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

For the 14th Fiscal Period (from April 1, 2018 to March 31, 2019)

[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)) One Member of the Audit and Supervisory Board of the Company (excluding Members of the Audit and Supervisory Board (Outside))	341 units 49 units	34,100 shares of the ordinary share of the Company 4,900 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	Five Members of the Board of the Company (excluding Members of the Board (Outside))	473 units	47,300 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	Five Members of the Board of the Company (excluding Members of the Board (Outside))	626 units	62,600 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	Five Members of the Board of the Company (excluding Members of the Board (Outside))	448 units	44,800 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)) One Member of the Audit and Supervisory Board of the Company (excluding Members of the Audit and Supervisory Board (Outside))	486 units 34 units	48,600 shares of the ordinary share of the Company 3,400 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))	427 units	42,700 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))	497 units	49,700 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)
361,200 shares	0.06%

Consolidated Statement of Changes in Equity
(From April 1, 2018 to March 31, 2019)

(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, 2018	50,000	94,633	(163,531)	1,993	57,339	61,171
Changes in accounting policies	—	—	—	—	—	—
Adjusted balance as of April 1, 2018	50,000	94,633	(163,531)	1,993	57,339	61,171
Profit for the year	—	—	—	—	—	—
Other comprehensive income (loss) for the year	—	—	—	—	9,289	60,976
Total comprehensive income (loss) for the year	—	—	—	—	9,289	60,976
Purchase of treasury shares	—	—	(45)	—	—	—
Cancellation of treasury shares	—	—	612	(187)	—	—
Dividends	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	(75,415)
Others	—	—	—	—	—	—
Total transactions with owners of the Company	—	—	567	(187)	—	(75,415)
Balance as of March 31, 2019	50,000	94,633	(162,964)	1,805	66,628	46,732

	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, 2018	—	120,504	1,031,376	1,132,982	58	1,133,041
Changes in accounting policies	—	—	(530)	(530)	—	(530)
Adjusted balance as of April 1, 2018	—	120,504	1,030,846	1,132,452	58	1,132,510
Profit for the year	—	—	93,409	93,409	12	93,422
Other comprehensive income (loss) for the year	205	70,471	—	70,471	—	70,471
Total comprehensive income (loss) for the year	205	70,471	93,409	163,881	12	163,893
Purchase of treasury shares	—	—	—	(45)	—	(45)
Cancellation of treasury shares	—	(187)	(115)	310	—	310
Dividends	—	—	(45,340)	(45,340)	—	(45,340)
Transfer from other components of equity to retained earnings	(205)	(75,621)	74,006	(1,615)	—	(1,615)
Others	—	—	—	—	(8)	(8)
Total transactions with owners of the Company	(205)	(75,808)	28,550	(46,691)	(8)	(46,699)
Balance as of March 31, 2019	—	115,166	1,152,806	1,249,642	62	1,249,705

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 RD Novare Co., Ltd., Daiichi Sankyo Business Associe Co., Ltd., Kitasato Daiichi Sankyo Vaccine 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: 1 companies (increase due to establishment)
  Decrease: 7 companies (decrease due to liquidation and merger, etc.)

(3) Application of the Equity Method

- Number of associates which are accounted for under the equity method: 3
- Major associates: Japan Vaccine Co., Ltd.

(4) Significant Accounting Policies

1) Basis and Method of Valuation of Significant Assets

a. Non-derivative Financial Assets

(i) Initial recognition and measurement

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

(a) Financial assets measured at amortized cost
Financial assets are classified as financial assets measured at amortized cost if both of the following conditions are met:
- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows: and
- the contractual terms of the financial asset give rise on specified dates to cash flows

that are solely payments of principal and interest on the principal amount outstanding.

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

Debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

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

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

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

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

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

(iii) Derecognition

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

b. Impairment of Financial Assets

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

If the credit risk on financial assets has not increased significantly since initial recognition, a loss allowance is measured at an amount equal to 12-month expected credit losses. If the credit risk on financial assets has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses. However, a loss allowance for trade receivables that do not contain a significant financing component is measured at an amount equal to lifetime expected credit losses.

