

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 11<sup>th</sup> Fiscal Period (from April 1, 2015 to March 31, 2016)**

**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, 2015 to March 31, 2016)

(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, 2015</b>	50,000	105,267	(14,198)	1,760	106,202	(4,347)	65,419
Profit for the year	—	—	—	—	—	—	—
Other comprehensive income for the year	—	—	—	—	(31,001)	—	(18,942)
<b>Total comprehensive income for the year</b>	—	—	—	—	(31,001)	—	(18,942)
Purchase of treasury shares	—	(201)	(50,037)	—	—	—	—
Cancellation of treasury shares	—	—	80	(45)	—	—	—
Share-based payments	—	—	—	220	—	—	—
Dividends	—	—	—	—	—	—	—
Acquisition of non-controlling interests	—	(1,138)	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	(6)	4,347	23,109
Other	—	—	—	—	—	—	—
<b>Total transactions with owners of the Company</b>	—	(1,339)	(49,957)	175	(6)	4,347	23,109
<b>Balance as of March 31, 2016</b>	50,000	103,927	(64,155)	1,935	75,195	—	69,586

	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, 2015	–	169,034	993,953	1,304,057	2,984	1,307,041
Profit for the year	–	–	82,282	82,282	(1,883)	80,399
Other comprehensive income for the year	(5,378)	(55,321)	–	(55,321)	(118)	(55,439)
Total comprehensive income for the year	(5,378)	(55,321)	82,282	26,961	(2,001)	24,959
Purchase of treasury shares	–	–	–	(50,239)	–	(50,239)
Cancellation of treasury shares	–	(45)	(34)	0	–	0
Share-based payments	–	220	–	220	–	220
Dividends	–	–	(48,456)	(48,456)	–	(48,456)
Acquisition of non-controlling interests	–	–	–	(1,138)	1,138	–
Transfer from other components of equity to retained earnings	5,378	32,828	(32,828)	–	–	–
Other	–	–	–	–	(5)	(5)
Total transactions with owners of the Company	5,378	33,004	(81,320)	(99,613)	1,133	(98,479)
Balance as of March 31, 2016	–	146,717	994,916	1,231,406	2,115	1,233,521

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, amended in October 2010 and December 2011) from the date of transition to IFRSs, April 1, 2012.

IFRS 9 replaces existing guidance in IAS 39 “Financial Instruments: Recognition and Measurement” and classifies financial instruments into two measurement categories, amortized cost and fair value. The change in fair value of financial instruments which have initially been measured at fair value is recognized in profit or loss. However, the change in fair value of equity instruments can be recognized through other comprehensive income, except for financial instruments held for trading.

#### (3) Scope of Consolidation

- Number of consolidated subsidiaries: 58
- Major consolidated subsidiaries:

##### In Japan

Daiichi Sankyo Espha Co., Ltd., Daiichi Sankyo Healthcare Co., Ltd., Daiichi Sankyo Propharma Co., Ltd., Daiichi Sankyo Chemical Pharma Co., Ltd., Asubio Pharma Co., Ltd., Daiichi Sankyo RD Novare Co., Ltd., Daiichi Sankyo Business Associe Co., Ltd., Kitasato Daiichi Sankyo Vaccine Co., Ltd.

##### Overseas

Daiichi Sankyo U.S. Holdings, Inc., Daiichi Sankyo Inc., Plexxikon Inc., Luitpold Pharmaceuticals, Inc., Ambit Biosciences Corporation, Daiichi Sankyo Europe GmbH, Daiichi Sankyo (China) Holdings Co., Ltd., Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd., Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd.

- Change in the number of consolidated subsidiaries
- Increase: 7 companies (increase due to acquisition)
- Decrease: 4 companies (decrease due to liquidation and merger, etc.)

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

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

#### (5) Summary of Significant Accounting Policies

##### 1) Methods of Valuation of Significant Assets

##### a. Non-derivative 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 an equity instrument 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, in the case of financial assets not at fair value through profit or loss, are measured at the fair value plus transaction costs that are attributable to the acquisition of financial assets.

