[Translation]

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 9th Fiscal Period (from April 1, 2013 to March 31, 2014)

Daiichi Sankyo Company, Limited

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

*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) Basis of Preparation of Consolidated Financial Statements

The Group prepared its consolidated financial statements in accordance with the International Financial Reporting Standards ("IFRSs") from the current fiscal year ended March 31, 2014, pursuant to the provisions of Article 120, Paragraph 1 of the Corporate Accounting Rules. These consolidated financial statements omitted certain disclosure items required under IFRSs in accordance with provisions in the latter part of that Paragraph.

The Group has adopted IFRSs for its consolidated financial statements for the fiscal year ended March 31, 2014 for the first time and the transition date to IFRSs is set at April 1, 2012.

(2) Early adoption of new accounting standards

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

IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement" and provides two measurement categories for financial instruments: amortized cost and fair value. Changes in fair value of financial assets measured at fair value are recognized in profit or loss. However, changes in fair value of investments in equity instruments, except for equity instruments held for trading, are allowed to be recognized in other comprehensive income.

(3) Scope of Consolidation

- Number of consolidated subsidiaries: 96
- 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.

For the fiscal year ended March 31, 2014, the Group established Ranbaxy (Thailand) Co., Ltd. and included it in the scope of consolidation. Eight consolidated subsidiaries including Solus Pharmaceuticals Ltd. were excluded from the scope of consolidation as they were liquidated or merged.

(4) Application of the Equity Method

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

(5) Fiscal Year-End of Consolidated Subsidiaries

Effective the current fiscal year, the fiscal year-end of 48 companies, including Ranbaxy Laboratories Ltd., has been changed from December 31 to March 31. Accordingly, the three-month discrepancy that previously existed between fiscal year-ends was eliminated at the end of the current fiscal year. As a result, the financial performances for the 15-month period from January 1, 2013 to March 31, 2014 of the relevant companies are accounted for. The impact of this change resulted in the recording of additional earnings in the consolidated statement of profit or loss, with revenue of ¥42,920 million, operating profit of ¥390 million and profit before tax of ¥1,702 million.

(6) Summary of Significant Accounting Policies

1) Methods of Valuation of Significant Assets

a. Financial assets

(i) Initial recognition and measurement

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

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

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

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

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

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

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

(ii) Subsequent measurement

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

(a) Financial assets measured at amortized cost

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

(b) Financial assets measured at fair value

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

Changes in the fair value of financial assets measured at fair value are recognized in profit or loss.

However, changes in the fair value of equity instruments designated as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, and the cumulative amount of other comprehensive income is transferred to retained earnings when the instruments are derecognized or the fair value decreases significantly compared to the acquisition cost.

(iii) Derecognition

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

b. Impairment of financial assets

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

The Group assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant.

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

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

c. 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 minus, in the case of financial liabilities not at fair value through profit or loss, transaction costs that are directly attributable to the issue of the financial liabilities.

(ii) Subsequent measurement

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

(a) Financial liabilities measured at amortized cost

Financial liabilities measured at amortized cost are measured at amortized cost using the effective interest method. Amortization under the effective interest method and any gain or loss in the case of derecognition of financial liabilities 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 is measured at fair value.

(iii) Derecognition

Financial liabilities are derecognized when the obligation specified in the contract is discharged or cancelled or expires.

d. Offsetting financial assets and financial liabilities

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

e. Derivatives and hedge accounting

Derivatives are utilized to hedge foreign currency risk, interest rate risk and stock price risk. Derivatives used by the Group include forward exchange contracts, currency swaps, currency options, interest-rate swaps and call option on specific stocks. At the inception of the hedge, the relationship and the risk management objective and strategy for undertaking the hedge are documented.

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

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

Hedges that meet hedging 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 the hedged item attributable to the hedged risk adjust the carrying amount of the hedged item and are recognized in profit or loss.

(ii) Cash flow hedges

The effective portion of the gain or loss on the hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized in profit or loss. The cumulative amounts of hedging instruments that has been recognized in other comprehensive income as equity are reclassified to profit or loss when the hedged transaction affects profit or loss. If a hedged item results in the recognition of a non-financial asset or a non-financial liability, the associated amount recognized in other comprehensive income is accounted for as adjustment to the carrying amount of the non-financial asset or the non-financial liability. When any forecast transaction or firm commitment is no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income as equity is reclassified to profit or loss. When any hedging instrument expires is sold, or terminated or exercised without the replacement or rollover of the hedging instrument into another hedging instrument, or when any hedge designation is revoked, the cumulative amount that has been recognized in other comprehensive income as equity is continued to be recognized as equity until the forecast transaction or firm commitment occurs or no longer expected to occur.

f. Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories comprises cost of raw materials, direct labor and others directly attributable to the inventories and the 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 over the respective estimated useful life of the item. The estimated useful lives of major items of property, plant and equipment are as follows:

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

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

b. Intangible assets

An item of intangible asset with finite useful life is amortized by the straight-line method over the estimated useful life of the item. The estimated useful lives of major items of intangible assets are as follows:

Marketing rights: 4 to 22 years
Trademarks: 3 to 15 years

The amortization method, the residual value and the useful life of an item of intangible assets are reviewed annually and adjusted as necessary.

c. Leased assets

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

When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. The present value is determined by using a pre-tax discount rate that reflects the time value of money and the risks specific to the liability. 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 the defined benefit obligations and the related current service cost and 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 quality corporate bonds, reflecting the estimated timing of benefit payments.

Past service cost is 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 immediately transferred to retained earnings.

(ii) Defined contribution plans

The expense related to defined contribution plans is recognized as expenses when the related service is rendered by an employee.

b. Other benefits

Short-term employee benefits are not discounted and are recognized as expenses when the related services are rendered by the employees. The expected cost of paid absences is recognized as a liability, when the Group has a legal or constructive obligation to make such payment and when a reliable estimate of the obligation can be made.

5) Foreign Currency Translation

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

Assets and liabilities of foreign operations (including goodwill arising on the acquisition of foreign operations and fair value adjustments arising on the acquisition of those foreign operations) are translated into the presentation currency at the closing rate at the end of the reporting period. Income and expenses of foreign operations are translated into the presentation currency at the average exchange rate for the period. When a foreign operation’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 foreign operations 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 IFRSs. On the disposal of the entire interest in a foreign operation, or on the partial disposal of an 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 in the separate component of equity, is reclassified to profit or loss as part of gain or loss on disposal.

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.

(7) Matters Related to Goodwill

Goodwill is not amortized but carried at cost less any accumulated impairment losses. Goodwill is allocated to each of the cash-generating units, or groups of cash-generating units, that is expected to benefit from the synergies of the business combination.

2. Notes to Consolidated Statement of Financial Position

(1) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables	¥3,070 million
Other financial assets	¥3 million

(2) Accumulated depreciation on property, plant and equipment (including accumulated impairment losses) ¥475,326 million

(3) Pledged Assets

1) Assets pledged as collateral

Trade and other receivables	¥716 million
Inventories	¥8,802 million
Property, plant and equipment	¥3,912 million

2) Liabilities corresponding to pledged assets

Bonds and borrowings	¥18,118 million
Other financial liabilities	¥227 million

In addition to the above, other financial assets of ¥1,518 million were pledged as bank guarantee.

(4) Contingent Liabilities

1) The Company offered loan guarantees to employees when they borrowed money from financial institutions, etc.

Employees (housing funds, etc.) ¥1,665 million

2) Other contingent liabilities

Contingent liabilities against past sales amounts with regard to items whose prices Indian authorities are demanding to be reduced ¥4,278 million

3. Notes to Consolidated Statement of Changes in Equity

(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
Ordinary shares	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
Ordinary shares	5,063 thousand shares	17 thousand shares	29 thousand shares	5,051 thousand shares

Notes:

1. The increase in the number of shares of treasury shares was due to the Company's purchase of 17 thousand shares representing shares of less than one unit.
2. The decrease in the number of shares of treasury shares 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 29 thousand shares as a result of exercise of subscription rights to shares.

(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 8th Ordinary General Meeting of Shareholders held on June 21, 2013

- Total cash dividends: ¥21,118 million
- Dividend per share: ¥30
- Record date: March 31, 2013
- Effective date: June 24, 2013

b. Matters related to dividends based on a resolution made at the Board of Directors Meeting held on October 31, 2013

- Total cash dividends: ¥21,118 million
- Dividend per share: ¥30
- Record date: September 30, 2013
- Effective date: December 2, 2013

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 9th Ordinary General Meeting of Shareholders, which will be held on June 23, 2014.