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

c. Non-derivative Financial Liabilities

(i) Initial recognition and measurement

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

(ii) Subsequent measurement

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

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

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

(iii) Derecognition

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

d. Offsetting Financial Assets and Liabilities

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

e. Derivatives and Hedge Accounting

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

(i) Fair value hedges

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

(ii) Cash flow hedges

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

f. Inventories

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

2) Depreciation and Amortization of Significant Depreciable Assets

a. Property, Plant and Equipment

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

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

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

b. Intangible Assets

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

- Commercial rights: 5 to 14 years

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

c. Leased Assets

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.

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 and amended accounting standards and interpretation. In the year ended March 31, 2019, the Group adopted the following accounting standards and interpretation in accordance with their effective date.

IFRS		Overview
IFRS 2	Share-based Payment	Amendment to classification and measurement of share based payments
IFRS 9	Financial Instruments	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	Amendment to accounting for revenue
IAS 40	Investment Property	Amendment to clarify the rules for transfers of investment property
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Amendment to the exchange rate to be used on initial recognition of a related asset, expense or income when an entity has received or paid advance consideration in a foreign currency

The Group applied IFRS 15 retrospectively in accordance with the transition method and recognized the cumulative effect from initial application as an adjustment to the opening balance of retained earnings for the year ended March 31, 2019, and did not restate the consolidated financial statements for the year ended March 31, 2018.
With the adoption of IFRS 15, from the year ended March 31, 2019, revenue from a contract with a customer is recognized by applying the following five steps.
Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

1) Sales of finished goods and merchandise
Revenue from sale of finished goods and merchandise is recognized when the performance obligation is satisfied, considering the following indicators:
-the Group has a present right to payment for the asset;
-the customer has legal title to the asset;
-the Group has transferred physical possession of the asset; and
-the customer has accepted the asset.
Revenue is measured at the amount after deducting the impact of trade discounts, cash discounts, rebates and returns from the consideration promised in the contract.

2) License fee revenue
Revenue arising from license agreements is recognized at a point in time or over time depending on the content of performance obligation(s).

Based on the above five-step model, as a result of reconsidering the timing of revenue recognition in light of the satisfaction of performance obligations, in some contracts, license fees which were already recognized as revenue based on the former accounting standard are accounted for as contract liabilities and related license fees are recognized over a period in accordance with the method of measuring progress pertaining to satisfaction of performance obligations determined by each contract based on IFRS 15.

In addition, with the adoption of IFRS 15, from the year ended March 31, 2019, provisions for sales returns, rebates and deductions which were previously presented as “Provisions” (current), have been reclassified to refund liabilities, which are included in “Trade and other payables”.
As a result, the opening balance of “Deferred tax assets”, “Trade and other payables”, and “Other non-current liabilities” increased by 233 million yen, 22,637 million yen and 557 million yen, respectively, and “Provisions” (current) and “Retained earnings” decreased by 22,431 million yen and 530 million yen, respectively, as compared to the balances which would be reported if the previous accounting standard was applied.
Also, “Deferred tax assets”, “Trade and other payables”, and “Other non-current liabilities” increased by 170 million yen, 21,961 million yen and 351 million yen, respectively, and “Provisions” (current) and “Retained earnings” decreased by 21,755 million yen and 387 million yen, respectively, as of March 31, 2019, as compared to the balances which would be reported if the previous accounting standard was applied.

Except for the above, the new and amended accounting standards and interpretation did not have a material impact on the consolidated financial statements.

2. Notes to Consolidated Statement of Financial Position

(1) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables ·· 413 million yen

Other financial assets ·· 0 million yen

(2) Accumulated depreciation and accumulated impairment losses on property, plant and equipment

··· 478,556 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) ······································ 476 million yen

2) 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 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 Changes in Equity

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

Class of shares	Number of shares at April 1, 2018	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2019
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, 2018	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2019
Ordinary shares	61,343 thousand shares	10 thousand shares	229 thousand shares	61,124 thousand shares

Notes:

1. The increase in the number of treasury shares was due to purchases of 10 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 152 thousand shares as a result of exercise of subscription rights to shares and a decrease of 76 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 12th Ordinary General Meeting of Shareholders held on June 18, 2018

- Total amount of dividends: 22,668 million yen
- Dividend per share: 35 yen
- Record date: March 31, 2018
- Effective date: June 19, 2018

b. Dividends based on a resolution made at the Board of Directors Meeting held on October 31, 2018

- Total amount of dividends: 22,672 million yen
- Dividend per share: 35 yen
- Record date: September 30, 2018
- Effective date: December 3, 2018

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 14th Ordinary General Meeting of Shareholders, which will be held on June 17, 2019.

