

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS**

**For the 8<sup>th</sup> Fiscal Period (from April 1, 2012 to March 31, 2013)**

**Daiichi Sankyo Company, Limited**

<p>This document is provided to our shareholders by posting them on our website (<a href="http://www.daiichisankyo.co.jp/ir/information/shareholder/index.html">http://www.daiichisankyo.co.jp/ir/information/shareholder/index.html</a>) pursuant to laws and regulations, and Article 16 of our Articles of Incorporation.</p>
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\*Note: This translation does not include pictures, charts etc. originally issued in the Japanese version.

## Notes to Consolidated Financial Statements

### 1. Basis of Presentation and Summary of Significant Accounting Policies for the Preparation of Consolidated Financial Statements

#### (1) Scope of Consolidation

- 1) Status of consolidated subsidiaries
  - Number of consolidated subsidiaries: 104
  - Principal consolidated subsidiaries:

##### In Japan

Daiichi Sankyo Espha Co., Ltd., Daiichi Sankyo Healthcare Co., Ltd., Daiichi Sankyo Propharma Co., Ltd., Asubio Pharma Co., Ltd.

##### Overseas

Daiichi Sankyo U.S. Holdings, Inc., Daiichi Sankyo Inc., Luitpold Pharmaceuticals, Inc., Daiichi Sankyo Europe GmbH, Ranbaxy Laboratories Ltd.

- 2) Status of non-consolidated subsidiaries
  - Number of non-consolidated subsidiaries: 5

Non-consolidated subsidiaries (including Shanghai Xinshengyuan Pharmaceutical Group Medicine & Chemical Reagents Sales Co., Ltd., Zenotech Laboratories Ltd. and three subsidiaries of Zenotech Laboratories Ltd.) are small and are not material to the consolidated financial statements when measured by the amounts of total assets, net sales, net income (based on the Company's ownership percentage), retained earnings (based on the Company's ownership percentage), and other indicators. They have therefore been excluded from the scope of consolidation.

#### (2) Application of the Equity Method

- 1) Status of non-consolidated subsidiaries or affiliates which are accounted for under the equity method
  - Number of non-consolidated subsidiaries or affiliates which are accounted for under the equity method: 4
  - Name of principal company: Japan Vaccine Co., Ltd. and Zenotech Laboratories Ltd.  
Japan Vaccine Co., Ltd. was established in the fiscal year ended March 31, 2013 and included in affiliates which are accounted for under the equity method.

- 2) Status of non-consolidated subsidiaries and affiliates which are not accounted for under the equity method

Net income (based on the Company's equity percentage), retained earnings (based on the Company's equity percentage), and other indicators of those non-consolidated subsidiaries (Shanghai Xinshengyuan Pharmaceutical Group Medicine & Chemical Reagents Sales Co., Ltd., three subsidiaries of Zenotech Laboratories Ltd.) and affiliates that have not been accounted for under the equity method are not material or significant for the Company as a whole. Therefore, these companies have not been accounted for under the equity method, but are rather reported in the Company's investment account under the cost method.

- 3) Matters of particular importance related to procedures for the application of the equity method  
In case that the fiscal year-end of certain companies which are accounted for under the equity method is different from the date of consolidated fiscal year-end, the Company uses the financial statements of these companies as of their own fiscal year-end in preparing the consolidated financial statements.

### **(3) Fiscal Year-End of Consolidated Subsidiaries**

Among the Group's consolidated subsidiaries, 50 companies, including Ranbaxy Laboratories Ltd., have the fiscal year-end of December 31 and use the financial information as of their fiscal year-end for consolidation purposes. Eliminations are performed to adjust the consolidated accounts for significant inter-company transactions occurring between their fiscal year-end and that of the consolidated financial statements.

Among the Group's consolidated subsidiaries, eight companies, including Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd., Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd. and Daiichi Sankyo Brasil Farmacéutica Ltda., prepare additional financial information as of the same date as the Consolidated Financial Statements (March 31) for consolidation purposes.