- Total of cash dividends: ¥21,118 million
- Resource of dividends: Retained earnings
- Dividend per share: ¥30
- Record date: March 31, 2014
- Effective date: June 24, 2014

(4) Matters Related to Subscription Rights to Shares

Category	Breakdown 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 issued in February 2008 (Share remuneration-type stock option)	Ordinary shares	71 thousand shares
The Company	No. 2 Subscription Rights to Shares issued in November 2008 (Share remuneration-type stock option)	Ordinary shares	126 thousand shares
The Company	No. 3 Subscription Rights to Shares issued in August 2009 (Share remuneration-type stock option)	Ordinary shares	219 thousand shares
The Company	No. 4 Subscription Rights to Shares issued in August 2010 (Share remuneration-type stock option)	Ordinary shares	237 thousand shares
The Company	No. 5 Subscription Rights to Shares issued in July 2011 (Share remuneration-type stock option)	Ordinary shares	232 thousand shares
The Company	No. 6 Subscription Rights to Shares issued in July 2012 (Share remuneration-type stock option)	Ordinary shares	295 thousand shares
The Company	No. 7 Subscription Rights to Shares issued in July 2013 (Share remuneration-type stock option)	Ordinary shares	192 thousand shares
Consolidated subsidiary	Subscription Rights to Shares (Share remuneration-type stock option)	Ordinary shares	3,685 thousand shares

Note: Subscription rights to shares that are not in the exercise period are not included.

4. 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	22,361
Depreciation and amortization	11,768
Unrealized profit on inventories and loss on valuation of inventories	17,267
Carryforward of unused tax losses	50,164
Accrued expenses	21,292
Loss on valuation of securities	2,956
Post-employment benefit liabilities	2,277
Impairment loss	731
Other	46,759
Total deferred tax assets	175,580
Deferred tax liabilities	
Intangible assets	(43,066)
Net unrealized gain on investment securities	(22,326)
Reserve for reduction entries for non-current assets	(13,791)
Other	(13,683)
Total deferred tax liabilities	(92,868)
Net deferred tax assets (liabilities)	82,711

5. Notes Concerning Financial Instruments

(1) Funding and Investment

The Group raises funds through the issuance of bonds payable and loans from financial institutions. As regards 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 acquired from bonds and borrowings 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 borrowings, the Group obtains fixed interest through interest swap transactions. In accordance with internal control regulations, derivative trading is limited to commercial needs.

(2) Fair Value

Values recorded in the consolidated statement of financial position as of March 31, 2014 (consolidated financial settlement date for the year), fair values of each financial product and their differences are as follows:

(Millions of yen)

	Recorded amount in consolidated statement of financial position (*)	Fair value	Difference
(1) Cash and cash equivalents	183,070	183,070	—
(2) Trade and other receivables	269,194	269,194	—
(3) Other financial assets	465,713	465,716	2
(4) Investments accounted for using the equity method	2,624	2,899	274
(5) Trade and other payables	(245,422)	(245,422)	—
(6) Bonds and borrowings	(423,615)	(427,225)	(3,610)
(7) Other financial liabilities	(29,292)	(29,292)	—

(*) Liabilities are shown in parentheses.

Notes: Calculation method of fair values of financial products

(1) Cash and cash equivalents, (2) Trade and other receivables, and (5) Trade and other payables

Fair values of these products approximate book values as these are settled in a short period.

(3) Other financial assets, (4) Investments accounted for using the equity method and (7) Other financial liabilities

Fair values of financial instruments traded in active markets are based on market prices. Fair values of financial instruments that are not traded in active markets are measured using adequate valuation technique. Fair values of derivatives are measured based on prices obtained from the contract party financial institutions.

(6) Bonds and borrowings

Fair values of bonds are based on market prices. Fair values of adjustable-rate borrowings approximate their book values because the value reflects market interest rate within a short period. For fixed-rate borrowings, the fair value is based on the discounted amount of future repayments of the interest and principal by using the current interest rate assumed for similar types of new borrowings with similar terms.

6. Notes Concerning Per Share Information

(1)	Equity per share attributable to owners of the Company:	¥1,392.03
(2)	Basic earnings per share:	¥86.57
(3)	Diluted earnings per share:	¥86.41

7. Notes Concerning Subsequent Events

(1) Merger of a consolidated subsidiary

At the Board of Directors meeting held on April 6, 2014, Ranbaxy Laboratories Ltd. ("Ranbaxy"), a consolidated subsidiary of the Company, resolved to merge with Sun Pharmaceutical Industries Ltd. ("Sun Pharma"). The Company resolved to approve this merger at the Board of Directors meeting held on the same day.

Ranbaxy entered into the agreement on this merger on April 6, 2014.

1) Purpose of merger

This merger will enable Sun Pharma to become the largest pharmaceutical company in India's market and achieve mutual complementation in therapeutic areas and sales territories outside India to expand business fields. In addition, Sun Pharma will promptly work on various issues such as a quality matter in Ranbaxy making use of Sun Pharma's management power, funding ability and human resources.