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

(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 accumulated amount of other comprehensive income is transferred to retained earnings when equity instruments are derecognized or the decrease in its fair value compared to its acquisition cost is significant.

(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 cash flows from financial assets are transferred in transactions in which substantially all the risks and rewards of ownership of the asset are transferred to another entity.

b. Impairment of financial assets

At the end of each reporting period, it is assessed 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.

It is assessed 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 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 collaterals are 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 are reversed by adjusting the allowance for doubtful account and the reversal is recognized in profit or loss.

c. Non-derivative financial liabilities

(i) Initial recognition and measurement

Financial liabilities are classified as financial liabilities measured at amortized cost or financial liabilities measured at fair value through profit or loss at initial recognition.

At initial recognition, financial liabilities are measured at fair value and, in the case of financial liabilities at amortized cost, deducting the transaction costs that are directly attributable to the issue of 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 using the effective interest method and gains or losses arising from termination of recognition is recognized in net 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 through profit or loss.

(iii) Derecognition

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

d. Offsetting financial assets and liabilities

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

e. Derivatives and hedge accounting

Derivatives are utilized to hedge foreign currency risk, interest rate risk and share price risk. The primary derivatives used by the Group include forward foreign exchange contracts and interest-rate swaps. At the inception of the hedge, formal designation and documentation of the relationship and the risk management objective and strategy for undertaking the hedge are established.

On an ongoing basis, it is assessed whether the hedging instrument is 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 initially recognized at fair value with transaction costs recognized in profit or loss when they are incurred. After initial recognition, derivatives are measured at fair value.

Hedges that meet hedging criteria are accounted for as follows:

(i) Fair value hedge

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

(ii) Cash flow hedge

The effective portion of gain or loss on hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss. The cumulative amounts of hedging instruments recognized in other comprehensive income as equity are reclassified to profit or

loss when the transactions of the hedged items affect profit or loss. If hedged items result in the recognition of non-financial assets or non-financial liabilities, the cumulative amounts recognized in other comprehensive income as equity are accounted for as adjustments in the carrying amount of non-financial assets or non-financial liabilities. When forecast transactions or firm commitment are no longer expected to be incurred, any related cumulative gain or loss that has been recognized in other comprehensive income as equity is reclassified to profit or loss. When hedging instruments expire or are sold, terminated or exercised without the replacement or rollover of other hedging instruments, or when the hedge designation is revoked, the cumulative amounts that have been recognized in other comprehensive income are continued to be recognized in other comprehensive income until the forecast transactions or firm commitments are incurred or is no longer expected to occur.

f. Inventories

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

2) Depreciation and Amortization of Significant Depreciable Assets

a. Property, plant and equipment

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

Buildings and structures 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 asset of property, plant and equipment are reviewed annually and adjusted as necessary.

b. Intangible assets

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

Marketing rights: 5 to 14 years

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

c. Leased assets

Leased assets are depreciated by the straight-line method over the shorter of the lease term and the useful life.

Under operating lease transactions, lease payments are recognized as an expense on a straight-line basis over the lease term.

3) Method of Accounting for Significant Provisions

A provision is recognized when there is a present obligation (legal or constructive) as a result of a past event, 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 current market assessments of the time value of money and the risks inherent in the liabilities. The increase in the carrying amount of a provision reflecting the passage of time is recognized as a financial expense.

4) Employee benefits

a. Post-employment benefits

(i) Defined benefit plans

The present value of the defined benefit obligations and the related current service cost and, where applicable, past service costs 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 rating bonds, reflecting the estimated timing of benefit payments.

Past service costs are recognized in profit or loss as incurred.

Actuarial gains and losses are recognized in other comprehensive income in the period when they are incurred and transferred to retained earnings immediately.

(ii) Defined contribution plans

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

b. Others

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

5) Foreign Currency Translation

Foreign currency transactions are 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 are recognized in profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

Assets and liabilities of foreign operations (including goodwill 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 subsidiary's functional currency is the currency of a hyperinflationary economy, adjustments are made to its separate financial statements to reflect current price levels, and income and expenses of the subsidiary are translated into the presentation currency at the closing rate at the end of the reporting period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income after the date of transition to IFRS. On the disposal of the entire interest in a foreign operation, or on the partial disposal of the interest in a foreign operation that involves the loss of control of a subsidiary or loss of significant influence over an associates, 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 measured at cost less accumulated impairment loss and is not amortized, and allocated to cash-generating units that are expected to benefit from the synergies of the business combination.