The accounting year-end of these eight companies is December 31. Whereas the Group used the financial statements of the companies as of their fiscal year-end and made necessary adjustments for major transactions between their fiscal year-end and that of the consolidated financial statements, beginning in the fiscal year under review, the Group uses additional financial information prepared for consolidation purposes as described above. In addition, Daiichi Sankyo Venezuela, S.A. changed its accounting year-end from December 31 to March 31. As a result, the firm reported its financial performance for the 15-month period from January 1, 2012 to March 31, 2013. The impact caused by these adjustments is not material or significant for the Company.

### **(4) Summary of Significant Accounting Policies**

- 1) Methods of Valuation of Significant Assets
  - a. Securities
    - Held-to-maturity securities:  
Mainly the amortized cost method (straight-line amortization)
    - Available-for-sale securities:  
Securities with determinable market value:  
Mainly stated at market value method based on the quoted market prices at the end of the fiscal year. Unrealized holding gains and losses are reported in a component of net assets, with the cost of securities sold being calculated by the moving-average method.
    - Securities without determinable market value:  
Mainly stated at cost based on the moving-average method
  - b. Derivatives
    - Market value method
  - c. Inventories
    - Inventories for ordinary sales  
Stated at cost by the weighted average cost basis, being written-down to reflect the decline of profitability.
- 2) Depreciation and Amortization of Significant Depreciable Assets
  - a. Property, Plant and Equipment (excluding lease assets)
    - Property, plant and equipment are being depreciated by the straight-line method.
    - The principal useful lives are as follows:  
Buildings and structures: 15-50 years  
Machinery, equipment and vehicles: 4-8 years
  - b. Intangible Assets (excluding lease assets)
    - Intangible assets are being amortized by the straight-line method.
    - Software for in-house use, of which effects of decrease in expenses in future are

assured, is mainly amortized over the estimated useful lives of a five-year period.

c. Lease Assets

Lease assets in finance lease transactions that do not transfer ownership

Depreciation is calculated by the straight-line method over the lease terms based on the assumption that the residual value equals to zero.

Finance lease transactions that do not transfer ownership which was commenced on or before March 31, 2008 at the Company and its domestic consolidated subsidiaries are accounted for in a similar manner with ordinary rental transactions.

3) Method of Accounting for Significant Allowances

a. Allowance for Doubtful Accounts

The Company covers the risk of credit losses from potential customer defaults by providing for this allowance. For normal accounts, the allowance is computed on the basis of the historical default rates. For specific over-due accounts, the allowance is based on individual account-by-account estimates of the amounts that may not be recoverable.

b. Allowance for Sales Returns

To prepare for losses on potential returns of products after the end of the fiscal year, the Company and its domestic consolidated subsidiaries provide for an amount equal to the sum of gross profits and inventory losses on such returned products, based on its estimate of possible sales returns.

For the current fiscal year, provision of allowance for sales returns of ¥21 million is included in cost of sales.

c. Allowance for Sales Rebates

To prepare for future sales rebates, the Company and some of its consolidated subsidiaries provide for this allowance calculated by multiplying an estimated sales rebate percentage for the fiscal year by the amounts of accounts receivable from and inventories held by wholesalers at the end of the fiscal year.

d. Accrued Employees' Severance and Retirement Benefits

To prepare for future payments of employees' severance and retirement benefits, the amount incurred by the fiscal year-end based on estimated projected benefit obligations and plan assets at the end of the fiscal year is provided.

Prior service costs are generally amortized over a period of 1 year (12 months) since they occurred.

Actuarial gains and losses are amortized under the straight-line method, beginning in the fiscal year following the year in which each gain or loss was initially measured, over a certain period (10 years), which is equal to or less than the average remaining years of service of eligible employees when the actuarial gain or loss occurred.

e. Accrued Directors' Severance and Retirement Benefits

To prepare for payments of severance and retirement benefits for Directors and Members of the Audit & Supervisory Board, the Company's domestic consolidated subsidiaries provide for an amount equal to the total benefits that would have become payable at the end of the fiscal year, in accordance with the internal policies, had Directors and Members of the Audit & Supervisory Board retired.

f. Provision for Environmental Measures

To prepare for a possible loss on measures for soil pollution, the Company provides the estimated amount of cleanup costs for certain pieces of land.

g. Provision for Settlement Expenses

Ranbaxy Laboratories Ltd., a consolidated subsidiary of the Company, was charged by the U.S. Department of Justice (DOJ) of having possible issues with data submitted by Ranbaxy in support of product filings and it provided the estimated amount of cost to prepare a settlement payment for the resolution of this issue.

