

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**NON-CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS**

**NOTES TO NON-CONSOLIDATED FINANCIAL STATEMENTS**

**For the 10<sup>th</sup> Fiscal Period (from April 1, 2014 to March 31, 2015)**

**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.

**Consolidated Statement of Changes in Equity**  
(From April 1, 2014 to March 31, 2015)

(Millions of yen)

	Equity attributable to owners of the Company						
	Share capital	Capital surplus	Treasury shares	Other components of equity			
				Subscription rights to shares	Exchange differences on translation of foreign operations	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
<b>Balance as of April 1, 2014</b>	50,000	105,267	(14,408)	1,680	80,252	—	39,821
Profit for the year	—	—	—	—	—	—	—
Other comprehensive income	—	—	—	—	25,963	(4,347)	26,684
<b>Total comprehensive income</b>	—	—	—	—	25,963	(4,347)	26,684
Acquisition of treasury shares	—	—	(25)	—	—	—	—
Disposal of treasury shares	—	—	234	(117)	—	—	—
Share-based payments	—	—	—	197	—	—	—
Dividends	—	—	—	—	—	—	—
Change in scope of consolidation	—	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	—	(1,086)
Other	—	—	—	—	(12)	—	(0)
<b>Total transactions with the owners</b>	—	—	209	80	(12)	—	(1,087)
<b>Balance as of March 31, 2015</b>	50,000	105,267	(14,198)	1,760	106,202	(4,347)	65,419

	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, 2014	—	121,753	717,320	979,933	27,594	1,007,527
Profit for the year	—	—	322,119	322,119	(3,195)	318,923
Other comprehensive income	(4,218)	44,081	—	44,081	3,170	47,252
Total comprehensive income	(4,218)	44,081	322,119	366,201	(24)	366,176
Acquisition of treasury shares	—	—	—	(25)	—	(25)
Disposal of treasury shares	—	(117)	(116)	0	—	0
Share-based payments	—	197	—	197	212	410
Dividends	—	—	(42,238)	(42,238)	—	(42,238)
Change in scope of consolidation	—	—	—	—	(25,016)	(25,016)
Transfer from other components of equity to retained earnings	4,218	3,131	(3,131)	—	—	—
Other	—	(12)	—	(12)	218	206
Total transactions with the owners	4,218	3,198	(45,486)	(42,077)	(24,585)	(66,662)
Balance as of March 31, 2015	—	169,034	993,953	1,304,057	2,984	1,307,041

Note: Amounts less than one million yen have been rounded down to the nearest million yen.

## 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”) 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.

#### (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: 55
- 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

For the fiscal year ended March 31, 2015, the Group excluded Ranbaxy Laboratories Ltd., a consolidated subsidiary, and other 41 companies from the scope of consolidation as Sun Pharmaceutical Industries Ltd. completed the merger and acquisition of Ranbaxy. The Ranbaxy business is classified as a discontinued operation.

The Group acquired Ambit Biosciences Corporation and included it in the scope of consolidation for the fiscal year ended March 31, 2015.

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

- Number of affiliates which are accounted for under the equity method: 2
- Principal affiliates: Japan Vaccine Co., Ltd.

#### (5) 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 and interest rate risk. Derivatives used by the Group include forward exchange contracts and interest-rate swaps. 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 is expired or 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 10 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.

**(6) 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.

**(7) Changes in Accounting Policies**

The Group has adopted the following standards and interpretations starting in the fiscal year ended March 31, 2015 in accordance with the respective transitional measures. Adoption of these standards, etc. does not materially impact the consolidated financial statements.