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

(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	32 thousand shares
The Company	No. 2 Subscription Rights to Shares granted in November 2008 (Share remuneration-type stock option)	Ordinary shares	56 thousand shares
The Company	No. 3 Subscription Rights to Shares granted in August 2009 (Share remuneration-type stock option)	Ordinary shares	105 thousand shares
The Company	No. 4 Subscription Rights to Shares granted in August 2010 (Share remuneration-type stock option)	Ordinary shares	161 thousand shares
The Company	No. 5 Subscription Rights to Shares granted in July 2011 (Share remuneration-type stock option)	Ordinary shares	173 thousand shares
The Company	No. 6 Subscription Rights to Shares granted in July 2012 (Share remuneration-type stock option)	Ordinary shares	250 thousand shares
The Company	No. 7 Subscription Rights to Shares granted in July 2013 (Share remuneration-type stock option)	Ordinary shares	181 thousand shares
The Company	No. 8 Subscription Rights to Shares granted in July 2014 (Share remuneration-type stock option)	Ordinary shares	145 thousand shares
The Company	No. 9 Subscription Rights to Shares granted in July 2015 (Share remuneration-type stock option)	Ordinary shares	118 thousand shares
The Company	No. 10 Subscription Rights to Shares granted in July 2016 (Share remuneration-type stock option)	Ordinary shares	135 thousand shares

4. 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	14,181
Depreciation and amortization	4,196
Unrealized gain and valuation loss of inventories	16,887
Unused tax losses	35,424
Accrued expenses	19,144
Accounts payable - other	12,125
Post-employment benefit liabilities	6,283
Valuation loss of securities	1,544
Impairment loss	7,506
Others	21,535
Total deferred tax assets	138,832
Deferred tax liabilities	
Intangible assets	(17,341)
Financial assets measured at fair value through other comprehensive income	(21,404)
Reserve for advanced depreciation of property, plant and equipment	(6,781)
Accounts receivable - other	(11,959)
Others	(3,700)
Total deferred tax liabilities	(61,188)
Net deferred tax assets (liabilities)	77,643

5. 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, 2019, are as follows:

(Millions of yen)

	Amount recorded in consolidated statement of financial position(*)	Fair value	Difference
(1) Cash and cash equivalents	243,155	243,155	—
(2) Trade and other receivables	419,609	419,609	—
(3) Other financial assets	651,776	652,023	247
(4) Trade and other payables	(312,660)	(312,660)	—
(5) Bonds and borrowings	(260,585)	(265,028)	(4,442)
(6) Other financial liabilities	(6,210)	(6,210)	—

(*) 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.

6. 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.

7. Notes Concerning Per Share Information

(1) Equity per share attributable to owners of the Company:	1,928.80 yen
(2) Basic earnings per share:	144.20 yen
(3) Diluted earnings per share:	143.88 yen

8. Notes Concerning Significant Subsequent Events

The Company transferred and leased back its own fixed assets on April 25, 2019 for reduction and optimization of the Group’s total assets. The overview of the transaction is as follows:

- Name of the assets: Daiichi Sankyo Nihonbashi Building
- Address of the assets: 3-14-2, Nihonbashi, Chuo-ku, Tokyo
- Type of assets: Land and building
- Current use of the assets: facilities for administration
- Execution date of the transfer agreement: March 29, 2019
- Execution date of the lease agreement: April 25, 2019
- Date of the transfer: April 25, 2019
- Gain from the transfer: Approximately 10.6 billion yen*

* The amount of gain is approximate after deduction of costs relating to the transfer and will be recorded in the first quarter for the year ending March 31, 2020.

Due to the arrangement between the Company and the transferee, the name of the transferee, the transfer price and the book value of the assets shall not be disclosed. There are no capital, personal or business relationships to be disclosed between the Group and the transferee and, and the transferee is not a related party of the Group.