- 4) Translation of Significant Assets and Liabilities Denominated in Foreign Currencies into Yen
 

Receivables and payables denominated in foreign currencies are converted into yen amounts at the rates of exchange prevailing at the balance sheet date. The resulting difference is recognized in profit or losses. The assets and liabilities of overseas consolidated subsidiaries are converted into yen amounts at the rates of exchange in effect at their balance sheet dates, while income and expenses are converted into yen amounts at the average exchange rates in effect over the respective periods, with resulting translation gains and losses recorded in a component of net assets, under translation adjustments or in the minority interests section of the balance sheet.
- 5) Significant Hedge Accounting Methods
  - a. Hedge Accounting Methods
 

Deferred hedge accounting is applied in principle. Foreign exchange forward contracts which meet the criteria of the allocation method are accounted for by the method. The exceptional method is applied to interest swap agreements that meet the requirements for special treatment.
  - b. Hedging Instruments and Hedged Items
 

Hedging instruments: Foreign exchange forward contracts and interest rate swap  
Hedged items: Receivables and payables denominated in foreign currencies and loan
  - c. Hedge Policy
 

The Company and certain consolidated subsidiaries hedge foreign exchange rate fluctuation risks and interest rate fluctuation risks relating to imports and exports. The Company and its consolidated subsidiaries do not enter into speculative derivative transactions.
  - d. Methods of Assessing Hedge Effectiveness
 

The hedge effectiveness of foreign exchange forward contracts and interest rate swap as a hedge has not been assessed, as the principal terms of the hedging instruments are the same as those of the hedged items and the effect of the hedge is very high.
- 6) Other Significant Basic Items for Preparing Consolidated Financial Statements
 

Accounting method for consumption taxes:  
The tax-exclusion (net of tax) method is used to account for the national and local consumption taxes.

**(5) Amortization of Goodwill**

Goodwill is being amortized over a period in equal portions over the period deemed to be valuable (within 20 years). However, when an immaterial amount arises, it is written off currently in earnings.

**(6) Changes in the Accounting Policies**

(Change in depreciation method of property, plant and equipment)

Previously, at the Company and some of its domestic consolidated subsidiaries, the declining balance method was employed for the depreciation of property, plant and equipment. However, this has been changed to the straight-line method, effective the current fiscal year.

The change in method was made following a study into unifying the depreciation method with the method employed at overseas consolidated subsidiaries, which was implemented in response to the globalization of the Group's businesses and a rise in the ratio of overseas sales to total sales. The study found that manufacturing and research facilities and the like are no longer expected to sharply deteriorate or become obsolete economically. It also found that, since items of property, plant and equipment used by the Group are generally in operation stably within their useful lives, investment effects are likely to be realized at a constant rate over time. In light of these results, the change was made with the aim of matching costs and revenues more appropriately.

With this change, in comparison with the amounts that would have occurred under the previous method, operating income has increased by ¥4,339 million, while ordinary income and income before income taxes and minority interests have each increased by ¥4,277 million.

**(7) Changes in Presentation**

(Consolidated balance sheets)

“Accrued expenses,” which had been included under “Other current liabilities” in “Current liabilities” in the previous fiscal year, is presented as separate line item for the fiscal year ended March 31, 2013 due to increase

in materiality.

“Accrued expenses”, which was included in “Other current liabilities” in the fiscal year ended March 31, 2012, was ¥74,652 million.

**2. Notes to Consolidated Balance Sheet**

(1) Accumulated depreciation on property, plant and equipment totaled ¥483,408 million.