The Group aims to achieve the development of the hybrid business strategy by holding shares in the more powerful, leading pharmaceutical company in India.

2) Time schedule of merger

Conclusion of the merger agreement:	April 6, 2014
Approval for the merger agreement at the Shareholders' Meeting:	August 2014
Merger date (effective date):	December 2014

The merger is expected to close by the end of December 2014, following approvals of shareholders of both companies and regulatory authorities and completion of other required procedures.

3) Merger method

In the merger procedures, this merger will be implemented by way of merger by absorption with Sun Pharma as the surviving company. Ranbaxy will be dissolved.

4) Details of allotment associated with merger

For each common share of Ranbaxy, 0.8 ordinary shares of Sun Pharma will be allotted.

Sun Pharma's ordinary shares allotted in this merger will be the consideration for the merger. There is no other consideration for the merger.

5) Overview of the merger partner

Company name:	Sun Pharmaceutical Industries Ltd.
Location of the head office:	Mumbai, Maharashtra, India
Representative:	Dilip S. Shanghvi, Managing Director
Amount of share capital:	INR 2,071 million (as of September 30, 2013)
Business description:	Research, manufacturing and marketing of pharmaceuticals

6) Overview of the subsidiary and transactions with the merger partner

Company name:	Ranbaxy Laboratories Ltd.
Location of the head office:	Delhi, and Gurgaon, Haryana, India
Representative:	Arun Sawhney, CEO & Managing Director
Business description:	Research, manufacturing and marketing of pharmaceuticals

Transaction relationship:	The subsidiary has an insignificant volume of transactions with the merger partner.

(2) Number of shares transferred, transfer value, transfer profit or loss, and proportion of ownership interest after the transfer

The Company holds approximately 63.41% of Ranbaxy’s shares (percentage of voting rights held), or 268,711,323 shares. Through this merger, the Company will acquire approximately 9% of the total number of outstanding shares in Sun Pharma.

The amount of profit or loss arising from this merger cannot be determined at this moment, because the amount depends on the price of Sun Pharma’s share at the time of completion of the merger.

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.

Past 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 Post-Employment Benefits

The accounting method used for unrecognized actuarial gains and losses on post-employment benefits, unrecognized past service cost and untreated net benefit obligations at transition is different to the accounting method used for these items in the consolidated financial statements.

(7) Accounting Method for Consumption Taxes

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

2. Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation on property, plant and equipment totaled ¥182,424 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.	¥2,790 million
Employees (housing funds, etc.)	¥1,665 million

(3) Monetary assets from and liabilities to affiliated companies

1)	Short-term monetary assets due from affiliated companies:	¥63,518 million
2)	Long-term monetary assets due from affiliated companies:	¥6,615 million
3)	Short-term monetary liabilities due to affiliated companies:	¥85,536 million
4)	Long-term monetary liabilities due to affiliated companies:	¥274 million

3. Notes to Non-Consolidated Statement of Income

(1) Transactions with Affiliated Companies

1)	Net sales:	¥122,704 million
2)	Purchase of goods:	¥110,567 million
3)	Selling, general and administrative expenses:	¥147,147 million
4)	Non-operating transactions:	¥44,270 million

(2) Prior-year transfer pricing taxation adjustment

Prior-year transfer pricing taxation adjustment is a price adjustment for transfer pricing to transactions in previous years between the Company and its overseas subsidiaries.

(3) Loss on valuation of investments in affiliates

Loss on valuation of investments in affiliates is comprised of devaluation of stocks of domestic and overseas affiliates owned 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 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	5,063 thousand shares	17 thousand shares	29 thousand shares	5,051 thousand shares

Notes:

1. The increase in the number of shares of treasury stock was due to the Company's purchase of 17 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 29 thousand shares as a result of exercise of share options.

5. Notes Concerning Deferred Tax Accounting

(1) Significant components of deferred tax assets and liabilities

	(Millions of yen)
Deferred tax assets	
Loss on valuation of securities	39,041
Carryforward of unused tax losses	30,943
Prepaid consigned research and co-development expenses	19,127
Depreciation	13,303
Prepaid expenses	11,704
Accrued bonuses	5,224
Loss on valuation of inventories	4,515
Other	5,862
Subtotal of deferred tax assets	129,719
Valuation allowance	(41,889)
Total deferred tax assets	87,829
Deferred tax liabilities	
Net unrealized gain on investment securities	(17,195)
Reserve for reduction entries for non-current assets	(11,071)
Prepaid pension costs	(3,171)
Other	(4,988)
Total deferred tax liabilities	(36,425)
Net deferred tax assets (liabilities)	51,404

(2) Adjustments of amounts of deferred tax assets and deferred tax liabilities due to changes in corporate tax rate

On March 31, 2014, the Act on Partial Revision of the Income Tax Act, etc. was promulgated, which abolished special corporation tax for reconstruction from the fiscal year beginning on or after April, 2014. Accordingly, the statutory effective tax rate used for the calculation of deferred tax assets and deferred tax liabilities was changed to 35.5% from the previous 37.8% for temporary differences that are expected to be reversed in the fiscal year beginning on or after April 1, 2014.

