

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

For the 13th Fiscal Period (from April 1, 2017 to March 31, 2018)

[Business Report]

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Daiichi Sankyo Company, Limited

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

Status of Subscription Rights to Shares

Status of Subscription Rights to Shares Owned by Members of the Board and Members of the Audit and Supervisory Board of the Company Granted as Remuneration for Their Execution of Duties as of the End of the Fiscal Year

	Date of resolution on issuance	Grantees and number of grantees	Number of share options	Class and number of shares subject to Subscription rights to shares	Amount to be paid in for Subscription rights to shares	Value of property contributed upon exercise of Subscription rights to shares	Exercisable period for Subscription rights to shares
No. 1 Subscription rights to shares (Issued on February 15, 2008)	January 31, 2008	Two Members of the Board of the Company (excluding Members of the Board (Outside))	75 units	7,500 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	252,800 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From February 16, 2008 to February 15, 2038
No. 2 Subscription rights to shares (Issued on November 17, 2008)	October 31, 2008	Two Members of the Board of the Company (excluding Members of the Board (Outside))	123 units	12,300 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	134,200 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From November 18, 2008 to November 17, 2038
No. 3 Subscription rights to shares (Issued on August 17, 2009)	July 31, 2009	Three Members of the Board of the Company (excluding Members of the Board (Outside)) One Member of the Audit and Supervisory Board of the Company (excluding Members of the Audit and Supervisory Board (Outside))	253 units 16 units	25,300 shares of the ordinary share of the Company 1,600 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	133,800 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From August 18, 2009 to August 17, 2039
No. 4 Subscription rights to shares (Issued on August 19, 2010)	July 30, 2010	Four Members of the Board of the Company (excluding Members of the Board (Outside)) One Member of the Audit and Supervisory Board of the Company (excluding Members of the Audit and Supervisory Board (Outside))	461 units 49 units	46,100 shares of the ordinary share of the Company 4,900 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	119,700 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From August 20, 2010 to August 19, 2040
No. 5 Subscription rights to shares (Issued on July 12, 2011)	June 27, 2011	Six Members of the Board of the Company (excluding Members of the Board (Outside))	596 units	59,600 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	111,200 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 13, 2011 to July 12, 2041
No. 6 Subscription rights to shares (Issued on July 9, 2012)	June 22, 2012	Six Members of the Board of the Company (excluding Members of the Board (Outside))	789 units	78,900 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	88,400 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 10, 2012 to July 9, 2042
No. 7 Subscription rights to shares (Issued on July 8, 2013)	June 21, 2013	Six Members of the Board of the Company (excluding Members of the Board (Outside))	565 units	56,500 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	119,900 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 9, 2013 to July 8, 2043

	Date of resolution on issuance	Grantees and number of grantees	Number of share options	Class and number of shares subject to Subscription rights to shares	Amount to be paid in for Subscription rights to shares	Value of property contributed upon exercise of Subscription rights to shares	Exercisable period for Subscription rights to shares
No. 8 Subscription rights to shares (Issued on July 8, 2014)	June 23, 2014	Six Members of the Board of the Company (excluding Members of the Board (Outside)) One Member of the Audit and Supervisory Board of the Company (excluding Members of the Audit and Supervisory Board (Outside))	584 units 34 units	58,400 shares of the ordinary share of the Company 3,400 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	136,100 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 9, 2014 to July 8, 2044
No. 9 Subscription rights to shares (Issued on July 7, 2015)	June 22, 2015	Six Members of the Board of the Company (excluding Members of the Board (Outside))	511 units	51,100 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	185,800 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 8, 2015 to July 7, 2045
No. 10 Subscription rights to shares (Issued on July 5, 2016)	June 20, 2016	Six Members of the Board of the Company (excluding Members of the Board (Outside))	584 units	58,400 shares of the ordinary share of the Company (100 shares per Subscription rights to shares)	196,000 yen per Subscription rights to shares	100 yen per Subscription rights to shares	From July 6, 2016 to July 5, 2046

Notes: 1. Part of the Subscription rights to shares owned by Members of the Board and Members of the Audit and Supervisory Board include Subscription rights to shares granted to Members of the Board and Members of the Audit and Supervisory Board during their terms as Corporate Officers.

2. Conditions for exercise of Subscription rights to shares are as follows:

- a. Persons to whom share options are granted (hereinafter referred to as “holders of Subscription rights to shares”) may exercise their Subscription rights to shares until the last day of the last fiscal year that ends within 10 years from the following day of the day when they retired from their office as Member of the Board or Corporate Officer of the Company that they held when the Subscription rights to shares were granted (if the holders of Subscription rights to shares concurrently serve as Member of the Board and Corporate Officer, the day when they retired from office means the day when they retired from the office of Member of the Board, regardless of whether they continued to hold the position of Corporate Officer; and if the holders of Subscription rights to shares served as Corporate Officer when the Subscription rights to shares were granted and if they took office as Member of the Board upon their retirement from office as Corporate Officer, the day when they retired from office means the day when they retired from office as Member of the Board, not the day when they retired from office as Corporate Officer).
- b. Holders of Subscription rights to shares may not dispose of the Subscription rights to shares by any means, including pledging.
- c. When holders of Subscription rights to shares die, their heir may inherit the Subscription rights to shares that have not been exercised as of the day when the cause of their inheritance occurs, and may exercise the rights in accordance with the terms of the Agreement on Allotment of Subscription rights to shares, to be entered between the Company and holders of Subscription rights to shares.
- d. When holders of Subscription rights to shares exercise their Subscription rights to shares, they may not partially exercise one Subscription rights to shares.
- e. Other conditions are set forth in the Agreement on Allotment of Subscription rights to shares, to be entered between the Company and holders of Subscription rights to shares, in accordance with the resolution of the Board of Directors.