Standards and interpretations		Description of new standards/amendments
IAS 32	Financial Instruments: Presentation	Clarification of conditions for presentation of offsetting and addition of guidance
IFRS 10	Consolidated Financial Statements	Establishment of definitions of an investment entity and accounting treatment for investments held by an investment entity
IFRS 12	Disclosure of Interests in Other Entities	
IAS 27	Separate Financial Statements	
IFRIC 21	Levies	Clarification of accounting treatment of levies
IAS 36	Impairment of Assets	Revision of provisions for disclosure of recoverable amounts of non-financial assets
IAS 39	Financial Instruments: Recognition and Measurement	Establishment of exceptions for provisions of the discontinuance of hedge accounting



## 2. Notes to Consolidated Statement of Financial Position

- (1) Allowance for doubtful accounts directly deducted from assets
- |                             |              |
|-----------------------------|--------------|
| Trade and other receivables | ¥282 million |
| Other financial assets      | ¥2 million   |
- (2) Accumulated depreciation on property, plant and equipment  
(including accumulated impairment losses) ¥427,223 million
- (3) Pledged Assets  
Other financial assets of ¥1,118 million were pledged as bank guarantee.
- (4) Contingent Liabilities  
The Company offered loan guarantees to employees when they borrowed money from financial institutions, etc.  
Employees (housing funds, etc.) ¥1,254 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	5,051 thousand shares	13 thousand shares	82 thousand shares	4,983 thousand shares

Notes:

- The increase in the number of shares of treasury shares was due to the Company's purchase of 13 thousand shares representing shares of less than one unit.
- 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 81 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 9th Ordinary General Meeting of Shareholders held on June 23, 2014
    - Total cash dividends: ¥21,118 million
    - Dividend per share: ¥30
    - Record date: March 31, 2014
    - Effective date: June 24, 2014
  - b. Matters related to dividends based on a resolution made at the Board of Directors Meeting held on October 31, 2014
    - Total cash dividends: ¥21,119 million
    - Dividend per share: ¥30
    - Record date: September 30, 2014
    - Effective date: December 1, 2014
- 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 10th Ordinary General Meeting of Shareholders, which will be held on June 22, 2015.
  - Total of cash dividends: ¥21,120 million
  - Resource of dividends: Retained earnings
  - Dividend per share: ¥30
  - Record date: March 31, 2015
  - Effective date: June 23, 2015

## (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	61 thousand shares
The Company	No. 2 Subscription Rights to Shares issued in November 2008 (Share remuneration-type stock option)	Ordinary shares	111 thousand shares
The Company	No. 3 Subscription Rights to Shares issued in August 2009 (Share remuneration-type stock option)	Ordinary shares	189 thousand shares
The Company	No. 4 Subscription Rights to Shares issued in August 2010 (Share remuneration-type stock option)	Ordinary shares	222 thousand shares
The Company	No. 5 Subscription Rights to Shares issued in July 2011 (Share remuneration-type stock option)	Ordinary shares	220 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
The Company	No. 8 Subscription Rights to Shares issued in July 2014 (Share remuneration-type stock option)	Ordinary shares	145 thousand shares

**4. Notes Concerning Deferred Tax Accounting****Significant Components of Deferred Tax Assets and Liabilities**

	(Millions of yen)
Deferred tax assets	
Prepaid consigned research and co-development expenses	14,378
Depreciation and amortization	7,625
Unrealized profit on inventories and loss on valuation of inventories	23,473
Carryforward of unused tax losses	24,606
Accrued expenses	17,619
Impairment loss	15,340
Post-employment benefit liabilities	5,694
Loss on valuation of securities	2,557
Other	25,216
<b>Total deferred tax assets</b>	<b>136,512</b>
Deferred tax liabilities	
Intangible assets	(52,327)
Net unrealized gain on investment securities	(32,190)
Reserve for reduction entries for non-current assets	(11,094)
Gain from loss of control of consolidated subsidiary	(81,471)
Other	(2,455)
<b>Total deferred tax liabilities</b>	<b>(179,539)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>(43,027)</b>

## 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 obtained from bonds and borrowings are intended to be used for the acquisition of shares and refinancing. 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, 2015 (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	189,372	189,372	—
(2) Trade and other receivables	241,547	241,547	—
(3) Other financial assets	780,402	780,406	4
(4) Investments accounted for using the equity method	1,347	1,347	—
(5) Trade and other payables	(235,546)	(235,546)	—
(6) Bonds and borrowings	(221,000)	(224,730)	(3,730)
(7) Other financial liabilities	(15,914)	(15,914)	—

(\*) 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:	¥1,852.28
(2) Basic earnings per share:	¥457.56
(3) Diluted earnings per share:	¥456.62

## 7. Notes Concerning Subsequent Events

### (1) Disposal of Sun Pharma stake

The Company's Board of Directors resolved at the board meeting on April 20, 2015, to dispose of all or part of the shares owned in Sun Pharmaceutical Industries Ltd. ("Sun Pharma"). The transaction was completed on April 21, 2015.