(2) Pledged Assets

1) Assets pledged as collateral	
Building and structures	¥1,532 million
Land	¥115 million
2) Liabilities corresponding to pledged assets	
Bonds payable	¥7,900 million

(3) Contingent Liabilities

1) The Company offered loan guarantee to employees when they borrowed money from financial institutions, etc.	
Employees (housing funds, etc.)	¥2,039 million
2) Other contingent liabilities	
Contingent liabilities against sales amounts in the past with regard to items of which prices are demanded to be cut by Indian authorities	¥3,618 million

**3. Notes to Consolidated Statement of Income**

(1) Research and development expenses totaled ¥183,047 million.

(2) Loss on impairment of long-lived assets

For the fiscal year ended March 31, 2013, the Company recognized impairment losses of ¥9,460 million for the following assets.

Location	Function	Asset type	Status
Shinagawa-ku, Tokyo	Shinagawa Suboffice III	Buildings, structures, etc.	Idle
United States	Goodwill, marketing rights, etc.	Goodwill; and Other intangible assets	Commercial use
Germany	Trademark rights, patent rights	Other intangible assets	Commercial use

The Company decreased the book values of the above assets to their net recoverable amounts either because the asset status is “idle” and it is uncertain whether the asset will be used in the future, or because the earnings that were originally forecasted are no longer expected.

A breakdown of actual items is as follow: (millions of yen)

Buildings and structures	573
Machinery, equipment and vehicles	102
Land	126
Other property, plant and equipment	18
Goodwill	872
Other intangible assets	7,767

The recoverable amount of these asset groups was calculated as the net realizable value, and that was calculated based on a value based on the assessed value or the property tax valuation with reasonable adjustments.

#### 4. Notes to Consolidated Statement of Changes in Net Assets

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

Class of share	Number of shares at the beginning of the current fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at the end of the current fiscal year
Common stock	709,011 thousand shares	– shares	– shares	709,011 thousand shares

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

Class of share	Number of shares at the beginning of the current fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at the end of the current fiscal year
Common stock	5,093 thousand shares	8 thousand shares	38 thousand shares	5,063 thousand shares

Notes:

1. The increase in the number of shares of treasury stock was due to the Company's purchase of 8 thousand shares representing shares of less than one unit.
2. The decrease in the number of shares of treasury stock was due to the sale of 0 thousand shares to meet top-up demands for shares of less than one unit and the decrease of 38 thousand shares as a result of exercise of share options.

## (3) Matters Related to Dividends from Surplus

- 1) Amount of cash dividends paid
  - a. Matters related to dividends based on a resolution made at the 7th Ordinary General Meeting of Shareholders held on June 22, 2012
    - Total cash dividends: ¥21,117 million
    - Dividend per share: ¥30
    - Record date: March 31, 2012
    - Effective date: June 25, 2012
  - b. Matters related to dividends based on a resolution made at the Board of Directors Meeting held on October 31, 2012
    - Total cash dividends: ¥21,118 million
    - Dividend per share: ¥30
    - Record date: September 30, 2012
    - Effective date: December 3, 2012
- 2) Of dividends for which the record date belongs to the current fiscal year, those that come into effect in the following fiscal year  
 The following shall be referred to the 8th Ordinary General Meeting of Shareholders, which will be held on June 21, 2013.
  - Total of cash dividends: ¥21,118 million
  - Resource of dividends: Retained earnings
  - Dividend per share: ¥30
  - Record date: March 31, 2013
  - Effective date: June 24, 2013

## (4) Matters Related to Share Options

Category	Breakdown of share options	Class of share to be converted	Number of shares to be converted
The Company	No. 1 Share Options issued in February 2008 (Share remuneration-type stock option)	Common stock	85 thousand shares
The Company	No. 2 Share Options issued in November 2008 (Share remuneration-type stock option)	Common stock	141 thousand shares
The Company	No. 3 Share Options issued in August 2009 (Share remuneration-type stock option)	Common stock	219 thousand shares
The Company	No. 4 Share Options issued in August 2010 (Share remuneration-type stock option)	Common stock	237 thousand shares
The Company	No. 5 Share Options issued in July 2011 (Share remuneration-type stock option)	Common stock	232 thousand shares
The Company	No. 6 Share Options issued in July 2012 (Share remuneration-type stock option)	Common stock	295 thousand shares
Consolidated subsidiary	Share Options (Share remuneration-type stock option)	Common stock	4,196 thousand shares

Note: Share options that are not in the exercise period are not included.



