

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

For the 16<sup>th</sup> Fiscal Period (from April 1, 2020 to March 31, 2021)

[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 Directors and Audit & Supervisory Board Members 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. 3 Subscription rights to shares (Issued on August 17, 2009)	July 31, 2009	One Director of the Company (excluding Outside Director)	49 units	14,700 shares of the ordinary share of the Company (300 shares per Subscription rights to shares)	133,800 yen per Subscription rights to shares	300 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	Two Directors of the Company (excluding Outside Director)	98 units	29,400 shares of the ordinary share of the Company (300 shares per Subscription rights to shares)	119,700 yen per Subscription rights to shares	300 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	Two Directors of the Company (excluding Outside Directors)	84 units	25,200 shares of the ordinary share of the Company (300 shares per Subscription rights to shares)	111,200 yen per Subscription rights to shares	300 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	Two Directors of the Company (excluding Outside Directors)	112 units	33,600 shares of the ordinary share of the Company (300 shares per Subscription rights to shares)	88,400 yen per Subscription rights to shares	300 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	Two Directors of the Company (excluding Outside Directors)	80 units	24,000 shares of the ordinary share of the Company (300 shares per Subscription rights to shares)	119,900 yen per Subscription rights to shares	300 yen per Subscription rights to shares	From July 9, 2013 to July 8, 2043
No. 8 Subscription rights to shares (Issued on July 8, 2014)	June 23, 2014	Four Directors of the Company (excluding Outside Directors)	196 units	58,800 shares of the ordinary share of the Company (300 shares per Subscription rights to shares)	136,100 yen per Subscription rights to shares	300 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	Four Directors of the Company (excluding Outside Directors)	213 units	63,900 shares of the ordinary share of the Company (300 shares per Subscription rights to shares)	185,800 yen per Subscription rights to shares	300 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	Four Directors of the Company (excluding Outside Directors) One Audit & Supervisory Board Member of the Company (excluding Outside Audit & Supervisory Board Members)	248 units 26 units	74,400 shares of the ordinary share of the Company 7,800 shares of the ordinary share of the Company (300 shares per Subscription rights to shares)	196,000 yen per Subscription rights to shares	300 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 Directors and Audit & Supervisory Board Members include Subscription rights to shares granted to Directors and Audit & Supervisory Board Members 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 Director 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 Director and Corporate Officer, the day when they retired from office means the day when they retired from the office of Director, 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 Director upon their retirement from office as Corporate Officer, the day when they retired from office means the day when they retired from office as Director, 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 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 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 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 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 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 Board of Directors.
4. Since the Company conducted a share split with one ordinary share as three shares with October 1, 2020 as the effective date, the number of shares subject to Subscription rights to shares has been changed to 300 shares per a right.
5. 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)
331,800 shares	0.02%