9. Other Notes

Notes Concerning Income Taxes

For the fiscal year ended March 31, 2016, the Company recorded an allowance for tax uncertainties as a tax liability in connection with the Group’s restructuring. However, as the tax examination for the relevant fiscal year was completed and the Company’s tax treatment was finalized, the Company decided to reverse the tax liability.
As a result, “Income taxes payable” decreased by 53,846 million yen and “Deferred tax assets” increased by 12,576 million yen as of March 31, 2019. In addition, the decrease in income taxes due to above amounting to 66,422 million yen was recognized as increase in “Financial assets measured at fair value through other comprehensive income” in other comprehensive income for the year ended March 31, 2019.

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 would become effective, among other conditions, when 97% of the plaintiffs and those who did not participate in the lawsuit but meet certain criteria express their agreement to opt-in to the settlement, and, subsequently, all named defendants will contribute 358 million U.S. dollar to a settlement fund, and claimants who meet specified criteria under the settlement will receive payouts from the fund.

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, as the expected payments to the settlement fund of 358 million U.S. dollar recorded in "Provisions" (non-current) as of March 31,2018 became a fixed liability, the amount of 39,741 million yen was recorded in "Trade and other payables" as of March 31,2019. In addition, the expected compensation from insurance, presented as " Other financial assets" (non-current) as of March 31, 2018, was presented as "Trade and other receivables" as of March 31, 2019, which amounted to 39,035 million yen.

Non-Consolidated Statement of Changes in Net Assets
(From April 1, 2018 to March 31, 2019)

(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, 2018	50,000	179,858	476,416	656,275	6,999	282,047	289,046
Changes in accounting policies						(530)	(530)
Adjusted balance as of April 1, 2018	50,000	179,858	476,416	656,275	6,999	281,516	288,515
Movement in the current year							
Reversal of reserve for advanced depreciation of property, plant and equipment					(336)	336	-
Dividends from surplus						(45,340)	(45,340)
Net income						134,069	134,069
Purchase of treasury shares							
Cancellation of treasury shares			(115)	(115)			
Movement in the year (net) other than shareholders' equity							
Total movement in the current year	-	-	(115)	(115)	(336)	89,066	88,729
Balance as of March 31, 2019	50,000	179,858	476,301	656,159	6,662	370,582	377,244

	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, 2018	(163,531)	831,789	46,218	46,218	1,993	880,001
Changes in accounting policies		(530)				(530)
Adjusted balance as of April 1, 2018	(163,531)	831,259	46,218	46,218	1,993	879,470
Movement in the current year						
Reversal of reserve for advanced depreciation of property, plant and equipment		-				-
Dividends from surplus		(45,340)				(45,340)
Net income		134,069				134,069
Purchase of treasury shares	(45)	(45)				(45)
Cancellation of treasury shares	612	497				497
Movement in the year (net) other than shareholders' equity			(10,783)	(10,783)	(187)	(10,970)
Total movement in the current year	567	89,181	(10,783)	(10,783)	(187)	78,210
Balance as of March 31, 2019	(162,964)	920,440	35,434	35,434	1,805	957,680

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 environmental measures

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

4) Provisions for business restructuring

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

(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) Changes in accounting policies

Application of Implementation Guidance on Tax Effect Accounting

The Company has adopted “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28 issued on February 16, 2018) from the year ended March 31, 2019, and changed the treatment of the taxable temporary differences such as investments in subsidiaries. This changes in accounting policy has been applied retrospectively, and the financial statements of the previous fiscal year are presented after retrospective application.

As a result, “Deferred tax liabilities” in non-current liabilities on the Non-Consolidated Balance Sheet as of March 31, 2018 decreased by 7,341 million yen and “Retained earnings carried forward” on the Non-Consolidated Balance Sheet as of March 31, 2018 increased by the same amount, compared to those before retrospective application.

There was no effect on the Non-Consolidated Statement of Income.

Application of “Accounting Standard for Revenue Recognition” and “Implementation Guidance on Accounting Standard for Revenue Recognition”

The Company has early adopted “Accounting Standard for Revenue Recognition” (ASBJ statement No. 29 issued on March 30, 2018) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30 issued on March 30, 2018) from the year ended March 31, 2019, and recognized revenues when control of promised goods or services were transferred to customers based on the amounts expected to be collected in exchange for those goods or services.