## 5. Notes Concerning Deferred Tax Accounting

### (1) Significant Components of Deferred Tax Assets and Liabilities

	Millions of yen
Deferred tax assets	
Prepaid consigned research and co-development expenses	73,570
Depreciation	21,580
Unrealized profit on inventories and loss on valuation of inventories	18,808
Net operating loss carry forwards for income tax purpose	18,800
Accrued bonuses	7,332
Loss on valuation of securities	2,991
Accrued employees' severance and retirement benefits	1,901
Impairment loss	1,079
Other	47,424
Subtotal of deferred tax assets	193,490
Valuation allowance	(12,557)
Total deferred tax assets	180,932
Deferred tax liabilities	
Intangible assets	(45,261)
Net unrealized gain on investment securities	(19,718)
Reserve for reduction entries for non-current assets	(9,902)
Other	(7,695)
Total deferred tax liabilities	(82,578)
Net deferred tax assets (liabilities)	98,353

## 6. Notes Concerning Financial Instruments

### (1) Funding and Investment

The Group raises funds through loans from financial institutions and the issuance of bonds payable. As regards investments, the Group selects the safest and most secure financial products.

To reduce credit risks relating to trade notes and accounts receivable, the Group has established mandatory credit management guidelines. Investment securities are mostly stocks and the market values of listed shares are calculated every quarter.

Corporate Finance and Accounting Department prepares and updates funding plans based on reports submitted by each department to manage liquidity risks related to trade notes and accounts payable.

The funds acquired from loans and the issuance of bonds payable are intended to be used for business operations (short-term) and acquisition of subsidiary shares (long-term). To respond to the interest rate volatility risk of some of the long-term loans, the Group obtains fixed interests through interest swap transactions. In accordance with internal control regulations, derivative trading is limited to commercial needs.

**(2) Market Values**

Values recorded in the consolidated balance sheet as of March 31, 2013 (consolidated financial settlement date for the year) and market values of each financial product are as follows:

(Millions of yen)

	B/S recorded amount (*1)	Market value	Difference
(1) Cash and time deposits	160,956	160,956	-
(2) Trade notes and accounts receivable	238,495	238,495	-
(3) Securities and investment securities	328,389	327,981	(407)
(4) Trade notes and accounts payable	(59,798)	(59,798)	-
(5) Short-term loans payable	(66,073)	(66,073)	-
(6) Bonds payable	(107,900)	(112,102)	(4,202)
(7) Long-term loans payable	(93,017)	(93,127)	(109)
(8) Derivatives trading (*2)	(24,160)	(24,160)	-

(\*1) Liabilities are shown in parentheses.

(\*2) Net debts and credits derived from derivatives trading are shown on a net basis. Total liability is shown in parentheses.

Notes:

1. Calculation method of market values of financial products and valuable securities and derivatives trading

(1) Cash and time deposits and (2) Trade notes and accounts receivable

Book values are used because these are traded and handled within a short period and market values and book values are almost identical.

(3) Securities and investment securities

Stocks are valued at prices on Stock Exchanges; bonds are valued at prices quoted on Stock Exchanges or prices published by financial institutions; and, investment trust funds are valued at publicly announced benchmark prices. Market values of investments of the union are based on union assets that can be measured at fair value.

(4) Trade notes and accounts payable

Book values are used because these are traded and handled within a short period and market values and book values are almost identical.

(5) Short-term loans payable

Book values are used because market value reflects market interest rate within a short period and market values and book values are almost identical.

(6) Bonds payable

Market price is used.

(7) Long-term loans payable

Market value of adjustable-rate loans is based on book value because the value reflects market interest rate within a short period and market values and book values are almost identical. For fixed-rate loans, total principal is calculated using the current interest rate that would be applied to recent borrowings.