3. Events and conditions for the acquisition of Subscription rights to shares are as follows:

- a. When holders of Subscription rights to shares can no longer exercise their rights pursuant to the provisions specified in the above-mentioned Note 2, the Company may acquire, free of charge, the said Subscription rights to shares held by the said holders of Subscription rights to shares on the day separately determined by the Board of Directors.
- b. When an absorption-type merger agreement, under which the Company is absorbed and disappears, is approved at a General Meeting of Shareholders of the Company (a meeting of the Board of Directors if a resolution of a General Meeting of Shareholders is not required), or when a proposal on approval of a share exchange agreement, under which the Company will become a wholly-owned subsidiary company in the share exchange, or a proposal on approval for a share transfer plan, under which the Company will become a wholly-owned subsidiary company in the share transfer, is approved at a General Meeting of Shareholders of the Company (a meeting of the Board of Directors if a resolution of a General Meeting of Shareholders is not required), the Company may acquire, free of charge, the

Subscription rights to shares held by the holders of Subscription rights to shares on the day separately determined by the Board of Directors.

- c. When holders of Subscription rights to shares offer in writing to abandon all or part of their Subscription rights to shares, the Company may acquire, free of charge, the said Subscription rights to shares held by those holders of Subscription rights to shares on the day separately determined by the Board of Directors.
- 4. The total number of shares subject to Subscription rights to shares that were unexercised as of the end of the fiscal year under review and their ratio to the total number of issued shares (excluding treasury shares) are as shown below.

Total number of shares subject to unexercised Subscription rights to shares	Ratio to the total number of issued shares (excluding treasury shares)
464,000 shares	0.07%

Consolidated Statement of Changes in Equity
(From April 1, 2017 to March 31, 2018)

(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	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2017	50,000	103,750	(113,952)	2,067	67,568	54,853
Profit for the year	—	—	—	—	—	—
Other comprehensive income (loss) for the year	—	—	—	—	(10,229)	10,688
Total comprehensive income (loss) for the year	—	—	—	—	(10,229)	10,688
Purchase of treasury shares	—	(51)	(50,033)	—	—	—
Cancellation of treasury shares	—	—	453	(74)	—	—
Dividends	—	—	—	—	—	—
Acquisition of non-controlling interests	—	(9,064)	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	(4,369)
Others	—	—	—	—	—	—
Total transactions with owners of the Company	—	(9,116)	(49,579)	(74)	—	(4,369)
Balance as of March 31, 2018	50,000	94,633	(163,531)	1,993	57,339	61,171

	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, 2017	—	124,489	1,011,610	1,175,897	(4,469)	1,171,428
Profit for the year	—	—	60,282	60,282	(471)	59,811
Other comprehensive income (loss) for the year	1,620	2,078	—	2,078	—	2,078
Total comprehensive income (loss) for the year	1,620	2,078	60,282	62,361	(471)	61,890
Purchase of treasury shares	—	—	—	(50,085)	—	(50,085)
Cancellation of treasury shares	—	(74)	(75)	304	—	304
Dividends	—	—	(46,430)	(46,430)	—	(46,430)
Acquisition of non-controlling interests	—	—	—	(9,064)	5,007	(4,057)
Transfer from other components of equity to retained earnings	(1,620)	(5,989)	5,989	—	—	—
Others	—	—	—	—	(8)	(8)
Total transactions with owners of the Company	(1,620)	(6,063)	(40,516)	(105,276)	4,998	(100,277)
Balance as of March 31, 2018	—	120,504	1,031,376	1,132,982	58	1,133,041

Note: Figures are rounded down to the nearest million Japanese yen.

Notes to Consolidated Financial Statements

1. Basis of Preparation of Consolidated Financial Statements

(1) Basis of Preparation of Consolidated Financial Statements

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards (“IFRS”) pursuant to the provisions of Article 120, Paragraph 1 of the Corporate Accounting Rules. These consolidated financial statements omit certain disclosure items required under IFRS in accordance with the provisions in the latter part of that Paragraph.

(2) 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 IFRS transition (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: 53

- Major consolidated subsidiaries:

Domestic:

Daiichi Sankyo Espha Co., Ltd., Daiichi Sankyo Healthcare Co., Ltd., Daiichi Sankyo Propharma Co., Ltd., Daiichi Sankyo Chemical Pharma Co., Ltd., 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: 3 companies (increase due to establishment)

Decrease: 6 companies (decrease due to liquidation)

(4) Application of the Equity Method

- Number of associates which are accounted for under the equity method: 3

- Major associates: Japan Vaccine Co., Ltd.