## Internal Control System

### 1) Basic Policy on Establishing Internal Control System

- Concerning systems for ensuring compliance with laws and ordinances and the Company's Articles of Incorporation in the execution of duties by Directors and other systems for securing appropriateness of duties, the Company has resolved the basic policies at Board of Directors' Meeting held on March 31, 2017, as follows.
  - a. Systems for Ensuring Compliance with Laws and Regulations and the Company's Articles of Incorporation in the Execution of Duties by Directors
    - The Company shall establish a compliance system by stipulating Daiichi Sankyo Group Corporate Conduct Charter, Daiichi Sankyo Group Employee Code of Conduct, etc. as the code of conduct for Directors and Audit & Supervisory Board Members and employees and setting up a meeting body, including outside experts.
    - The Company shall appoint Outside Directors for the strengthening and enhancing the function to supervise management.
    - Audit & Supervisory Board Members shall audit the execution of duties by Directors, process and contents of decision-making and the status of the establishment and implementation of internal control systems.
  - b. Systems Regarding the Retention and Management of Information Relating to the Execution of Duties by Directors
    - The Company shall establish information security systems, and properly store and manage information relating to the execution of duties by Directors, including the minutes of Board of Directors, in accordance with laws, ordinances and internal regulations of the Company.
  - c. Rules and Other Systems for Risk Management
    - The Company shall stipulate various internal regulations to establish risk management systems.
    - The Internal Audit Department shall audit the status of operation of the systems mentioned above.
  - d. Systems for Ensuring the Efficient Execution of Duties by Directors
    - The Company shall form a Management Executive Meeting—consisting of Directors excluding Outside Directors, and executives appointed by the Chief Executive Officer (CEO) who are responsible for the main regions, corporate bodies and functions—which shall deliberate important matters for strategic decision-making by the CEO. The Company shall also set up an approval system as a means of decision-making.
    - The Company shall introduce a corporate officer system in consideration of speedy decision-making and execution of duties.
  - e. Systems for Ensuring Compliance with Laws and Ordinances and the Company's Articles of Incorporation in the Execution of Duties by Employees
    - The Company shall establish a compliance system by stipulating Daiichi Sankyo Group Corporate Conduct Charter, Daiichi Sankyo Group Employee Code of Conduct, etc. as the code of conduct for Directors and Audit & Supervisory Board Members and employees and setting up a meeting body, including outside experts.
    - Vice Presidents responsible for the main regions, corporate bodies and functions who receive orders from the CEO in accordance with the “Daiichi Sankyo Group Global Management Regulations” and persons in charge who receive orders from the President in accordance with the “Organizational Management Regulations” shall manage duties in their charge and supervise, manage and direct members of their business units.
    - Each of the functions related to the improvement of systems concerning personnel management, risk management, etc. shall convey policies to manage and guide each department.
    - The Internal Audit Department shall implement internal audit of the status of compliance with laws and ordinances, and the Articles of Incorporation and internal regulations.
  - f. Systems for Ensuring the Proper Operation of the Group, Consisting of the Company and Its Subsidiaries
    - The Company shall establish “Daiichi Sankyo Group Global Management Regulations” and “Internal Control System Establishment Regulations” to clarify the management control system of the Daiichi Sankyo Group, and transmit management policies, etc. to Group companies and set a system in place

- for receiving reports on management and financial results from the Board of group companies.
- The Company shall establish “Group Company Management Regulations” to clarify responsibilities and authorities of each group company.
  - The Company shall establish “Daiichi Sankyo Group Risk Management Promotion Regulations” to develop the Daiichi Sankyo Group risk management system.
  - The Company shall establish Daiichi Sankyo Group Employee Code of Conduct, etc. to develop it to all Group companies and also arrange the Group’s compliance promotion system to keep all Group companies informed about it.
  - The Company shall establish “Internal Control Regulations on Financial Reporting” and ensure the reliability of financial reporting by properly implementing those regulations.
  - The Company shall establish “Internal Audit Regulations” and implement internal audit on Group companies.
- g. Systems Regarding Employees Assisting Duties of Audit & Supervisory Board Members, when Audit & Supervisory Board Members Ask to Appoint Such Employees
- The Company shall appoint full-time staff members who assist with the duties of Audit & Supervisory Board Members.
- h. Matters Regarding the Independence of the Employees Specified in the Preceding Paragraph (g) from Directors and Ensuring of Effectiveness of Instructions by Audit & Supervisory Board Members
- Full-time staffers assisting Audit & Supervisory Board Members shall be independent of Directors, and shall execute duties under the directions and orders from Audit & Supervisory Board Members.
  - Personnel changes, performance appraisal, etc. of full-time staffers assisting Audit & Supervisory Board Members shall require prior consent of the Audit and Supervisory Board.
- i. Systems of Reporting to Audit & Supervisory Board Members of the Company by Directors and Employees of the Company and Subsidiaries and Other Systems Regarding Reporting to Audit & Supervisory Board Members of the Company
- The Company shall establish a system under which when Directors find facts that could badly hurt the Company, they shall immediately report the facts to Audit & Supervisory Board Members.
  - Audit & Supervisory Board Members of the Company shall receive reports on the status of execution of duties from executives and employees of the Company as well as executives and employees of Group companies.
  - Audit & Supervisory Board Members of the Company shall attend the Management Executive Meeting and other important meetings.
  - To verify process and details of approvals, the Company shall establish Audit & Supervisory Board Members as permanent recipients of approval document notification.
- j. Other Systems for Ensuring the Effective Audit by Audit & Supervisory Board Members
- Audit & Supervisory Board Members of the Company shall have meetings with Representative Directors on a regular basis to check management policies and exchange views concerning important issues related to auditing.
  - Audit & Supervisory Board Members of the Company shall exchange information with Audit & Supervisory Board Members of the Group companies and closely cooperate with them.
  - Audit & Supervisory Board Members of the Company shall coordinate and exchange views with external auditors and the Internal Audit Department.
  - The Company shall not treat unfairly any person who reports under the second item in the preceding paragraph (i) or any person who reports according to Daiichi Sankyo Group Employee Code of Conduct, etc. because of the fact of such reporting.
  - The Company shall bear expenses that may be occurred in executing the duties of Audit & Supervisory Board Members.
- k. Basic Ideas About and Systems for Eliminating Antisocial Forces
- The Company shall take a firm stance toward antisocial forces and organizations that threaten the order and safety of civil society. To prevent antisocial forces and organizations from being involved in the Company’s management activities and to stop such forces and organizations from harming the Company, the Company shall stipulate, as its basic policy, in the Daiichi Sankyo Group Corporate Conduct Charter, etc. that it shall thoroughly forbid relations with antisocial forces and organizations. In addition, the Company shall establish an organizational structure to that end, and strive to eliminate