(8) Derivatives trading

The prices announced by the contract party financial institutions are used.

2. Non-listed stocks (12,143 million yen recorded on the consolidated balance sheet) are not included among “(3) Securities and investment securities.” Such stocks do not have market prices; the market value cannot be calculated; and future cash flow cannot be estimated.

## 7. Notes Concerning Per Share Information

(1) Net assets per share: ¥1,253.86

(2) Net income per share: ¥94.64

(3) Diluted net income per share: ¥94.49

## 8. Notes Concerning Subsequent Events

Not applicable

## Notes to Non-Consolidated Financial Statements

### 1. Significant Accounting Policies

#### (1) Methods of Valuation of Assets

- 1) Securities
  - Held-to-maturity securities:
    - The amortized cost method (straight-line amortization)
  - Subsidiaries' and affiliates' stocks:
    - Stated at cost based on the moving-average method
  - Available-for-sale securities:
    - Securities with determinable market value:
      - Stated at market value based on the quoted market prices at the end of the fiscal year.
      - Unrealized holding gains and losses are reported in a component of net assets, with the cost of securities sold being calculated by the moving-average method.
    - Securities without determinable market value:
      - Mainly stated at cost based on the moving-average method
- 2) Inventories
  - Inventories for ordinary sales
    - Stated at cost, by the weighted average cost method (Inventories in the balance sheet are measured by write-down based on a decrease in profitability of the assets)

#### (2) Methods of Depreciation and Amortization of Depreciable Assets

- 1) Property, Plant and Equipment (excluding lease assets)
  - Property, plant and equipment are being depreciated by the straight-line method.
  - The principal useful lives are as follows:
    - Buildings: 15-50 years
    - Machinery and equipment: 4-17 years
    - Tools, furniture and fixtures: 2-15 years
- 2) Intangible Assets (excluding lease assets)
  - Intangible assets are being amortized by the straight-line method.
  - Software for internal use, of which effects of decrease in expenses in future are assured, is amortized over the estimated useful lives of a five-year period.
- 3) Lease assets
  - Lease assets in finance lease transactions that do not transfer ownership
    - Depreciation is calculated by the straight-line method over the lease terms based on the assumption that the residual value equals to zero.
    - Finance lease transactions that do not transfer ownership which were commenced on or before March 31, 2008 are accounted for in a similar manner with ordinary rental transactions.

#### (3) Methods of Accounting for Allowances

- 1) Allowance for Doubtful Accounts
  - The Company covers the risk of credit losses from potential customer defaults by providing for this allowance. For normal accounts, the allowance is computed on the basis of the historical default rates. For specific over-due accounts, the allowance is based on individual account-by-account estimates of the amounts that may not be recoverable.
- 2) Allowance for Sales Returns
  - To prepare for losses on potential returns of products after the end of the fiscal year, the Company provides for an amount equal to the sum of gross profits and inventory losses on such returned products, based on its estimate of possible sales returns.
- 3) Allowance for Sales Rebates
  - To prepare for future sales rebates, the Company provides for this allowance calculated by multiplying a rebate percentage for the fiscal year by the amounts of inventories held by special agents at the end of the fiscal year.

4) **Accrued Employees' Severance and Retirement Benefits**

To prepare for future payments of employees' severance and retirement benefits, the Company provides for an amount incurred by the fiscal year-end based on estimated projected benefit obligations and plan assets at the end of the fiscal year.

Prior service costs are amortized over a period of 1 year (12 months) since they occurred.

Actuarial gains and losses are amortized under the straight-line method, beginning in the fiscal year following the year in which each gain or loss was initially measured, over a period of 10 years, which is equal to or less than the average remaining years of service of the eligible employees at the time such actuarial gain or loss occurred.

5) **Provision for environmental measures**

To prepare for a possible loss on measures for soil pollution, the Company provides the estimated amount of cleanup costs for certain pieces of land.

**(4) Translation of Assets and Liabilities Denominated in Foreign Currencies into Yen**

Receivables and payables denominated in foreign currencies are converted into yen amounts at the rates of exchange prevailing at the balance sheet date. The resulting difference is recognized in profit or losses.