In accordance with the transitional measure prescribed in the proviso to paragraph 84 of “Accounting Standard for Revenue Recognition”, the Company adjusted retained earnings carried forward for the cumulative effect at the beginning of the year ended March 31, 2019 which was caused by applying this new accounting policy to all previous years retrospectively.

In addition, “Provisions for sales returns” and “Provisions for sales rebates” were reclassified to “Other current liabilities” in current liabilities as refund liabilities as of March 31, 2019.

As a result, compared to the application of the previous accounting standards, at the beginning of the year ended March 31, 2019, “Deferred revenue” of 150 million yen in current liabilities was reclassified to “Contract liabilities” in current liabilities, “Provisions for sales returns” of 143 million yen and “Provisions for sales rebates” of 418 million yen in current liabilities were reclassified to “Other current liabilities” in current liabilities, the amount of 1,750 million yen included in “Other non-current liabilities” in non-current liabilities was reclassified to “Contract liabilities” in non-current liabilities, “Deferred tax assets”, “Contract liabilities” in current liabilities and “Contract liabilities” in non-current liabilities increased by 233 million yen, 206 million yen and 557 million yen, respectively, and “Retained earnings carried forward” decreased by 530 million yen.

Also, compared to the application of the previous accounting standards, for the year ended March 31, 2019, “Net sales” increased by 209 million yen, “Reversal of provisions for sales returns” decreased by 3 million yen, and “Gross profit”, “Operating income”, “Ordinary income” and “Income before income taxes” increased by 206 million yen, respectively. In addition, as of March 31, 2019, “Deferred revenue” of 9,958 million yen in current liabilities was reclassified to “Contract liabilities” in current liabilities, “Provisions for sales returns” of 139 million yen and “Provisions for sales rebates” of 352 million yen were reclassified to “Other current liabilities” in current liabilities, the amount of 143,394 million yen included in “Other non-current liabilities” in non-current liabilities was reclassified to “Contract liabilities” in non-current liabilities, “Deferred tax assets”, “Contract liabilities” in current liabilities and “Contract liabilities” in non-current liabilities increased by 170 million yen, 206 million yen and 351 million yen respectively, and “Retained earnings carried forward” decreased by 387 million yen.

(8) Changes in presentation

Changes due to application of "Partial Amendments to Accounting Standard for Tax Effect Accounting"

The Company has adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28 issued on February 16, 2018) from the current fiscal year, and changed the presentation of deferred tax balances such that deferred tax assets are presented as investments and other assets, and deferred tax liabilities are presented as non-current liabilities.
As a result, "Deferred tax assets" of 28,980 million yen in current assets and "Deferred tax liabilities" of 8,330 million yen in non-current liabilities (after retrospective application due to changes in accounting policy) which were presented in the Non-Consolidated Balance Sheets as of March 31, 2018 were reclassified to "Deferred tax assets" of 20,649 million yen in investments and other assets.

2. Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ·········· 147,467 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)······································ 476 million yen

2) 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 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 ·· 33,598 million yen

2) Long-term monetary assets ·· 14,221 million yen

3) Short-term monetary liabilities ··· 123,076 million yen

3. Notes to Non-Consolidated Statement of Income

(1) Transactions with subsidiaries and associates

1) Net Sales ···· 89,471 million yen

2) Purchases of goods ···· 163,721 million yen

3) Selling, general and administrative expenses ···· 132,883 million yen

4) Non-operating transactions ···· 62,585 million yen

(2) Extraordinary gains

Reversal of provisions for business restructuring

The provisions were reversed because the estimated amount of losses associated with restructuring of the businesses decreased.

(3) Extraordinary losses

Adjustments for intra-group transfer pricing

Adjustments for intra-group transfer pricing are price adjustments for transfer pricing to transactions in previous years between the Company and its overseas subsidiaries.

Loss on valuation of subsidiaries and associates' shares

The loss was incurred due to impairment of shares of domestic subsidiaries and associates held by the Company.