- Change in the number of associates

Increase: 1 company (increase due to investment)

(5) Significant Accounting Policies

1) Basis and Method of Valuation of Significant Assets

a. Non-derivative Financial Assets

(i) Initial recognition and measurement

Financial assets are 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. In the case of financial assets not measured at fair value through profit or loss, they 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 their classification as follows:

- (a) Financial assets measured at amortized cost
Financial assets measured at amortized cost are measured at amortized cost using the effective interest method.
- (b) Financial assets measured at fair value
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 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 asset expire, or are transferred in a transaction in which substantially all the risks and rewards of ownership of the asset are transferred to another entity.

b. Impairment of Financial Assets

At the end of each reporting period, financial assets measured at amortized cost are assessed to determine whether there is any objective evidence of impairment. Objective evidence that financial assets measured at amortized cost are impaired includes significant financial difficulty of the debtor or a group of debtors, a default or delinquency in interest or principal payments, and bankruptcy of the debtor.

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 is reduced through use of 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, the transaction costs that are directly attributable to the issue of the financial liabilities are deducted.

(ii) Subsequent measurement

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

(a) Financial liabilities measured at amortized cost

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

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

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

(iii) Derecognition

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

d. Offsetting Financial Assets and Liabilities

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

e. Derivatives and Hedge Accounting

Derivatives are utilized to hedge foreign currency risk and interest rate risk. The derivatives primarily used by the Group include forward foreign exchange contracts and interest-rate swaps. For derivatives designated as hedging instruments, at the inception of a hedge, the Group formally designates and documents the relationship between the hedging instrument and hedged item, and the risk management objective and strategy for undertaking the hedge are established. On an ongoing basis, the Group assesses 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 the criteria for hedge accounting are accounted for as follows:

(i) Fair value hedges

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

(ii) Cash flow hedges

The effective portion of changes in fair value of hedging instruments is recognized in other comprehensive income, while the ineffective portion is recognized immediately in profit or loss. The cumulative amounts of changes in fair values of hedging instruments recognized in other comprehensive income are reclassified from equity to profit or loss in the same period or periods when the hedged forecast cash flows or hedged items affect profit or loss. If hedged items result in the recognition of non-financial assets or non-financial liabilities, the cumulative amounts recognized in other comprehensive income are accounted for as adjustments in the carrying amount of the non-financial assets or non-financial liabilities. When forecast transactions or firm commitments are no longer expected to occur, any related cumulative gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss. 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 are 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 labor and other costs directly attributable to the inventories and cost of related production overheads. The cost of inventories is assigned by using the weighted average cost formula. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

2) Depreciation and Amortization of Significant Depreciable Assets

a. Property, Plant and Equipment

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

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

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

b. Intangible Assets

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

- Commercial rights: 5 to 14 years

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

c. Leased Assets

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

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

3) Method of Accounting for Significant Provisions

A provision is recognized when there is a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the effect of the time value of money is material, the amount of a provision is measured at the present value of the expenditures expected to be required to settle the obligation. The present value is determined by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent in the liabilities. The increase in the carrying amount of a provision reflecting the passage of time is recognized as a financial expense.

4) Employee Benefits

a. Post-employment Benefits

(i) Defined benefit plans

The present value of defined benefit obligations and related current service cost and, where applicable, past service cost are determined using the projected unit credit method for each plan separately.

The discount rate is determined by reference to market yields at the end of the reporting period on high-rated corporate bonds, reflecting the estimated timing of benefit payments.

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

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

(ii) Defined contribution plans

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

b. Others

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

5) Foreign Currency Translation

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign currency monetary assets and liabilities are translated into the functional currency using the exchange rates at the end of the reporting period and the exchange differences arising on the settlement of monetary items or on translating monetary items are generally recognized in profit or loss. However, exchange differences arising from the translation of financial assets measured at fair value through other comprehensive income and cash flow hedges are recognized in other comprehensive income.

Assets and liabilities of foreign operations (including goodwill and fair value adjustments arising on the acquisition of foreign operations) are translated into the presentation currency at the closing rate at the end of the reporting period. Income and expenses of foreign operations are

translated into the presentation currency at the average exchange rate for the period. When a subsidiary's functional currency is the currency of a hyperinflationary economy, adjustments are made to its separate financial statements to reflect current price levels, and income and expenses of the subsidiary are translated into the presentation currency at the closing rate at the end of the reporting period.

Exchange differences arising from translation of financial statements of foreign operations are recognized in other comprehensive income after the date of transition to IFRS. On the disposal of the entire interest in a foreign operation, or on the partial disposal of the interest in a foreign operation that involves the loss of control of a subsidiary or loss of significant influence over an associate, the cumulative amount of the exchange differences relating to that foreign operation, recognized in other comprehensive income and accumulated as a separate component of equity, is reclassified to profit or loss as a part of gain or loss on disposal.