**(5) Hedge Accounting Methods**

1) **Hedge Accounting Methods**

Deferred hedge accounting is applied in principle. Foreign exchange forward contracts which meet the criteria of the allocation method are accounted for by the method. The exceptional method is applied to interest swap agreements that meet the requirements for special treatment.

2) **Hedging Instruments and Hedged Items**

Hedging instruments: Foreign exchange forward contracts, Interest rate swap

Hedged items: Receivables and payables denominated in foreign currencies, Loan

3) **Hedge Policy**

The Company hedges foreign exchange rate fluctuation risks and interest rate fluctuation risks relating to imports and exports. The Company does not enter into speculative derivative transactions.

4) **Methods of Assessing Hedge Effectiveness**

The hedge effectiveness of foreign exchange forward contracts and interest rate swap as a hedge has not been assessed, as the principal terms of the hedging instruments are the same as those of the hedged items and the effect of the hedge is very high.

**(6) Accounting Method for Consumption Taxes**

The tax-exclusion (net of tax) method is used to account for the national and local consumption taxes.

**(7) Changes in the Accounting Policies**

(Change in depreciation method of property, plant and equipment)

Previously, the Company employed the declining balance method for the depreciation of property, plant and equipment. However, this has been changed to the straight-line method, effective the current fiscal year.

The change in method was made following a study into unifying the depreciation method with the method employed at overseas consolidated subsidiaries, which was implemented in response to the globalization of the Group's businesses and a rise in the ratio of overseas sales to total sales. The study found that manufacturing and research facilities and the like are no longer expected to sharply deteriorate or become obsolete economically. It also found that, since items of property, plant and equipment used by the Group are generally in operation stably within their useful lives, investment effects are likely to be realized at a constant rate over time. In light of these results, the change was

made with the aim of matching costs and revenues more appropriately.

With this change, in comparison with the amounts that would have occurred under the previous method, operating income has increased by ¥2,525 million, while ordinary income and income before income taxes have each increased by ¥2,452 million.

## 2. Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation on property, plant and equipment totaled ¥178,859 million.

(2) Contingent Liabilities

The Company offered loan guarantee to its affiliates, etc. and employees when they borrowed money from financial institutions, etc. and their accounts payable incurred in association with joint sale promotion contracts.

Daiichi Sankyo, Inc.	¥2,282 million
Employees (housing funds, etc.)	¥2,039 million

(3) Monetary assets from and liabilities to affiliated companies

1) Short-term monetary assets due from affiliated companies:	¥49,126 million
2) Long-term monetary assets due from affiliated companies:	¥8,263 million
3) Short-term monetary liabilities due to affiliated companies:	¥87,054 million
4) Long-term monetary liabilities due to affiliated companies:	¥8,009 million

## 3. Notes to Non-Consolidated Statement of Income

(1) Transactions with Affiliated Companies

1) Net sales:	¥84,612 million
2) Purchase of goods:	¥112,230 million
3) Selling, general and administrative expenses:	¥95,370 million
4) Non-operating transactions:	¥24,633 million

(2) Loss on impairment of long-lived assets

For the fiscal year ended March 31, 2013, the Company recognized impairment losses of ¥419 million for the following assets:

Location	Function	Asset type	Status
Shinagawa-ku, Tokyo	Shinagawa Suboffice III	Buildings, structures, etc.	Idle
Suntou-gun, Shizuoka	Former Higashifuji Training Center	Land	Idle

The Company decreased the book value of the above assets to their net recoverable amounts so as to recognize a decline of ¥419 million as loss on impairment of long-lived assets in extraordinary losses. This is because we have decided to demolish buildings and structures and the Company no longer plans to use the land for commercial use.

Losses of ¥292 million were allocated to buildings and structures, of ¥126 million to land.

The recoverable amount of these asset groups was calculated as the net realizable value of the assets. The net realizable value of buildings, structures, etc. was the memorandum value because we have decided to demolish these assets. The net realizable value of land was calculated based on the assessed value of real estate tax with reasonable adjustments.