#### 1) Rationale for disposal of shares

Daiichi Sankyo acquired shares in Sun Pharma in exchange for the Group's shares in Ranbaxy Laboratories Ltd., which was merged into Sun Pharma.

The Company had deliberated possible courses of action with regard to the Sun Pharma shares and reached the conclusion of disposing of all of the shares from the perspective of increasing corporate value. While Daiichi Sankyo loses its position as a shareholder of Sun Pharma upon the merger, our business alliance with Sun Pharma will continue.

#### 2) Method of sale

Offer for sale through stock exchange in India

#### 3) Change in shareholding due to sale

Number of shares held prior to sale: 214,969,058

Number of shares sold: 214,969,058

Number of shares held after sale: 0

#### 4) Impact on business results and financial position

In the first quarter of fiscal 2015, due to the sale of ¥424,338 million in Sun Pharma shares recorded as other financial assets, negative ¥45,845 million is scheduled to be recorded as other comprehensive income. The sale of the Sun Pharma stake is not expected to have any consolidated material impact on profit attributable to owners of the Company in the consolidated financial results for fiscal 2015.

## 8. Others Notes

### - Notes concerning impairment loss

Observing signs of impairment such as a decline in profitability, the Company measured the future recoverability for commercial rights related to anticancer agent *Zelboraf*<sup>®</sup>, owned by Plexxikon Inc., a consolidated subsidiary of the Company, and as a result, recognized an impairment loss of ¥34,952 million under cost of sales.

Note that to measure future recoverability, the Company uses value in use that is the risk-adjusted future cash flows discounted by the appropriate discount rate, and the pre-tax discount rate used for this calculation is 13.68%.

### - Notes concerning discontinued operations

Profit (loss) from discontinued operations includes gain on merger of subsidiary due to the Sun Pharma merger, profit and loss attributable to the Ranbaxy Group, and merger-related expenses, among others.

Profit attributable to owners of the Company includes profit (loss) from discontinued operations as well as profit from continuing operations.

The figures for fiscal 2013 have been restated in the same way as those for fiscal 2014.

**- Notes concerning business combinations****(1) Outline of business combination****1) Name of the acquired company and the description of business**

Name of the acquired company: Ambit Biosciences Corporation

Description of business: Bio-venture related to the discovery and development of tyrosine kinase inhibitor

**2) Purpose of business combination**

Ambit Biosciences Corporation is a biopharmaceutical venture company related to the discovery and development of tyrosine kinase inhibitor, and it possesses drug candidates such as a therapeutic drug for acute myeloid leukemia, which is currently in Phase III clinical trial. The Company has established the provision of innovative therapeutic drugs in the field of oncology as its medium- to long-term goal, and it aims to strengthen its portfolio in the oncology field through this acquisition.

**3) Date of acquisition**

November 10, 2014 (Eastern Standard Time (US))

**4) Details of control and acquisition of acquired company and the percentage of voting equity interests acquired.**

The Company has acquired 100% of shares with voting rights of Ambit Biosciences Corporation through a tender offer with cash and future payment of milestones as the consideration.

**(2) Details of fair value of acquired assets and liabilities and acquisition cost as of date of acquisition**  
(Millions of yen)

	Amount
Cash and cash equivalents	2,596
Trade and other receivables	217
Property, plant and equipment	77
Intangible assets	29,475
Trade and other payables	(1,145)
Deferred tax liabilities	(12,011)
Goodwill	19,689
Total	38,898
Cash	36,072
Contingent consideration (Additional payment obligations at launch of products)	2,826
Total acquisition cost	38,898

The contents of goodwill were mainly recognized by rational estimates of expected future excess earning power. Note that under the tax law, this goodwill cannot be recorded as loss.

Acquisition related costs on a consolidated basis of ¥187 million were recorded in selling, general and administrative expenses.