6) Other Significant Matters for Preparation of the Consolidated Financial Statements

Accounting method for consumption taxes:

The tax-exclusion method is used to account for national and local consumption taxes.

(6) Matters Related to Goodwill

Goodwill is measured at cost less accumulated impairment loss and is not amortized. Goodwill arising from a business combination is allocated to cash-generating units that are expected to benefit from the synergies of the business combination.

(7) Changes in Accounting Policies

The significant accounting policies adopted in preparing the consolidated financial statements of the Group have not changed from the prior year except for the adoption of the following new and amended accounting standards. In the year ended March 31, 2018, the Group adopted the following accounting standards in accordance with their effective date. These new and amended accounting standards did not have a material impact on the consolidated financial statements.

IFRS		Overview
IAS 7	Statement of Cash Flows	Amendment to disclosure requirements for changes in liabilities arising from financing activities
IAS 12	Income Taxes	Amendment to clarify the recognition of deferred tax assets for unrealized losses

2. Notes to Consolidated Statement of Financial Position

(1) Allowance for doubtful accounts directly deducted from assets

Trade and other receivables 453 million yen

Other financial assets 1 million yen

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

..... 474,968 million yen

(3) Contingent Liabilities

1) Loan guarantees

The Company provides loan guarantees in relation to its associates' and employees' borrowings from financial institutions as follows:

Japan Vaccine Co., Ltd. (operating capital) 1,000 million yen

Employees (housing and other loans) 580 million yen

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2) Others

The Company concluded an agreement with Sun Pharmaceutical Industries Ltd. ("Sun Pharma") in April 2014 under which Sun Pharma acquired Ranbaxy Laboratories Ltd. ("Ranbaxy") in exchange for receipt by Daiichi Sankyo of shares in Sun Pharma on March 24, 2015 ("the closing date").

Based on the agreement with Sun Pharma, the Company could be required to indemnify Sun Pharma for 63.5% of penalties and damages arising from quality issues of Ranbaxy prior to the closing date, which are paid to U.S. federal or state governmental authorities by Sun Pharma or Ranbaxy, with a maximum cap amount of 325 million U.S. dollar. This obligation lasts for seven years from the closing date. In April 2015, Daiichi Sankyo sold all of the acquired Sun Pharma shares, while the aforementioned agreement remains in effect.

Although the Company could incur damages as a result of the above-mentioned contingent liabilities, it is not considered possible at present to reasonably estimate the monetary amount of any such damages.

3. Notes to Consolidated Statement of Changes in Equity

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

Class of shares	Number of shares at April 1, 2017	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2018
Ordinary shares	709,011 thousand shares	– shares	– shares	709,011 thousand shares

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

Class of shares	Number of shares at April 1, 2017	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2018
Ordinary shares	45,783 thousand shares	15,741 thousand shares	181 thousand shares	61,343 thousand shares

Notes:

1. The increase in the number of treasury shares was due to acquisition of 15,729 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 12 thousand shares of less than one unit.
2. The decrease in the number of treasury shares was due to sale of 0 thousand shares to meet top-up demands for shares of less than one unit, a decrease of 57 thousand shares as a result of exercise of subscription rights to shares and a decrease of 123 thousand shares by granting restricted stocks.

(3) Matters Related to Dividends from Surplus

1) Amount of dividends paid

- a. Dividends based on a resolution made at the 12th Ordinary General Meeting of Shareholders held on June 19, 2017

- Total amount of dividends: 23,212 million yen
- Dividend per share: 35 yen
- Record date: March 31, 2017
- Effective date: June 20, 2017

- b. Dividends based on a resolution made at the Board of Directors Meeting held on October 31, 2017

- Total amount of dividends: 23,217 million yen
- Dividend per share: 35 yen
- Record date: September 30, 2017
- Effective date: December 1, 2017

2) Dividends for which the record date is in the current fiscal year, but the effective date is in the following fiscal year

The following shall be referred to the 13th Ordinary General Meeting of Shareholders, which will be held on June 18, 2018.

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

(4) Matters Related to Subscription Rights to Shares

Issuer	Grant of subscription rights to shares	Class of shares to be converted	Number of shares to be converted
The Company	No. 1 Subscription Rights to Shares granted in February 2008 (Share remuneration-type stock option)	Ordinary shares	35 thousand shares
The Company	No. 2 Subscription Rights to Shares granted in November 2008 (Share remuneration-type stock option)	Ordinary shares	69 thousand shares
The Company	No. 3 Subscription Rights to Shares granted in August 2009 (Share remuneration-type stock option)	Ordinary shares	136 thousand shares
The Company	No. 4 Subscription Rights to Shares granted in August 2010 (Share remuneration-type stock option)	Ordinary shares	209 thousand shares
The Company	No. 5 Subscription Rights to Shares granted in July 2011 (Share remuneration-type stock option)	Ordinary shares	206 thousand shares
The Company	No. 6 Subscription Rights to Shares granted in July 2012 (Share remuneration-type stock option)	Ordinary shares	262 thousand shares
The Company	No. 7 Subscription Rights to Shares granted in July 2013 (Share remuneration-type stock option)	Ordinary shares	192 thousand shares
The Company	No. 8 Subscription Rights to Shares granted in July 2014 (Share remuneration-type stock option)	Ordinary shares	145 thousand shares
The Company	No. 9 Subscription Rights to Shares granted in July 2015 (Share remuneration-type stock option)	Ordinary shares	118 thousand shares
The Company	No. 10 Subscription Rights to Shares granted in July 2016 (Share remuneration-type stock option)	Ordinary shares	135 thousand shares