## 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 the beginning of the current fiscal year	Increase in number of shares during the current fiscal year	Decrease in number of shares during the current fiscal year	Number of shares at the end of the current fiscal year
Common stock	5,093 thousand shares	8 thousand shares	38 thousand shares	5,063 thousand shares

## Notes:

1. The increase in the number of shares of treasury stock was due to the Company's purchase of 8 thousand shares representing shares of less than one unit.
2. The decrease in the number of shares of treasury stock was due to the sale of 0 thousand shares to meet top-up demands for shares of less than one unit and the decrease of 38 thousand shares as a result of exercise of share options.

**5. Notes Concerning Deferred Tax Accounting**

## Significant components of deferred tax assets and liabilities

Deferred tax assets	(Millions of yen)
Prepaid consigned research and co-development expenses	71,894
Loss on valuation of securities	35,263
Depreciation	16,838
Prepaid expenses	11,940
Loss on valuation of inventories	4,787
Accrued bonuses	3,858
Accrued employees' severance and retirement benefits	1,221
Other	5,863
Subtotal of deferred tax assets	151,667
Valuation allowance	(36,471)
Total deferred tax assets	115,196
Deferred tax liabilities	
Net unrealized gain on investment securities	(18,566)
Reserve for reduction entries for non-current assets	(7,616)
Other	(219)
Total deferred tax liabilities	(26,402)
Net deferred tax assets (liabilities)	88,793

**6. Notes Concerning Lease Transactions of Non-current Assets**

(Millions of yen)

- |  |     |
|--|-----|
| (1) Acquisition cost equivalents at the end of this fiscal year:         | 454 |
| (2) Accumulated depreciation equivalents at the end of this fiscal year: | 357 |
| (3) Future lease payments obligation at the end of this fiscal year:     | 96  |
| Due within one year:   | 38  |
| Due after one year:  | 57  |

## 7. Notes Concerning Related Party Transactions

### Subsidiaries, etc.

Property	Name	Main business	Ownership percentage	Relationship		Transactions	Transaction amount (Millions of yen)	Accounts	Balance at the end of fiscal year (Millions of yen)
				Inter-locking directorate	Relation on business				
Subsidiary	Daiichi Sankyo Healthcare Co., Ltd.	Marketing of pharmaceuticals and other products	Directly 100.0	–	Lending and borrowing of funds	Custody of funds	21,261	Deposit received	21,261
Subsidiary	Daiichi Sankyo Propharma Co., Ltd.	Manufacture of pharmaceuticals and other products	Directly 100.0	Director: 1	Purchase of merchandise	Purchase of merchandise	65,880	Accounts payable – trade	7,746
Subsidiary	Daiichi Sankyo U.S. Holdings, Inc.	A holding Company	Directly 100.0	Directors: 2	Interlocking directorate, etc.	Receipt of dividend	16,236	–	–
Subsidiary	Daiichi Sankyo, Inc.	Marketing and research and development of pharmaceuticals and other products	Indirectly 100.0	Directors: 2	Marketing of finished goods and consignment of research and marketing	Marketing of finished goods	50,894	Accounts receivable	23,598
						Consignment of research and marketing	40,359	Accounts payable and accrued expenses	28,092
Subsidiary	Daiichi Sankyo Europe GmbH	Manufacture, marketing, and research and development of pharmaceuticals and other products	Directly 100.0	–	Marketing of finished goods and consignment of research and marketing	Marketing of finished goods	25,830	Accounts receivable	9,131
						Consignment of research and marketing	20,178	Accounts payable and accrued expenses	5,886

#### Notes:

- Transaction terms and policies on deciding transaction terms, etc.  
Transaction terms with the companies mentioned above are decided while referring to market prices, etc.
- Consumption taxes are not included in “Transaction amount” but are included in “Balance at end of fiscal year.”

## 8. Notes Concerning Per-Share Information

- Net assets per share: ¥1,139.39
- Net income per share: ¥79.33
- Diluted net income per share: ¥79.20

## 9. Notes Concerning Subsequent Events

Not applicable