relations with antisocial forces and organizations through means such as collecting information in cooperation with the police and other bodies, and conducting activities to train Directors and other Officers, and employees.

## 2) Overview of Status for Implementing Internal Control Structure

### [Matters Regarding Risk Management]

- The Group defines risks as those factors that will prevent the Group from attaining its organizational goals and targets. The Group is promoting risk management through such means as taking steps to address risks inherent in corporate activities and rationally controlling the potential impacts should risks actualize. In this manner, we seek to minimize the adverse impacts of risks on people, society, and the Group.
- Chief Financial Officer (CFO) oversees group-wide risk management as the chief risk management officer, promotes risk management education, and operates the risk management system.
- The Group defines “Crisis Management” as implementations of measures and responses to minimize the impact and damage in the event of a crisis. The Group establishes the system in which we can rapidly and appropriately respond to crises, by assigning the Crisis Management Officer and Initial Crisis Management Officer and defining the reporting routes and rules in advance.
- The Group has also developed the “Business Continuity Plan (BCP)” that stipulates concretely preparations for and measures to be instituted in the event of a disaster as well as crisis. The plan is developed based on certain scenarios of specific crises (natural disaster, facility accident, infectious diseases including new type influenzae, damages to IT system), in preparation for such emergency, with an aim to minimize the damage to our assets, ensure business continuity, and recover as rapidly as possible from crisis.

### [Matters Regarding Compliance]

- The Group has defined the “Daiichi Sankyo Group Corporate Conduct Charter” and the “Daiichi Sankyo Group Employee Code of Conduct” as global principle and code of conduct for all executives and employees of the Group. The progress of promoting compliance is annually reported to Representative Directors and the Corporate Ethics Committee (including an outside lawyer; the same shall apply hereafter) and, if there is an issue, a system is in place to make a proposal for implementing measures to resolve such issue.
- The Company has set up a whistle-blowing hotline in the Legal Department and the external law firm that employees of domestic Group companies and business partners, etc. can use. Overseas Group companies have also set up similar hotlines. In the event of material compliance violations, a system is in place to report to the Corporate Ethics Committee, etc.
- In compliance with the “Guidelines about Sales Dissemination of Information Campaign of a Medical Product for Medical Care” published by the Japan Ministry of Health, Labour and Welfare (MHLW), the Company has established the Sales Information Dissemination Campaign Committee chaired by the Compliance Officer of the Company and made the Legal Department responsible for monitoring these activities.
- In accordance with “Global Management Regulations,” “Organizational Management Regulations,” and other rules, Vice Presidents and executives responsible for the main regions, corporate bodies and functions who receive orders from CEO supervise, manage, and direct members of their business units. Progress is reported to executives appropriately through the Management Executive Meeting and operation results meetings.