4. Notes Concerning Tax Effect Accounting

(1) Sources of deferred tax assets and liabilities are as follows:

Deferred tax assets	(Millions of yen)
Prepaid outsourced research expenses and co-development expenses	13,325
Depreciation and amortization	2,525
Unrealized gain and valuation loss of inventories	11,347
Unused tax losses	1,370
Accrued expenses	16,394
Provisions for loss on litigation	11,607
Post-employment benefit liabilities	6,907
Valuation loss of securities	1,562
Impairment loss	632
Others	26,160
Total deferred tax assets	91,833
Deferred tax liabilities	
Intangible assets	(19,674)
Financial assets measured at fair value through other comprehensive income	(27,974)
Reserve for advanced depreciation of property, plant and equipment	(7,638)
Long-term accounts receivable - other	(11,425)
Others	(3,458)
Total deferred tax liabilities	(70,171)
Net deferred tax assets (liabilities)	21,662

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 March 31, 2018 are income taxes payable of 56,108 million yen and deferred tax of 61,784 million yen.

(2) Impact of U.S. Tax Reform

The Tax Cuts and Jobs Act was enacted on December 2017 and reduced the U.S. federal corporate tax rate to 21% from 35%, effective from the fiscal year beginning on April 1, 2018. The group remeasured deferred tax assets and liabilities of U.S. subsidiaries to reflect the effect of this corporate tax rate change. As a result, income taxes decreased by 2,885 million yen for the year ended March 31, 2018. In addition, since the corporate tax rate applicable to the year ended March 31, 2018 was reduced to 31.55% from 35%, income taxes decreased by 1,014 million yen.

5. Notes Concerning Financial Instruments

(1) Matters Related to Financial Instruments

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

To reduce credit risks relating to trade and other receivables, the Group has established mandatory credit management guidelines. Other financial assets are mostly short-term financial instruments and stocks.

The Finance and Accounting Department prepares and updates funding plans based on reports submitted by each department to manage liquidity risks related to trade and other payables.

The funds raised from bonds and borrowings are intended to be used for purchase of treasury shares and refinancing. To respond to the interest rates risk of some of the long-term borrowings, the Group obtains fixed interest through interest swap transactions. In accordance with transaction management policy, derivative trading is limited to commercial needs.

(2) Matters Related to Fair Value of Financial Instruments

Carrying amounts of the financial instruments on the consolidated statement of financial position, the fair values of each type of financial instruments and the difference as of March 31, 2018, are as follows:

(Millions of yen)

	Amount recorded in consolidated statement of financial position(*)	Fair value	Difference
(1) Cash and cash equivalents	357,702	357,702	—
(2) Trade and other receivables	231,529	231,529	—
(3) Other financial assets	608,557	608,563	6
(4) Trade and other payables	(226,164)	(226,164)	—
(5) Bonds and borrowings	(280,564)	(283,687)	(3,123)
(6) Other financial liabilities	(8,671)	(8,671)	—

(*) Liabilities are shown in parentheses.

Notes: Measurement method of fair values of financial instruments

(1) Cash and cash equivalents, (2) Trade and other receivables, and (4) Trade and other payables

Fair values of these instruments approximate carrying amounts as they are settled in a short period.

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

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

(5) Bonds and borrowings

The fair value of bonds is determined by reference to the quoted market price. Fair value of borrowings with variable interest rates reflects the market rate in the short-term and therefore approximates the carrying value. Fair value of borrowings with fixed interest rates is

discounted using an expected market interest rate based on the assumption that the total principal amount is newly borrowed on the same terms and conditions.

6. Notes Concerning Per Share Information

(1) Equity per share attributable to owners of the Company:	1,749.33 yen
(2) Basic earnings per share:	91.31 yen
(3) Diluted earnings per share:	91.10 yen

7. Notes Concerning Significant Subsequent Events

Not Applicable

8. Other Notes

Note Concerning Impairment Loss

The group recognized 27,764 million yen of impairment losses in research and development expenses for the year ended March 31, 2018 because the group terminated a development and commercialization agreement related to CL-108, a combination drug for the treatment of pain and opioid-induced nausea and vomiting (OINV). The recoverable amount of the intangible assets was measured using value in use, which was assessed to be zero.

Note Concerning Lawsuits

Multiple lawsuits were filed against Daiichi Sankyo Company, Limited, Daiichi Sankyo Inc., Daiichi Sankyo U.S. Holdings, Inc., as well as Forest Laboratories, LLC (currently Allergan Sales, LLC) and subsidiaries of Forest Laboratories, LLC, in various federal and state courts in the United States by claimants alleging to have experienced sprue-like enteropathy (primary symptoms of sprue-like enteropathy include severe diarrhea) and other complications as a result of taking pharmaceuticals containing olmesartan medoxomil (sold under Benicar® or other brand names in the United States). All named defendants entered into a settlement agreement with the claimants in August 2017, which was amended in March 2018.

