiary	Daiichi Sankyo U.S. Holdings Inc.	Holding company	Directly 100.0	Directors: 1	Interlocking of officers	Receipt of dividend	18,184	—	—
Subsidiary	Daiichi Sankyo Inc.	Research and development and marketing of pharmaceuticals	Indirectly 100.0	Directors: 1	Marketing of pharmaceuticals and entrustment of research and development and marketing	Marketing of pharmaceuticals and royalty income	19,872	Accounts receivable - trade	2,461
						Entrustment of research and marketing	93,296	Accounts payable - other	9,129
								Accrued expenses	14,825
Subsidiary	Daiichi Sankyo Europe GmbH	Supervision of the Daiichi Sankyo Europe Group, and research and development, manufacturing and marketing of pharmaceuticals	Directly 100.0	Directors: 1	Marketing of pharmaceuticals and entrustment of research and development and marketing	Marketing of pharmaceuticals and royalty income	67,627	Accounts receivable - trade	15,886

Notes:

1. Policies for determining transaction terms and conditions
   Transaction terms with the companies mentioned above are decided by referring to market prices.
2. Consumption taxes are not included in "Transaction amount," but are included in "Balance at the end of year."

8. Notes Concerning Per Share Information

(1) Net assets per share ········ 1,549.05 yen

(2) Earnings per share ········ 171.89 yen

(3) Diluted earnings per share ········ 171.54 yen

9. Notes Concerning Significant Subsequent Events

At the meeting of the Board of Directors held on Monday, April 27, 2020, a share split and partial amendment to the Company's articles of incorporation was resolved as follows:

(1) Purpose of the share split
The share split aims to increase the liquidity of the shares by reducing the investment unit price for the Company's share, and to further expand the investor base.

(2) Outline of the share split

1) Method
Fixing Wednesday, September 30, 2020 as the record date, the Company will split its ordinary shares, owned by shareholders listed or recorded in the shareholder registry three-for-one.

2) Number of shares to be increased by the share split
   a. Total number of shares issued before the share split 709,011,343
   b. Increase in the number of shares upon the share split 1,418,022,686
   c. Total number of shares issued after the share split 2,127,034,029
   d. Total number of shares issuable after the share split 8,400,000,000
3) Schedule
   a. Announcement of record date Friday, September 11, 2020
   b. Record date Wednesday, September 30, 2020
   c. Effective date Thursday, October 1, 2020
4) Others
   The share split will not change the amount of stated capital.

(3) Effect of the share split on per share information
Per-share information calculated as if the share split had taken place at the beginning of the year ended March 31, 2020 is as follows:

	Year Ended March 31, 2020
Net assets per share (yen)	516.35
Earnings per share (yen)	57.30
Diluted earnings per share (yen)	57.18

(4) Partial amendment to the articles of incorporation
1) Reason for the amendment
   In line with the share split, pursuant to the Article 184.2 of the Companies Act of Japan, the Company will amend, as of Thursday, October 1, 2020, the total number of shares issuable set by Article 6 in the Articles of Incorporation of the Company.
2) Details of the amendment to the articles of incorporation
   Details are as follows:

（Underlined points indicate changes）

Before the amendment	After the amendment
(Total Number of Shares Issuable) Article 6. The total number of shares issuable by the Company shall be <u>2.8 billion shares</u>.	(Total Number of Shares Issuable) Article 6. The total number of shares issuable by the Company shall be <u>8.4 billion shares</u>.

3) Schedule for the amendment to the articles of incorporation
   Date resolved at the Board of Directors meeting : Monday, April 27, 2020
   Effective date of the amendment to the articles of incorporation: Thursday, October 1, 2020

10. Other Notes

Notes Concerning Income Taxes

As explained in “1. Significant Accounting Policies, (7) Adoption of consolidated taxation system”, the relevant accounting as of and for the year ended March 31, 2020 assumes such adoption of a consolidated taxation system.
Consequently, “Deferred tax assets” increased by 14,718 million yen and “Income taxes” decreased by the same amount as of March 31, 2020.

Note Concerning Provision for environmental measures

In the year ended December 31, 2019, the Company decided to start removal work for contaminated soil storage facilities on the site of the former Yasugawa Plant from the following financial year. Consequently, the estimated cost of the removal work of 8,198 million yen is recorded in “Provision for environmental measures” as of March 31, 2019, and this cost is expected to be incurred from the years ending March 31, 2020 to 2023. Details of the removal work are provided in “2. Notes to Non-Consolidated Balance Sheet, (2) Contingent Liabilities, 2) Others, (i) Contingent liabilities relevant to environmental measures on the site of the former Yasugawa Plant”.

Notes Concerning Lawsuits

Multiple lawsuits were filed against Daiichi Sankyo Company, Limited, Daiichi Sankyo Inc., Daiichi Sankyo U.S. Holdings, Inc., as well as Forest Laboratories, LLC (currently Allergan Sales, LLC) and subsidiaries of Forest Laboratories, LLC, in various federal and state courts in the United States 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). All named defendants entered into a settlement agreement with the claimants in August 2017, which was amended in March 2018.

The agreement became effective in June 2018 because more than 97% of the plaintiffs and those who did not participate in the lawsuit but met certain criteria expressed their agreement to opt-in to the settlement. Consequently, the Group completed the payment of 358 million U.S. dollar to the settlement fund in December 2019. Of this amount, 353 million U.S. dollar was paid out of proceeds from several insurance policies covering product liability claims against the Group.