### [Matters Regarding Management of Subsidiaries]

- The Company regularly communicates its policies to Group companies through the Management Executive Meeting and operation results meetings, and receives a report on the management and results of operations from Group companies. Boards of Directors of domestic Group companies resolved to revise the respective Basic Policy based on a revision of the Companies Act implemented in May 2015 and the revision of the Basic Policy on Establishing Internal Control Structure of the Company.
- The Group has established a Global Compliance Advisory Committee as an advisory organ to the Corporate Ethics Committee, which consists of compliance officers of subsidiaries in overseas, in order to ensure the effectiveness of the global compliance system. In addition, Group companies in Japan and abroad have set up a whistle-blowing hotline comparable to that of the Company. The progress of promoting compliance is reported to Representative Directors and the Corporate Ethics Committee appropriately.

[Matters Regarding Audit by the Internal Audit Department]

- The Company has established the Internal Audit Department as an internal audit department independent from departments engaging in business execution, which comprises a certain number of staff members with special qualifications, including a certified internal auditor, and the Company maintains a system in which effective internal control is ensured by having the Internal Audit Department perform monitoring from a fair and independent position and report on risks and issues to management.
- With the purpose of contributing to the effective achievement of management targets, internal audits are performed to evaluate the business activities of organizations covered in the audits from various perspectives, including the effectiveness and efficiency of business operations and compliance, and the results of audits are reported to CEO, Board of Directors, and other relevant parties.
- Audits of the Company are based on a comprehensive auditing approach and cover the entire organization, including Group companies, and the Internal Audit Department decides where and what to audit based on its risk assessment, risks recognized by management, audit intervals and other factors, and performs audits by organization or audits across the organization by issue.
- The Internal Audit Department receives reports of audit results from Group companies that have an audit organization and identifies risks and issues of the Group.
- The Internal Audit Department continually conducts self-evaluations of audit quality, as well as receiving evaluations of audit quality by an external specialist institution on a regular basis as part of its efforts to enhance the quality of audits.

[Matters Regarding Audit by Audit & Supervisory Board Members]

- Directors and employees of the Company, as well as executives and employees of Group companies, report the status of the execution of operations to Audit & Supervisory Board Members of the Company as necessary. The Company has a system in place, under which when Directors of the Company find facts that could seriously damage the Company, they can immediately report the facts to Audit & Supervisory Board Members of the Company.
- Audit & Supervisory Board Members of the Company hold regular meetings for opinion exchanges with Directors, including the Representative Director of the Company, while attending important meetings and reviewing important documents. They also coordinate closely with the Internal Audit Department and accounting auditors of the Company, and secure a system under which Audit & Supervisory Board Members can conduct an audit effectively.
- Full-time Audit & Supervisory Board Members of the Company concurrently serve as part-time Audit & Supervisory Board Members of major domestic Group companies, and they attend Board of Directors meetings and Management Executive Meetings of those companies and check those companies' status of the establishment and implementation of its internal control system.
- To strengthen the audit functions of Audit & Supervisory Board Members, full-time staff, who are independent from the execution of operations, assist with the duties of Audit & Supervisory Board Members.