## (7) Changes in Accounting Policies

The Group has adopted the following standard starting in the fiscal year ended March 31, 2016. Adoption of the standard does not materially impact the consolidated financial statements.

IFRS		Description
IAS 19	Employee Benefits	Simplification of accounting treatment related to contributions from employees or third parties not dependent on years of service

**2. Notes to Consolidated Statement of Financial Position**

## (1) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables	¥361 million
Other financial assets	¥21 million

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

¥425,934 million

## (3) Pledged Assets

Other financial assets of ¥993 million were pledged as bank guarantee.

## (4) Contingent Liabilities

## 1) Loan guarantees

The Company offered loan guarantees to its affiliates and employees when they borrowed money from financial institutions, etc.

Japan Vaccine Co., Ltd. (operating capital)	¥1,000 million
Employees (housing funds, etc.)	¥1,013 million

## 2) Litigation

Multiple lawsuits have been filed against Daiichi Sankyo Company, Limited, Daiichi Sankyo Inc., Daiichi Sankyo U.S. Holdings, Inc. as well as Forest Laboratories, LLC (head office: New York, U.S.A.) and the subsidiaries and affiliates thereof in U.S. federal and state courts by claimants alleging to have experienced sprue-like enteropathy (primary symptoms of sprue-like enteropathy include severe diarrhea) and other complications as a result of taking pharmaceuticals containing Olmesartan medoxomil (sold under Benicar® or other brand names in the United States).

Although it is possible that the Company and its consolidated subsidiaries may incur damages as a result of the above-mentioned litigation, it is difficult or unable at present to reasonably estimate the monetary amount of any such damages.

## 3) Other

Daiichi Sankyo announced in April 2014 that it had concluded an agreement with Sun Pharmaceutical Industries Ltd. under which the latter would acquire Ranbaxy Laboratories Ltd. via a merger in exchange for receipt by Daiichi Sankyo of shares in Sun Pharmaceutical Industries Ltd. This merger was completed on March 24, 2015 (the closing date).

As per the contract between Sun Pharmaceutical Industries Ltd. and Daiichi Sankyo regarding the merger of Ranbaxy Laboratories Ltd. into Sun Pharmaceutical Industries Ltd., Daiichi Sankyo could be required to indemnify Sun Pharmaceutical Industries Ltd. for 63.5% of penalties and damages, etc., arising from quality issues of Ranbaxy Laboratories Ltd. prior

to the closing date, which are paid to U.S. federal or state governmental authorities by Sun Pharmaceutical Industries Ltd. or Ranbaxy Laboratories Ltd., with a maximum cap amount of US\$325 million. This obligation lasts for 7 years from the closing date. In April 2015, Daiichi Sankyo sold all of the Sun Pharmaceutical Industries Ltd. shares, but the aforementioned agreement remains in effect.

Although it is possible that the above-mentioned obligation to indemnify may incur damages to Daiichi Sankyo, it is difficult or unable at present to reasonably estimate the monetary amount of any such damages.

### 3. Notes to Consolidated Statement of Changes in Equity

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

Class of 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	4,983 thousand shares	20,666 thousand shares	31 thousand shares	25,618 thousand shares

Notes:

- The increase in the number of treasury shares was because of acquisition of 20,650 thousand shares in accordance with the stipulation of the Articles of Incorporation pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act, and purchases of 15 thousand 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 31 thousand shares as a result of exercise of subscription rights to shares.

#### (3) Matters Related to Dividends from Surplus

##### 1) Amount of dividends paid

- Matters related to dividends based on a resolution made at the 10th Ordinary General Meeting of Shareholders held on June 22, 2015
  - Total amount of dividends: ¥21,120 million
  - Dividend per share: ¥30
  - Record date: March 31, 2015
  - Effective date: June 23, 2015
- Matters related to dividends based on a resolution made at the Board of Directors Meeting held on October 30, 2015
  - Total amount of dividends: ¥27,335 million
  - Dividend per share: ¥40
  - Record date: September 30, 2015
  - Effective date: December 1, 2015

Note: Dividend per share includes the 10th founding anniversary commemorative dividend of ¥10 per share.