As a result, for the fiscal year ended March 31, 2014, deferred tax assets, exclusive of deferred tax liabilities, decreased by ¥3,860 million and income taxes increased by ¥3,860 million.

6. Notes Concerning Lease Transactions of Non-current Assets

	(Millions of yen)
(1) Acquisition cost equivalents at the end of this fiscal year:	30
(2) Accumulated depreciation equivalents at the end of this fiscal year:	23
(3) Future lease payments obligation at the end of this fiscal year:	6
Due within one year:	2
Due after one year:	4

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	18,888	Deposit received	18,888
Subsidiary	Daiichi Sankyo U.S. Holdings, Inc.	A holding Company	Directly 100.0	Directors: 2	Interlocking directorate, etc.	Receipt of dividend	19,488	–	–
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	78,776	Accounts receivable	29,076
						Consignment of research and marketing	83,563	Accounts payable and accrued expenses	28,953
						Price adjustments for transfer pricing taxation	12,305		
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	32,354	Accounts receivable	13,689

Notes:

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

8. Notes Concerning Per-Share Information

(1) Net assets per share: ¥1,167.94
(2) Net income per share: ¥91.56
(3) Diluted net income per share: ¥91.38

9. Notes Concerning Subsequent Events

(1) Merger of a consolidated subsidiary

At the Board of Directors meeting held on April 6, 2014, Ranbaxy Laboratories Ltd. ("Ranbaxy"), a consolidated subsidiary of the Company, resolved to merge with Sun Pharmaceutical Industries Ltd. ("Sun Pharma"). The Company resolved to approve this merger at the Board of Directors meeting held on the same day.

Ranbaxy entered into the agreement on this merger on April 6, 2014.

1) Purpose of merger

This merger will enable Sun Pharma to become the largest pharmaceutical company in India's market and achieve mutual complementation in therapeutic areas and sales territories outside India to expand business fields. In addition, Sun Pharma will promptly work on various issues such as a quality matter in Ranbaxy making use of Sun Pharma's management power, funding ability and human resources.

The Group aims to achieve the development of the hybrid business strategy by holding shares in the more powerful, leading pharmaceutical company in India.

2) Time schedule of merger

Conclusion of the merger agreement:	April 6, 2014
Approval for the merger agreement at the Shareholders' Meeting:	August 2014
Merger date (effective date):	December 2014

The merger is expected to close by the end of December 2014, following approvals of shareholders of both companies and regulatory authorities and completion of other required procedures.

3) Merger method

In the merger procedures, this merger will be implemented by way of merger by absorption with Sun Pharma as the surviving company. Ranbaxy will be dissolved.

4) Details of allotment associated with merger

For each common share of Ranbaxy, 0.8 ordinary shares of Sun Pharma will be allotted.

Sun Pharma's ordinary shares allotted in this merger will be the consideration for the merger. There is no other consideration for the merger.

5) Overview of the merger partner

Company name:	Sun Pharmaceutical Industries Ltd.
Location of the head office:	Mumbai, Maharashtra, India
Representative:	Dilip S. Shanghvi, Managing Director
Amount of share capital:	INR 2,071 million (as of September 30, 2013)
Business description:	Research, manufacturing and marketing of pharmaceuticals

6) Overview of the subsidiary and transactions with the merger partner

Company name:	Ranbaxy Laboratories Ltd.
Location of the head office:	Delhi, and Gurgaon, Haryana, India
Representative:	Arun Sawhney, CEO & Managing Director
Business description:	Research, manufacturing and marketing of pharmaceuticals
Transaction relationship:	The subsidiary has an insignificant volume of transactions with the merger partner.

(2) Number of shares transferred, transfer value, transfer profit or loss, and proportion of ownership interest after the transfer

The Company holds approximately 63.41% of Ranbaxy's shares (percentage of voting rights held), or 268,711,323 shares. Through this merger, the Company will acquire approximately 9% of the total number of outstanding shares in Sun Pharma.

The amount of profit or loss arising from this merger cannot be determined at this moment, because the amount depends on the price of Sun Pharma's share at the time of completion of the merger.