Contingent consideration through business combination is milestone consideration when Ambit Biosciences Corporation's therapeutic drug for acute myeloid leukemia (generic name: quizartinib, development code: AC220), currently in phase III clinical trials, is put on the market, and it is calculated by considering the time value of money. All future payments that can be demanded by the Company based on contingent consideration contracts are ¥11,461 million (undiscounted).

**(3) Acquisition of subsidiary**

(Millions of yen)

	Amount
Total acquisition cost	38,898
Contingent consideration included in acquisition cost	(2,826)
Cash and cash equivalents at the acquired company	(2,596)
Acquisition of subsidiary	33,476

(4) Impact on business results of the Group

The net loss of Ambit Biosciences Corporation for the period from the acquisition date included in fiscal 2014 was ¥1,059 million. If the subsidiary had been acquired at the start of fiscal 2014, revenue would have been higher by ¥9 million to ¥919,381 million and operating profit would have been lower by 4,391 million to ¥70,031 million.

**Non-Consolidated Statement of Changes in Net Assets**  
**(From April 1, 2014 to March 31, 2015)**

(Millions of yen)

	Shareholders' equity						
	Capital stock	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings	
					Reserve for reduction entries for non-current assets	Retained earnings carried forward	
Balance at the beginning of current period	50,000	179,858	484,073	663,931	11,423	79,952	91,376
Changes of items during the period							
Provision of reserve for reduction entries for non-current assets	—	—	—	—	3,120	(3,120)	—
Reversal of reserve for reduction entries for non-current assets	—	—	—	—	(5,361)	5,361	—
Adjustment to reserve due to change in tax rate	—	—	—	—	314	(314)	—
Dividends from surplus	—	—	—	—	—	(42,238)	(42,238)
Net income	—	—	—	—	—	266,569	266,569
Purchase of treasury stock	—	—	—	—	—	—	—
Disposal of treasury stock	—	—	(116)	(116)	—	—	—
Decrease by corporate division-split-off type	—	—	(86)	(86)	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—	—
Total changes of items during the period	—	—	(202)	(202)	(1,926)	226,257	224,330
Balance at the end of current period	50,000	179,858	483,870	663,728	9,497	306,210	315,707

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury stock, at cost	Total shareholders' equity	Net unrealized gain or loss on investment securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(14,408)	790,899	31,284	—	31,284	1,680	823,864
Changes of items during the period							
Provision of reserve for reduction entries for non-current assets	—	—	—	—	—	—	—
Reversal of reserve for reduction entries for non-current assets	—	—	—	—	—	—	—
Adjustment to reserve due to change in tax rate	—	—	—	—	—	—	—
Dividends from surplus	—	(42,238)	—	—	—	—	(42,238)
Net income	—	266,569	—	—	—	—	266,569
Purchase of treasury stock	(25)	(25)	—	—	—	—	(25)
Disposal of treasury stock	234	118	—	—	—	—	118
Decrease by corporate division-split-off type	—	(86)	—	—	—	—	(86)
Net changes of items other than shareholders' equity	—	—	27,220	(1,341)	25,878	80	25,958
Total changes of items during the period	209	224,337	27,220	(1,341)	25,878	80	250,296
Balance at the end of current period	(14,198)	1,015,237	58,504	(1,341)	57,162	1,760	1,074,160

Note: Amounts less than one million yen have been rounded down to the nearest million yen.



## 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 the expected payment rate 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.

**(8) Changes in Accounting Policy****(Adoption of Accounting Standard for Retirement Benefits)**

As of April 1, 2014, the Company adopted the “Accounting Standard for Retirement Benefits” (Accounting Standard Boards of Japan (ASBJ), Statement No. 26, issued on May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits”(ASBJ Guidance No. 25, issued on March 26, 2015; hereinafter “Guidance”). The Company reconsidered the method of calculation for retirement benefit liabilities and service costs, and changed the method of attributing the expected amount of retirement benefits to accounting periods from a straight-line attribution standard to a benefit formula, and changed the method of calculating the discount rate from using the expected average remaining service years for employees to using a single weighted average discount rate reflecting the estimated timing and amount of benefit payment.

These changes had no effect on the beginning balance of retained earnings and profits and loss.