- 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 11th Ordinary General Meeting of Shareholders, which will be held on June 20, 2016.
  - Total amount of dividends: ¥20,501 million
  - Resource of dividends: Retained earnings
  - Dividend per share: ¥30
  - Record date: March 31, 2016
  - Effective date: June 21, 2016

## (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	52 thousand shares
The Company	No. 2 Subscription Rights to Shares issued in November 2008 (Share remuneration-type stock option)	Ordinary shares	108 thousand shares
The Company	No. 3 Subscription Rights to Shares issued in August 2009 (Share remuneration-type stock option)	Ordinary shares	186 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	279 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
The Company	No. 9 Subscription Rights to Shares issued in July 2015 (Share remuneration-type stock option)	Ordinary shares	118 thousand shares

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

	(Millions of yen)
Deferred tax assets	
Prepaid outsourced research expenses, co-development expenses and others	15,498
Depreciation and amortization	4,224
Unrealized gain and valuation loss of inventories	19,363
Tax loss carry-forwards	963
Accrued expenses	20,100
Post-employment benefit liabilities	8,920
Valuation loss of securities	2,322
Impairment loss	625
Others	27,988
<b>Total deferred tax assets</b>	<b>100,006</b>
Deferred tax liabilities	
Intangible assets	(34,413)
Financial assets measured at fair value through other comprehensive income	(31,659)
Reserve for advanced depreciation of property, plant and equipment	(9,127)
Others	(2,759)
<b>Total deferred tax liabilities</b>	<b>(77,959)</b>
<b>Net deferred tax assets (liabilities)</b>	<b>22,046</b>

Note: The Group records tax assets and tax liabilities for uncertain tax positions based on the most probable estimate. Amounts exposed to uncertainty (possibility of favorable outcome) as of the end of the year ended March 31, 2016 are income taxes payable of ¥51,520 million and deferred tax of ¥65,470 million.

## 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 raised from bonds and borrowings are intended to be used for 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, 2016 (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	222,159	222,159	—
(2) Trade and other receivables	248,762	248,762	—
(3) Other financial assets	661,957	662,018	61
(4) Trade and other payables	(241,831)	(241,831)	—
(5) Bonds and borrowings	(201,000)	(204,414)	(3,414)
(6) Other financial liabilities	(9,968)	(9,968)	—

(\*) 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 (4) Trade and other payables

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

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

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

(5) Bonds and borrowings

The fair value of bonds is determined by reference to the quoted market price. Fair value of borrowings with variable interest rates reflects the market rate in the short-term and therefore approximates the carrying value. Fair value of borrowings with fixed interest rates is discounted using an expected market interest rate based on the assumption that the total principal amount is newly borrowed on the same terms and conditions.

**6. Notes Concerning Per Share Information**

(1) Equity per share attributable to owners of the Company:	¥1,801.90
(2) Basic earnings per share:	¥119.37
(3) Diluted earnings per share:	¥119.11

**7. Notes Concerning Subsequent Events**

Not applicable.

**8. Other Notes**

**(1) Disposal of Sun Pharmaceutical Industries Ltd. Shares**

Shares of Ranbaxy Laboratories Ltd. (¥424,338 million), which had been designated as financial assets measured at fair value through other comprehensive income in the previous fiscal year, were sold as shares of Sun Pharmaceutical Industries Ltd. during the current fiscal year after the merger with Sun Pharmaceutical Industries Ltd. was completed.

Fair value and cumulative loss at the time of this sale (recognized in other comprehensive income) were ¥378,493 million and ¥46,276 million (before the tax effect), respectively.