**Matters regarding Accounting Auditors****(1) Name of Accounting Auditor (Independent Auditor)**

KPMG AZSA LLC

**(2) Amount of Fees and Others to Accounting Auditors for the Current Fiscal Year**

(Millions of yen)

Category	Previous Fiscal Year		Current Fiscal Year	
	Fees for audit and attestation services	Fees for non-auditing services	Fees for audit and attestation services	Fees for non-auditing services
Daiichi Sankyo	210	5	210	4
Consolidated subsidiaries	52	–	54	–
Total	262	5	264	4

- Notes:
1. “Fees for audit and attestation services” of the amount of fees and others for the current fiscal year represents the sum of the amount of remunerations for auditing services in accordance with the Companies Act and the amount of remunerations for auditing services in accordance with the Financial Instruments and Exchange Act, since the two kinds of remunerations are not clearly divided under the audit contract entered between the Company and Accounting Auditors and they cannot be divided practically.
  2. The Audit and Supervisory Board approves fees and others of Accounting Auditors as provided in Article 399, Paragraph 1 of the Companies Act by comparing the audit plan of Accounting Auditors for the prior year with actual results, checking any change in audit hours and amount of fees, and judging the reasonableness of estimated audit hours and amount of fees in the fiscal year under review in a comprehensive manner.
  3. Overseas subsidiaries of the subsidiaries listed on “(1) Status of Material Subsidiaries” of “(7) Status of Material Subsidiaries, etc.” of “1. Status of Daiichi Sankyo Group” in our CONVOCATION NOTICE OF THE 16TH ORDINARY GENERAL MEETING OF SHAREHOLDERS are audited by audit firms other than KPMG AZSA LLC.

**(3) Details of Non-Auditing Services**

- The Company entrusts accounting auditors with services other than service as provided in Article 2, Paragraph 1 of the Certified Public Accountants Law (non-auditing services), including advisory services concerning the English-version financial results reports (Kessan Tanshin) and pays such fees accordingly.

**(4) Policy on Decision to Dismiss or not to Reappoint Accounting Auditor**

- In accordance with the “Accounting Auditors Assessment Standards” of the Company, the Audit and Supervisory Board shall assess the accounting auditors in a comprehensive manner and, when deemed necessary to change the accounting auditors, it shall decide a proposal for dismissing or not reappointing the accounting auditors to be submitted to a General Meeting of Shareholders.
- When accounting auditors meet any of the items of Article 340, Paragraph 1 of the Companies Act, and it is considered reasonable to dismiss them, the Audit and Supervisory Board shall, with the consent of all Audit & Supervisory Board Members, dismiss the accounting auditors.
- The “Accounting Auditors Assessment Standards” of the Company stipulate that the Company shall select a candidate for accounting auditor by assessing the reasonableness of the respective assessment items such as legal compliance structure, audit quality management structure, audit results, independence from the Company, knowledge and experience of pharmaceutical industry, global audit framework, and audit fees, and it shall assess the reasonableness of additional assessment items including reporting to Audit & Supervisory Board Members, communicating with corporate representative, and verifying status of audit when deliberating dismissal or non-reappointment of the accounting auditors.



**Consolidated Statement of Changes in Equity**  
(From April 1, 2020 to March 31, 2021)

(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
<b>Balance as of April 1, 2020</b>	50,000	94,633	(162,519)	1,611	51,218	29,264
Profit for the year	—	—	—	—	—	—
Other comprehensive income for the year	—	—	—	—	18,805	12,499
<b>Total comprehensive income for the year</b>	—	—	—	—	18,805	12,499
Purchase of treasury shares	—	(138)	(100,054)	—	—	—
Cancellation of treasury shares	—	—	1,320	(572)	—	—
Dividends	—	—	—	—	—	—
Changes associated with losing control of subsidiaries	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	—	—	(1,347)
<b>Total transactions with owners of the Company</b>	—	(138)	(98,733)	(572)	—	(1,347)
<b>Balance as of March 31, 2021</b>	50,000	94,494	(261,252)	1,038	70,024	40,416