The agreement will become effective, among other conditions, when 97% of the plaintiffs and those who did not participate in the lawsuit but meet certain criteria express their agreement to opt-in to the settlement, subsequently, all named defendants will contribute 358 million U.S. dollar to a settlement fund, and claimants who meet specified criteria under the settlement will receive payouts from the fund. In the year ended March 31, 2018, in accordance with the settlement agreement as amended, the expected payments to the settlement fund of 358 million U.S. dollar (38,044 million yen) is recorded in “Provisions” (non-current), the expected compensation from insurance (37,369 million yen) is recorded in “Other financial assets” (non-current), and the net amount of 712 million yen is recorded in “Selling, general and administrative expenses”.

Non-Consolidated Statement of Changes in Net Assets
(From April 1, 2017 to March 31, 2018)

(Millions of yen)

	Shareholders' equity						
	Share Capital	Capital surplus			Retained earnings		
		Legal reserve	Other capital surplus	Total capital surplus	Other retained earnings Reserve for advanced depreciation of property, plant and equipment	Retained earnings carried forward	Total retained earnings
Balance as of April 1, 2017	50,000	179,858	479,205	659,063	7,607	236,798	244,406
Movement in the current year							
Reversal of reserve for advanced depreciation of property, plant and equipment					(261)	261	-
Dividends from surplus						(46,430)	(46,430)
Net income						83,729	83,729
Purchase of treasury shares							
Cancellation of treasury shares			(75)	(75)			
Decrease by corporate division-split-off type			(2,712)	(2,712)	(346)	346	-
Movement in the year (net) other than shareholders' equity							
Total movement in the current year	-	-	(2,788)	(2,788)	(607)	37,906	37,298
Balance as of March 31, 2018	50,000	179,858	476,416	656,275	6,999	274,705	281,704

	Shareholders' equity		Valuation and translation adjustments		Subscription rights to shares	Total net assets
	Treasury shares	Total Shareholders' equity	Net unrealized gain or loss on investment securities	Total valuation and translation adjustments		
Balance as of April 1, 2017	(113,952)	839,517	46,934	46,934	2,067	888,519
Movement in the current year						
Reversal of reserve for advanced depreciation of property, plant and equipment		-				-
Dividends from surplus		(46,430)				(46,430)
Net income		83,729				83,729
Purchase of treasury shares	(50,033)	(50,033)				(50,033)
Cancellation of treasury shares	453	378				378
Decrease by corporate division-split-off type		(2,712)				(2,712)
Movement in the year (net) other than shareholders' equity			(716)	(716)	(74)	(790)
Total movement in the current year	(49,579)	(15,069)	(716)	(716)	(74)	(15,859)
Balance as of March 31, 2018	(163,531)	824,448	46,218	46,218	1,993	872,659

Note: Figures are rounded down to the nearest million Japanese yen.

Notes to Non-Consolidated Financial Statements

1. Significant Accounting Policies

(1) Basis and Method of Valuation of Assets

1) Securities

(i) Held-to-maturity securities

Held-to-maturity securities are measured at amortized costs (straight-line amortization).

(ii) Shares in subsidiaries and associates

Shares in subsidiaries and associates are measured at cost using the moving average method.

(iii) Available-for-sale securities

With quoted market price:

Available-for-sale securities with quoted market price are measured at market value based on the market price as of the reporting date with the valuation difference being recognized directly in equity. Cost of sales is calculated using the moving average method.

Without quoted market price:

Available-for-sale securities without quoted market price are carried at cost using the moving average method.

2) Inventories

Inventories held for sale in the ordinary course of business:

Inventories are measured at cost based on the periodic average method. The carrying amount on the non-consolidated balance sheet is reduced to reflect declines in profitability.

(2) Depreciation and Amortization Method of Non-current Assets

1) Property, plant and equipment

Property, plant and equipment is depreciated by the straight-line method.

The estimated useful lives of major items of property, plant and equipment are as follows:

Buildings:	15 to 50 years
Machinery:	4 to 17 years
Tools, furniture and fixtures:	2 to 15 years

2) Intangible assets

Intangible assets are amortized by the straight-line method.

Software for internal use is amortized over an estimated useful life of 5 years if it is certain that use of the software will result in future cost reductions.

(3) Provisions

1) Provisions for doubtful accounts

Provisions for doubtful accounts are recorded in relation to potential losses on trade receivables, loans receivable and other assets based on historical loss ratio for general accounts receivable,

and based on individually assessed estimated uncollectable amounts for specific doubtful accounts.

2) Provisions for sales returns

Provisions for sales returns are recorded for losses on potential sales returns after the end of the fiscal year at the amount equal to the sum of estimated loss of sales profit and costs of disposal.

3) Provisions for sales rebates

Provisions for sales rebates are recorded by multiplying rebate percentages by the amounts of inventories held by authorized distributors at the end of the fiscal year.