**(9) Changes in the Basis of Presentation****(Non-Consolidated Statement of Income)**

- 1) “Patent royalty,” which was included in “Selling, general and administrative expense” in the fiscal year ended March 31, 2014, was included in “Cost of sales” in the fiscal year ended March 31, 2015 in order to adequately reflect the Company’s sales activities as a result of a review of the nature of such transactions, following an increase in materiality of this item due to acceleration of global business development and an increase in the number of distribution agreements. For the fiscal year ended March 31, 2015, the patent royalty included in “Cost of sales” had been ¥7,128 million.
- 2) “Loss on valuation of investment securities,” which was included in “Other expenses” of “Non-operating expenses” in the fiscal year ended March 31, 2014, was presented as a separate line item in the fiscal year ended March 31, 2015 following an increase in materiality.

**2. Notes to Non-Consolidated Balance Sheet**

- (1) Accumulated depreciation on property, plant and equipment totaled ¥181,324 million.

**(2) Contingent Liabilities**

The Company offered loan guarantees to its affiliates, etc. for lease agreements for their offices and to employees who borrowed money from financial institutions, etc.

Daiichi Sankyo, Inc.	¥47 million
Employees (housing funds, etc.)	¥1,254 million

**(3) Monetary assets from and liabilities to affiliated companies**

1) Short-term monetary assets due from affiliated companies:	¥78,797 million
2) Long-term monetary assets due from affiliated companies:	¥13,800 million
3) Short-term monetary liabilities due to affiliated companies:	¥120,914 million
4) Long-term monetary liabilities due to affiliated companies:	¥236 million

**3. Notes to Non-Consolidated Statement of Income****(1) Transactions with Affiliated Companies**

1) Net sales:	¥129,804 million
2) Purchase of goods:	¥125,196 million
3) Selling, general and administrative expenses:	¥161,190 million
4) Non-operating transactions:	¥8,680 million

**(2) Non-operating expenses****(Loss on valuation of investment securities)**

This was investment loss related to a limited partnership held by the Company.

**(3) Extraordinary income****(Gain on exchange from business combination)**

This was the difference between the market value of shares of the merging company and the book value of shares of the consolidated subsidiary, arising from the completion of the merger of Ranbaxy Laboratories Ltd. with Sun Pharmaceutical Industries Ltd.

**(4) Extraordinary losses****(Loss on business restructuring)**

This loss was expense related to restructuring and special career transition assistance measure for optimization of the business operation structure.

**(Loss on valuation of investments in affiliates)**

This was a loss on write-down of shares of domestic affiliates held by the Company.

**(Loss on impairment of long-lived assets)**

The Company categorizes business assets into groups that are based on management of business income and loss for managerial accounting purpose and individually categorizes rented assets, idle assets that are not directly used for business and assets to be sold.

Assets for which an impairment loss was recorded in the current fiscal year are as follows:

Location	Function	Asset type	Status
Yoshikawa-shi, Saitama	Distribution Center	Buildings and structures, etc.	To be sold

While the Company plans to sell the above assets to an external party, it decreased its book value to net recoverable amounts so as to recognize a decline of ¥1,844 million as impairment loss in extraordinary loss because the value in use until sale and net sale value of the assets fell below book value.

The breakdown of these losses were Buildings and structures of ¥664 million and Land of ¥1,180 million.

The recoverable amount is measured as the net sale value, which is calculated mainly based on reasonably adjusted valuation for fixed asset tax purposes.

**4. Notes to Non-Consolidated Statement of Changes in Net Assets****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	5,051 thousand shares	13 thousand shares	82 thousand shares	4,983 thousand shares

Notes:

1. The increase in the number of shares of treasury stock was due to the Company's purchase of 13 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 81 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	
Carryforward of unused tax losses	22,103
Depreciation	16,971
Prepaid consigned research and co-development expenses	14,158
Prepaid expenses	9,943
Loss on valuation of securities	7,499
Loss on valuation of inventories	4,925
Accrued bonuses	3,747
Other	8,613
Subtotal of deferred tax assets	87,959
Valuation allowance	(9,283)
Total deferred tax assets	78,676
Deferred tax liabilities	
Profit (loss) on equity transfer	(81,471)
Net unrealized gain on investment securities	(27,678)
Reserve for reduction entries for non-current assets	(8,743)
Prepaid pension costs	(3,056)
Other	(4,518)
Total deferred tax liabilities	(125,466)
Net deferred tax assets (liabilities)	(46,790)

### (2) Revision of the amounts of deferred tax assets and deferred tax liabilities due to changes in corporate tax rate, etc.