	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				
<b>Balance as of April 1, 2020</b>	—	82,094	1,241,600	1,305,809	464	1,306,274
Profit for the year	—	—	75,958	75,958	(127)	75,830
Other comprehensive income for the year	7,847	39,151	—	39,151	—	39,151
<b>Total comprehensive income for the year</b>	7,847	39,151	75,958	115,110	(127)	114,982
Purchase of treasury shares	—	—	—	(100,192)	—	(100,192)
Cancellation of treasury shares	—	(572)	(474)	273	—	273
Dividends	—	—	(48,946)	(48,946)	—	(48,946)
Changes associated with losing control of subsidiaries	—	—	—	—	(336)	(336)
Transfer from other components of equity to retained earnings	(7,847)	(9,194)	9,194	—	—	—
<b>Total transactions with owners of the Company</b>	(7,847)	(9,767)	(40,226)	(148,866)	(336)	(149,203)
<b>Balance as of March 31, 2021</b>	—	111,479	1,277,332	1,272,053	—	1,272,053

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) Scope of Consolidation

- Number of consolidated subsidiaries: 47
- 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., Daiichi Sankyo Biotech Co., Ltd., Daiichi Sankyo RD Novare Co., Ltd., Daiichi Sankyo Business Associe Co., Ltd.

##### Overseas:

Daiichi Sankyo U.S. Holdings, Inc., Daiichi Sankyo Inc., Plexxikon Inc., American Regent, 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: 2 companies (increase mainly due to establishment)
  - Decrease: 2 companies (decrease due to liquidation and change to an associate which is accounted for under the equity method)

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

- Number of associates which are accounted for under the equity method: 2
- Major Associates: Hitachi Pharma Information Solutions, Ltd.
- Change in the number of associates which are accounted for under the equity method
  - Increase: 1 company (increase due to change from a consolidated subsidiary)

#### (4) 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 recognized on the contract date when the Group becomes a party to the contractual provisions of the instruments.

Financial assets, except for financial assets measured at fair value through profit or loss, are measured at fair value plus transaction costs that are attributable to the acquisition of the financial asset. However, trade receivables that do not contain a significant financing component are initially recognized at transaction price.

At initial recognition, financial assets are classified as (a) financial assets measured at amortized cost; (b) financial assets measured at fair value through other comprehensive income; or (c) financial assets measured at fair value through profit or loss.

##### (a) Financial assets measured at amortized cost

Financial assets are classified as financial assets measured at amortized cost if both of the

following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows: and
- 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.

(b) Financial assets measured at fair value through other comprehensive income

Debt instruments measured at fair value are classified as financial assets measured at fair value through other comprehensive income if both of the following conditions are met:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets: and
- 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.

For equity instruments measured at fair value, except for equity instruments held for trading which must be measured at fair value through profit or loss, the Group made an irrevocable election to present subsequent changes in fair value of certain equity instruments in other comprehensive income.

(c) Financial assets measured at fair value through profit or loss

Financial assets, except for financial assets measured at amortized cost and financial assets measured at fair value through other comprehensive income, are classified as financial assets measured at fair value through profit or loss.

(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 through other comprehensive income

Changes in the fair value of debt instruments classified as financial assets measured at fair value through other comprehensive income are recognized in other comprehensive income, except for impairment gains or losses and foreign exchange gain and losses, which are recognized in profit or loss, and the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment when debt instruments are derecognized.

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 acquisition cost is significant.

(c) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value, and any changes in fair value are recognized in profit or loss.

(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, the Group evaluates whether the credit risk on financial assets measured at amortized cost has increased significantly since initial recognition, and a loss allowance for expected credit losses on such financial assets is recognized.

If the credit risk on financial assets has not increased significantly since initial recognition, a loss allowance is measured at an amount equal to 12-month expected credit losses. If the credit risk on financial assets has increased significantly since initial recognition, a loss allowance is measured at an amount equal to lifetime expected credit losses. However, a loss allowance for trade receivables

that do not contain a significant financing component is measured at an amount equal to lifetime expected credit losses.

The Group considers, as a general rule, that there has been a significant increase in the credit risk when payments have not been made for more than 30 days passed contractual due date. The Group considers not only the information regarding due date but also other reasonable and supportable information when determining whether credit risk has increased significantly since initial recognition. The Group considers that there has not been a significant increase in the credit risk when the financial assets are determined to have low credit risk at the end of reporting period.