**Non-Consolidated Statement of Changes in Net Assets**  
**(From April 1, 2015 to March 31, 2016)**

(Millions of yen)

	Shareholders' equity						
	Share Capital	Capital surplus			Retained earnings		
		Legal capital surplus	Other capital surplus	Total capital surplus	Other retained earnings	Total retained earnings	
					Reserve for advanced depreciation of property, plant and equipment	Retained earnings carried forward	
Balance at the beginning of current period	50,000	179,858	483,870	663,728	9,497	306,210	315,707
Changes of items during the period							
Provision of reserve for reduction entries for non-current assets	—	—	—	—	1,060	(1,060)	—
Reversal of reserve for reduction entries for non-current assets	—	—	—	—	(1,546)	1,546	—
Adjustment to reserve due to change in tax rate	—	—	—	—	188	(188)	—
Dividends from surplus	—	—	—	—	—	(48,456)	(48,456)
Net income	—	—	—	—	—	10,555	10,555
Purchase of treasury stock	—	—	—	—	—	—	—
Cancellation of treasury stock	—	—	(34)	(34)	—	—	—
Decrease by corporate division-split-off type	—	—	(4,534)	(4,534)	—	—	—
Net changes of items other than shareholders' equity	—	—	—	—	—	—	—
Total changes of items during the period	—	—	(4,569)	(4,569)	(297)	(37,603)	(37,901)
Balance at the end of current period	50,000	179,858	479,300	659,158	9,199	268,607	277,806

	Shareholders' equity		Valuation and translation adjustments			Subscription rights to shares	Total net assets
	Treasury shares	Total shareholders' equity	Net unrealized gain or loss on investment securities	Deferred gains or losses on hedges	Total valuation and translation adjustments		
Balance at the beginning of current period	(14,198)	1,015,237	58,504	(1,341)	57,162	1,760	1,074,160
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	—	(48,456)	—	—	—	—	(48,456)
Net income	—	10,555	—	—	—	—	10,555
Purchase of treasury stock	(50,037)	(50,037)	—	—	—	—	(50,037)
Cancellation of treasury stock	80	45	—	—	—	—	45
Decrease by corporate division-split-off type	—	(4,534)	—	—	—	—	(4,534)
Net changes of items other than shareholders' equity	—	—	2,141	1,341	3,483	175	3,658
Total changes of items during the period	(49,957)	(92,428)	2,141	1,341	3,483	175	(88,769)
Balance at the end of current period	(64,155)	922,809	60,646	—	60,646	1,935	985,391

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)
  - Shares in subsidiaries and affiliates:
    - 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 which is 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 is depreciated by the straight-line method.
  - The estimated useful lives of major items are as follows:
 

Buildings:	15 to 50 years
Machinery and equipment:	4 to 17 years
Tools, furniture and fixtures:	2 to 15 years
- 2) Intangible Assets (excluding lease assets)
  - Intangible assets are amortized by the straight-line method.
  - Software for internal use, of which effects of decrease in expenses in future are assured, is amortized based on the estimated useful lives, which is a five-year period.
- 3) Leased assets
  - Leased 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 on receivables from customers by providing this allowance. In general, the allowance is calculated using the historical default rates. For specific overdue accounts, the allowance is calculated based on individual account-by-account estimates of the amounts that may not be recoverable.
- 2) Allowance for Sales Returns
  - The Company recorded allowance for losses on potential returns of products after the end of the fiscal year in the sum of profit portion and inventory losses of such returned products, based on its estimate of possible sales returns.
- 3) Allowance for Sales Rebates
  - The Company recorded allowance for future sales rebates, which is 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
- The Company recorded accrued liabilities for future payments of employees' severance and retirement benefits, 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
- The Company recorded provision for a possible loss on measures for soil pollution, based on the estimated amount of cleanup costs for certain pieces of land.
- 6) Provision for business restructuring
- The Company recorded provision for a possible loss on business restructuring, based on the estimated amount.
- (4) Translation of Foreign Currency Assets and Liabilities into Yen
- Foreign currency monetary assets and liabilities are translated into yen amounts at the rates of exchange prevailing at the balance sheet date. The exchange differences are recognized in profit or loss.
- (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: Foreign currency monetary assets and liabilities, Loan
- 3) Hedge Policy
- The Company hedges foreign currency risk and interest rate risk 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 under special treatment has not been assessed, because the major terms of the hedging instruments are the same as those of the hedged items and the effectiveness of the hedge is very high.
- (6) Accounting Method for Consumption Taxes
- The tax-exclusion (net of tax) method is used to account for the national and local consumption taxes.