4) Provisions for retirement benefits

Provisions are recorded for retirement benefits to employees based on the estimated amount of projected benefit obligations and the pension plan assets as of the end of the fiscal year.

Past service costs are amortized within one year (12 months) after they are incurred.

Actuarial gains and losses are amortized by the straight-line method over a certain number of years (10 years) within the average remaining years of service of the employees from the fiscal year following the year in which the differences occurred.

5) Provisions for business restructuring

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

6) Provisions for loss on litigation

Provisions for loss on litigation are recorded in relation to expected payments related to a lawsuit.

(4) Translation of Foreign Currency Assets and Liabilities

Foreign currency monetary assets and liabilities are translated to Japanese yen using the spot exchange rate on the reporting date, and the exchange differences are recognized in profit or loss.

(5) Hedge Accounting

1) Hedge accounting

In principle, deferral hedge accounting is adopted. Foreign exchange forward contracts which meet the requirements for allocation method are accounted for by that method. Interest rate swaps which meet the requirements for exceptional accounting treatment are accounted for by the exceptional method.

2) Hedging instruments and hedged items

Hedging instruments: Foreign exchange forward contracts, Interest rate swaps

Hedged items: Foreign currency monetary assets and liabilities, Borrowings

3) Hedge Policy

The Company hedges foreign exchange risks associated with exports and imports and interest rate risks. The Company does not enter into derivative transactions for speculative purposes.

4) Method of Assessing Hedge Effectiveness

Foreign exchange forward contracts and interest rate swaps qualifying for special accounting treatment are exempt from assessment of hedge effectiveness, since the principal contract terms of the hedging instruments are identical with the hedged items and it is assumed that the

hedging is highly effective.

(6) Accounting Method for Consumption Taxes

The tax-exclusion method is used to account for national and local consumption taxes.

2. Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment 151,582 million yen.

(2) Contingent liabilities

1) Loan guarantees

The Company provides guarantees in relation to its subsidiaries' lease agreements for their offices. The Company also provides loan guarantees in relation to its associates' and employees' borrowings from financial institutions as follows:

Daiichi Sankyo Inc.	43 million yen
Japan Vaccine Co., Ltd. (operating capital)	1,000 million yen
Employees (housing and other loans).....	580 million yen

2) Others

The Company concluded an agreement with Sun Pharmaceutical Industries Ltd. ("Sun Pharma") in April 2014 under which Sun Pharma acquired Ranbaxy Laboratories Ltd. ("Ranbaxy") in exchange for receipt by Daiichi Sankyo of shares in Sun Pharma on March 24, 2015 ("the closing date").

Based on the agreement with Sun Pharma, the Company could be required to indemnify Sun Pharma for 63.5% of penalties and damages arising from quality issues of Ranbaxy prior to the closing date, which are paid to U.S. federal or state governmental authorities by Sun Pharma or Ranbaxy, with a maximum cap amount of 325 million U.S. dollar. This obligation lasts for seven years from the closing date. In April 2015, Daiichi Sankyo sold all of the acquired Sun Pharma shares, while the aforementioned agreement remains in effect.

Although the Company could incur damages as a result of the above-mentioned contingent liabilities, it is not considered possible at present to reasonably estimate the monetary amount of any such damages.

(3) Monetary assets from and liabilities to subsidiaries and associates

1) Short-term monetary assets	41,191 million yen
2) Long-term monetary assets	8,996 million yen
3) Short-term monetary liabilities	125,704 million yen

3. Notes to Non-Consolidated Statement of Income

(1) Transactions with subsidiaries and associates

1) Net Sales	75,245 million yen
2) Purchases of goods	159,800 million yen
3) Selling, general and administrative expenses.....	131,499 million yen
4) Non-operating transactions.....	73,309 million yen

(2) Extraordinary gains

Reversal of provisions for doubtful accounts

The provisions for doubtful accounts related to receivables from domestic subsidiaries and associates were reversed.

Reversal of provisions for loss on business of subsidiaries and associates

The provisions were reversed because the financial position of the domestic subsidiaries and associates was improved by additional investments.

(3) Extraordinary losses

Loss on valuation of subsidiaries and associates' shares

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

4. Notes to Non-Consolidated Statement of Changes in Net Assets

Matters Related to Class and Number of Treasury Shares

Class of shares	Number of shares at April 1, 2017	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2018
Ordinary shares	45,783 thousand shares	15,741 thousand shares	181 thousand shares	61,343 thousand shares

Notes:

1. The increase in the number of treasury shares was due to acquisition of 15,729 thousand shares in accordance with the stipulation of Articles of Incorporation pursuant to the provisions of Article 165, Paragraph 2 of the Companies Act, and purchases of 12 thousand shares of less than one unit.
2. The decrease in the number of treasury shares was due to sale of 0 thousand shares to meet top-up demands for shares of less than one unit, a decrease of 57 thousand shares as a result of exercise of subscription rights to shares and a decrease of 123 thousand shares by granting restricted stocks.