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, 2018	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2019
Ordinary shares	61,343 thousand shares	10 thousand shares	229 thousand shares	61,124 thousand shares

Notes:

1. The increase in the number of treasury shares was due to purchases of 10 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 152 thousand shares as a result of exercise of subscription rights to shares and a decrease of 76 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	65,276
Valuation loss of securities	18,375
Prepaid outsourced research expenses and co-development expenses	14,100
Accounts payable - other	12,125
Depreciation and amortization	10,532
Prepaid expenses	6,207
Valuation loss of inventories	5,345
Accrued bonuses	4,520
Accrued enterprise taxes	354
Others	10,254
Subtotal of deferred tax assets	147,092
Valuation allowance	(50,793)
Total deferred tax assets	96,299
Deferred tax liabilities	
Net unrealized gain or loss on investment securities	(15,557)
Accounts receivable - other	(11,959)
Reserve for advanced depreciation of Property, plant and equipment	(5,466)
Prepaid pension costs	(1,929)
Others	(232)
Total deferred tax liabilities	(35,145)
Net deferred tax assets (liabilities)	61,153

6. Notes Concerning Revenue Recognition

This note is omitted as it is included in “6. 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	21,333	Deposit received	21,333
Subsidiary	Daiichi Sankyo Propharma Co., Ltd.	Manufacturing of pharmaceuticals	Directly 100.0	Directors: 1	Purchase of merchandise	Purchase of merchandise	48,728	Accounts payable - trade	3,732
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	17,248	Accounts receivable - trade	4,020
						Transfer price adjustments	20,472	Accounts payable - other	2,326
						Entrustment of research and marketing	73,272	Accounts payable - other	5,780
								Accrued expenses	16,791
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	58,092	Accounts receivable - trade	12,836

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 ········· 1,475.37 yen

(2) Earnings per share ········· 206.97 yen

(3) Diluted earnings per share ········· 206.51 yen

9. Notes Concerning Significant Subsequent Events

The Company transferred and leased back its own fixed assets on April 25, 2019 for reduction and optimization of the Group's total assets. The overview of the transaction is as follows;

- Name of the assets: Daiichi Sankyo Nihonbashi Building
- Address of the assets: 3-14-2, Nihonbashi, Chuo-ku, Tokyo
- Type of assets: Land and building
- Current use of the assets: facilities for administration
- Execution date of the transfer agreement: March 29, 2019
- Execution date of the lease agreement: April 25, 2019
- Date of the transfer: April 25, 2019
- Gain from the transfer: Approximately 15.9 billion yen*

* The amount of gain is approximate after deduction of costs relating to the transfer and will be recorded in the first quarter for the year ending March 31, 2020.

Due to the arrangement between the Company and the transferee, the name of the transferee, the transfer price and the book value of the assets shall not be disclosed. There are no capital, personal or business relationships to be disclosed between the Group and the transferee and, and the transferee is not a related party of the Group.

10. Other Notes

Notes Concerning Income Taxes

For the fiscal year ended March 31, 2016, the Company recorded an allowance for tax uncertainties as a tax liability in connection with the Group's restructuring. However, as the tax examination for the relevant fiscal year was completed and the Company's tax treatment was finalized, the Company decided to reverse the tax liability.

As a result, "Income taxes payable" decreased by 56,108 million yen and "Deferred tax assets" increased by 14,852 million yen as of March 31, 2019. In addition, "Operating income", "Ordinary income" and "Income before income taxes" each increased by 2,261 million yen, and "Net income" increased by 70,960 million yen for the year ended March 31, 2019.

Note 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 would become effective, among other conditions, when 97% of the plaintiffs and those who did not participate in the lawsuit but meet certain criteria express their agreement to opt-in to the settlement, and, subsequently, all named defendants will contribute 358 million U.S. dollar to a settlement fund, and claimants who meet specified criteria under the settlement will receive payouts from the fund.

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, as the expected payments to the settlement fund of 358 million U.S. dollar recorded in "Provisions for loss on litigation" as of March 31, 2018 became a fixed liability, the amount of 39,741 million yen was recorded in "Accounts payable - other" as of March 31, 2019. In addition, the expected compensation from insurance, presented as "Long-term accounts receivable - other" as of March 31, 2018, was presented as "Accounts receivable - other" as of March 31, 2019, which amounted to 39,035 million yen.