## 2. Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation on property, plant and equipment totaled ¥147,357 million.

### (2) Contingent Liabilities

#### 1) Loan guarantees

The Company offered guarantees to affiliates' lease agreements of their offices and to its affiliates and employees for their borrowings from financial institutions.

Daiichi Sankyo, Inc.	¥44 million
Japan Vaccine Co., Ltd. (operating capital)	¥1,000 million
Employees (housing funds, etc.)	¥1,013 million

#### 2) Litigation

Multiple lawsuits have been filed against Daiichi Sankyo Company, Limited, Daiichi Sankyo Inc., Daiichi Sankyo U.S. Holdings, Inc. as well as Forest Laboratories, LLC (head office: New York, U.S.A.) and the subsidiaries and affiliates thereof in U.S. federal and state courts by claimants alleging to have experienced sprue-like enteropathy (primary symptoms of sprue-like enteropathy include severe diarrhea) and other complications as a result of taking pharmaceuticals containing Olmesartan medoxomil (sold under Benicar® or other brand names in the United States).

Although it is possible that the Company and the Company's consolidated subsidiaries may incur damages as a result of the above-mentioned litigation, it is difficult or unable at present to reasonably estimate the monetary amount of any such damages.

#### 3) Other

Daiichi Sankyo announced in April 2014 that it had concluded an agreement with Sun Pharmaceutical Industries Ltd. under which the latter would acquire Ranbaxy Laboratories Ltd. via a merger in exchange for receipt by Daiichi Sankyo of shares in Sun Pharmaceutical Industries Ltd. This merger was completed on March 24, 2015 (the closing date).

As per the contract between Sun Pharmaceutical Industries Ltd. and Daiichi Sankyo regarding the merger of Ranbaxy Laboratories Ltd. into Sun Pharmaceutical Industries Ltd., Daiichi Sankyo could be required to indemnify Sun Pharmaceutical Industries Ltd. for 63.5% of penalties and damages, etc., arising from quality issues of Ranbaxy Laboratories Ltd. prior to the closing date, which are paid to U.S. federal or state governmental authorities by Sun Pharmaceutical Industries Ltd. or Ranbaxy Laboratories Ltd., with a maximum cap amount of US\$325 million. This obligation lasts for 7 years from the closing date. In April 2015, Daiichi Sankyo sold all of the Sun Pharmaceutical Industries Ltd. shares, but the aforementioned agreement remains in effect.

Although it is possible that the above-mentioned obligation to indemnify may incur damages to Daiichi Sankyo, it is difficult or unable at present to reasonably estimate the monetary amount of any such damages.

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

1) Short-term monetary assets due from affiliated companies:	¥61,998 million
2) Long-term monetary assets due from affiliated companies:	¥28,681 million
3) Short-term monetary liabilities due to affiliated companies:	¥90,010 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:	¥130,774 million
2) Purchase of goods:	¥126,936 million
3) Selling, general and administrative expenses:	¥158,239 million
4) Non-operating transactions:	¥24,711 million

#### (2) Extraordinary losses

(Loss on sales of investment securities)

The loss was mainly due to the disposal of Sun Pharmaceutical Industries Ltd. shares.

(Loss on valuation of investments in affiliates)

The loss was incurred by write-down of shares of domestic and overseas affiliates held by the Company.

(Loss on business restructuring)

The loss was incurred related to plant closures of domestic affiliates for optimizing the business operation structure.

### 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
Ordinary shares	4,983 thousand shares	20,666 thousand shares	31 thousand shares	25,618 thousand shares

Notes:

1. The increase in the number of treasury shares was because of the acquisition of 20,650 thousand shares in accordance with the stipulation of the Articles of Incorporation pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act, and the purchases of 15 thousand 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 31 thousand shares as a result of exercise of subscription rights to shares.