5. Notes Concerning Tax Effect Accounting

(1) Sources of deferred tax assets and liabilities are as follows:

Deferred tax assets	(Millions of yen)
Valuation loss of securities	16,934
Prepaid outsourced research expenses and co-development expenses	13,279
Provisions for loss on litigation	11,607
Depreciation and amortization	10,213
Prepaid expenses	7,496
Valuation loss of inventories	5,274
Accrued enterprise taxes	4,183
Accrued bonuses	3,667
Others	7,056
Subtotal of deferred tax assets	79,709
Valuation allowance	(18,951)
Total deferred tax assets	60,758
Deferred tax liabilities	
Net unrealized gain or loss on investment securities	(20,292)
Long-term accounts receivable - other	(11,425)
Reserve for advanced depreciation of Property, plant and equipment	(5,746)
Prepaid pension costs	(2,272)
Others	(7,716)
Total deferred tax liabilities	(47,451)
Net deferred tax assets (liabilities)	13,307

6. Notes Concerning Related Party Transactions

Subsidiaries

Nature of related party	Name	Business	Ownership percentage	Relationship		Transactions	Transaction amount (Millions of yen)	Accounts	Balance at the end of year (Millions of yen)
				Concurrent directors	Business relationship				
Subsidiary	Daiichi Sankyo Espha Co., Ltd.	Research and development and marketing of pharmaceuticals	Directly 100.0	-	Purchase of merchandise	Custody of funds	16,467	Deposit received	16,467
Subsidiary	Daiichi Sankyo Healthcare Co., Ltd.	Research and development, manufacturing and marketing of healthcare products	Directly 100.0	-	Lending and borrowing of funds	Custody of funds	18,883	Deposit received	18,883
Subsidiary	Daiichi Sankyo Propharma Co., Ltd.	Manufacturing of pharmaceuticals	Directly 100.0	Directors: 1	Purchase of merchandise	Purchase of merchandise	47,520	Accounts payable - trade	4,735
Subsidiary	Daiichi Sankyo Business Associe Co., Ltd.	Business support	Directly 100.0	Directors: 1	Entrustment of shared service	Custody of funds	15,807	Deposit received	15,807
Subsidiary	Kitasato Daiichi Sankyo Vaccine Co., Ltd.	Research and development, manufacturing and marketing of vaccines	Directly 100.0	Directors: 3	Purchase of merchandise	Acceptance of new shares	40,000	-	-
Subsidiary	Daiichi Sankyo Inc.	Research and development and marketing of pharmaceuticals	Indirectly 100.0	Directors: 1	Marketing of pharmaceuticals and entrustment of research and development and marketing	Marketing of pharmaceuticals and royalty income	11,303	Accounts receivable - trade	2,258
						Transfer price adjustments	7,416	Accounts receivable - other	7,416
						Entrustment of research and marketing	66,802	Accounts payable - other	4,795
Subsidiary	Daiichi Sankyo Europe GmbH	Supervision of the Daiichi Sankyo Europe Group, and research and development, manufacturing and marketing of pharmaceuticals	Directly 100.0	Directors: 1	Marketing of pharmaceuticals and entrustment of research and development and marketing	Marketing of pharmaceuticals and royalty income	32,736	Accounts receivable - trade	7,237

Notes:

1. Policies for determining transaction terms and conditions
Transaction terms with the companies mentioned above are decided by referring to market prices.
2. Consumption taxes are not included in “Transaction amount,” but are included in “Balance at the end of year.”

7. Notes Concerning Per Share Information

(1) Net assets per share	1,344.31 yen
(2) Earnings per share	126.83 yen
(3) Diluted earnings per share	126.53 yen

8. Notes Concerning Significant Subsequent Events

Not Applicable

9. Other Notes

Note Concerning Lawsuits

Multiple lawsuits were filed against Daiichi Sankyo Company, Limited, Daiichi Sankyo Inc., Daiichi Sankyo U.S. Holdings, Inc., as well as Forest Laboratories, LLC (currently Allergan Sales, LLC) and subsidiaries of Forest Laboratories, LLC, in various federal and state courts in the United States by claimants alleging to have experienced sprue-like enteropathy (primary symptoms of sprue-like enteropathy include severe diarrhea) and other complications as a result of taking pharmaceuticals containing olmesartan medoxomil (sold under Benicar® or other brand names in the United States). All named defendants entered into a settlement agreement with the claimants in August 2017, which was amended in March 2018.

The agreement will become effective, among other conditions, when 97% of the plaintiffs and those who did not participate in the lawsuit but meet certain criteria express their agreement to opt-in to the settlement, subsequently, all named defendants will contribute 358 million U.S. dollar to a settlement fund, and claimants who meet specified criteria under the settlement will receive payouts from the fund. In the year ended March 31, 2018, in accordance with the settlement agreement as amended, the expected payments to the settlement fund of 358 million U.S. dollar (38,044 million yen) is recorded in “Provisions for loss on litigation”, the expected compensation from insurance (37,369 million yen) is recorded in “Long-term accounts receivable - other”, and the net amount of 712 million yen is recorded in “Selling, general and administrative expenses”.