Following the promulgation on March 31, 2015 of the “Act for Partial Amendment of the Income Tax Act, etc.” (Act No. 9 of 2015) and the “Act for Partial Amendment of the Local Tax Law, etc.” (Act No. 2 of 2015), the corporate tax rate, etc. will be lowered effective from the fiscal year beginning on or after April 1, 2015. As a result, the effective statutory tax rate for calculating the deferred tax assets and liabilities will be reduced from the current 35.5% to 32.9% for temporary differences that are expected to be reversed in the fiscal year beginning on or after April 1, 2015, and 32.1% for temporary differences that are expected to be reversed in the fiscal year beginning on or after April 1, 2016.

Due to such changes in the tax rate, deferred tax liabilities net of deferred tax assets decreased by ¥4,096 million, and income taxes-deferred and deferred gains or losses on hedges reduced by ¥1,257 million and ¥51 million, respectively, and Net unrealized gain on investment securities increased by ¥2,890 million.

## 6. Notes Concerning Lease Transactions of Non-current Assets (Millions of yen)

(1) Acquisition cost equivalents at the end of this fiscal year:	16
(2) Accumulated depreciation equivalents at the end of this fiscal year:	12
(3) Future lease payments obligation at the end of this fiscal year:	4
Due within one year:	2
Due after one year:	2

## 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	21,831	Deposit received	21,831
Subsidiary	Daiichi Sankyo Propharma Co., Ltd.	Manufacture of pharmaceuticals and other products	Directly 100.0	Directors: 1	Purchase of merchandise	Purchase of merchandise	63,929	Accounts payable – trade	12,245
Subsidiary	Kitasato Daiichi Sankyo Vaccine Co., Ltd.	Manufacture of pharmaceuticals and other products	Directly 51.0	Directors: 1	Purchase of merchandise	Lending of funds	16,182	Short-term loans	5,152
								Long-term loans	11,030
Subsidiary	Daiichi Sankyo U.S. Holdings, Inc.	A holding Company	Directly 100.0	Directors: 2	Interlocking directorate, etc.	Receipt of dividend	1,734	—	—
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	98,705	Accounts receivable	34,984
						Consignment of research and marketing	83,172	Accounts payable and accrued expenses	52,789
						Price adjustments for transfer pricing taxation	21,497		
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	24,017	Accounts receivable	8,793

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: ¥1,523.36
- Net income per share: ¥378.65
- Diluted net income per share: ¥377.88

## 9. Notes Concerning Subsequent Events

### (1) Disposal of Sun Pharma stake

The Company's Board of Directors decided at its meeting on April 20, 2015, to dispose of all or part of the shares owned in Sun Pharmaceutical Industries Ltd. ("Sun Pharma"). The transaction was completed on April 21, 2015.

#### 1) Rationale for disposal of shares

Daiichi Sankyo acquired the shares in Sun Pharma in exchange for the Group's shares in Ranbaxy, which was merged into Sun Pharma.

The Company had deliberated possible courses of action with regard to the Sun Pharma shares and reached the conclusion of disposing of all of the shares from the perspective of increasing corporate value. While Daiichi Sankyo loses its position as a shareholder of Sun Pharma upon the merger, our business alliance with Sun Pharma will continue.

#### 2) Method of sale

Offer for sale through stock exchange in India

#### 3) Change in shareholding due to sale

Number of shares held prior to sale:	214,969,058
Number of shares sold:	214,969,058
Number of shares held after sale:	0

#### 4) Impact on business results and financial position

In the first quarter of fiscal 2015, due to the sale of ¥424,769 million (acquisition cost) in Sun Pharma shares recorded as investment securities, ¥46,276 million is scheduled to be recorded as extraordinary losses.