## 5. Notes Concerning Deferred Tax Accounting

### (1) Significant components of deferred tax assets and liabilities

	(Millions of yen)
Deferred tax assets	
Depreciation	18,737
Prepaid outsourced research expenses, co-development expenses and others	15,413
Prepaid expenses	8,782
Valuation loss of securities	7,133
Valuation loss of inventories	4,613
Accrued bonuses	4,078
Accrued enterprise taxes	3,876
Others	6,764
Subtotal of deferred tax assets	69,396
Valuation allowance	(9,183)
Total deferred tax assets	60,213
Deferred tax liabilities	
Net unrealized gain on investment securities	(26,628)
Reserve for advanced depreciation of property, plant and equipment	(6,882)
Prepaid pension costs	(3,001)
Others	(4,290)
Total deferred tax liabilities	(40,801)
Net deferred tax assets (liabilities)	19,412

### (2) Adjustments to deferred tax assets and deferred tax liabilities due to changes in corporate tax rate.

The “Act on Partial Revision of the Income Tax Act” (Act No. 15 of 2016) and the “Act on Partial Revision of the Local Tax Act” (Act No. 13 of 2016) were enacted at a Diet session on March 29, 2016. Accordingly, the corporate tax rate, etc. will be lowered effective from the fiscal year beginning on or after April 1, 2016. As a result, the effective statutory tax rate used for the calculation of the deferred tax assets and liabilities will be reduced from the current 32.1% to 30.7% for temporary differences that are expected to be reversed in the fiscal year beginning on or after April 1, 2016 and the fiscal year beginning on or after April 1, 2017, and to 30.5% for temporary differences that are expected to be reversed in the fiscal year beginning on or after April 1, 2018.

Due to such changes in the tax rate, the deferred tax assets, net of the deferred tax liabilities, decreased by ¥733 million, and income taxes-deferred and net unrealized gain on investment securities increased by ¥2,137 million and ¥1,404 million, respectively.

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

(1) Acquisition cost equivalents at the end of this fiscal year:	11
(2) Accumulated depreciation equivalents at the end of this fiscal year:	8
(3) Future lease payments obligation at the end of this fiscal year:	2
Due within one year:	1
Due after one year:	1

**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.	Research and development, manufacture and marketing of healthcare (OTC) products	Directly 100.0	—	Lending and borrowing of funds	Custody of funds	11,406	Deposit received	11,406
Subsidiary	Daiichi Sankyo Propharma Co., Ltd.	Manufacture of pharmaceuticals	Directly 100.0	—	Purchase of merchandise	Purchase of merchandise	51,628	Accounts payable – trade	5,530
Subsidiary	Kitasato Daiichi Sankyo Vaccine Co., Ltd.	Research and development, manufacture and marketing of vaccines	Directly 80.0	Directors: 1	Purchase of merchandise	Lending of funds	15,642	Short-term loans	1,642
								Long-term loans	14,000
Subsidiary	Daiichi Sankyo U.S. Holdings, Inc.	A holding Company	Directly 100.0	Directors: 1	Concurrent directors	Receipt of dividend	18,273	—	—
Subsidiary	Daiichi Sankyo, Inc.	Research and development and marketing of pharmaceuticals	Indirectly 100.0	Directors: 1	Marketing of finished goods and consignment of research and development and marketing	Marketing of finished goods	57,915	Accounts receivable	17,218
						Consignment of research and marketing	74,284	Accounts payable and accrued expenses	22,422
Subsidiary	Daiichi Sankyo Europe GmbH	Supervision of the Daiichi Sankyo EUROPE Group, and research and development, manufacture and marketing of pharmaceuticals	Directly 100.0	—	Marketing of finished goods and consignment of research and development and marketing	Marketing of finished goods	42,908	Accounts receivable	20,181

Notes:

- Transaction terms and policies on deciding transaction terms, etc.  
Transaction terms with the companies mentioned above are decided while referring to quoted 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**

(1) Net assets per share:	¥1,439.07
(2) Earnings per share:	¥15.31
(3) Diluted earnings per share:	¥15.28

**9. Notes Concerning Subsequent Events**

Not applicable.