Expected credit losses on financial assets are measured in a way that reflects the following factors:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Expected credit losses are measured based on the discounted present value of the differences between the contractual cash flows and the cash flows expected to be received. When expected credit losses are recognized, the carrying amount of the financial asset is reduced through use of a loss allowance for expected credit losses, and expected credit losses are recognized in profit or loss. If, in a subsequent period, the amount of the expected credit losses decreases, the previously recognized credit losses are reversed by adjusting the loss allowance and the reversal is 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.

#### 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.

At the inception of the hedging relationship the Group formally designates and documents the hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the entity will assess whether the hedging relationship meets the hedge effectiveness requirements.

The Group assesses at the inception of the hedging relationship, and on an ongoing basis, whether the hedging relationship meets the hedge effectiveness requirements. At a minimum, the Group performs the ongoing assessment at each reporting date or upon a significant change in the circumstances affecting the hedge effectiveness requirements, whichever comes earlier.

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 value 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. The Group discontinues hedge accounting prospectively only when the hedging relationship ceases to meet the qualifying criteria. This includes instances when the hedging instrument expires or is sold, terminated or exercised.

#### 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: 9 to 18 years

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

#### c. Right-of-use Assets

Right-of-use assets are depreciated using the straight-line method from the commencement date of the lease to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of the self-owned property, plant and equipment.

### 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) Method of Accounting for Revenue and Expenses

The main business of the Group is the manufacturing and marketing of pharmaceutical products, and the main performance obligation(s) based on the contracts with customers and the usual timing of revenue recognition are as follows:

#### a. Sales of finished goods and merchandise

The promised goods or services to be transferred to customers are mainly the sales of prescription drugs and healthcare (OTC) products. Regarding this type of sale, the Group recognizes revenue when finished goods and merchandise are transferred to and accepted by customers, because control of finished goods and merchandise is transferred and the performance obligation is satisfied at that time. The Group receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

The Group is obliged to take trade discounts, cash discounts, rebates and returns depending on the conditions of contracts. In this case, the transaction price is measured at the amount after deducting the estimated amounts of those items from the consideration promised in the contract with customers, and the amount of consideration expected to be returned to customers is recorded as a refund liability. The estimation of refund liabilities is based on the contractual conditions and/or historical experience.

#### b. License fee revenue

The Group receives consideration for upfront payments, milestone revenue and running royalties by entering into agreements to grant rights to third parties for the research and development of products, manufacturing and marketing of products, and usage of technologies.

Revenue from upfront payments is recognized at the time of granting a license if the performance obligation is satisfied at a point in time, and milestone revenue is recognized when a milestone agreed among parties such as application for approval to regulatory agencies is achieved, considering the possibility that a significant reversal of revenue might occur subsequently. If a performance obligation is not satisfied at a point in time, its consideration is accounted for as a contract liability and recognized as revenue over a period in accordance with the satisfaction of the performance obligation. Running royalties are measured based on sales of counterparties or other indexes, and recognized as revenue considering the timing of occurrence. The Group receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and

there are no significant financing components.

## 5) 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.

## 6) 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.

7) 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.

(5) 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 or groups of cash-generating units that are expected to benefit from the synergies of the business combination.



## 2. Notes Concerning Accounting Estimates

Items which are recognized in the consolidated financial statements as of March 31, 2021 based on accounting estimates and could have a significant impact on the consolidated financial statements for the next fiscal year ending March 31, 2022 are as follows:

### (1) Valuation of Intangible Assets

1) Amount recorded in the consolidated financial statements as of March 31, 2021: Intangible assets  
172,822 million yen

### 2) Information regarding the content of accounting estimates

Intangible assets of the Group comprise commercial rights related to pharmaceutical products, in-process research and development and other assets.

The Group performs impairment testing for intangible assets which indicate potential impairment and for intangible assets not yet available for use annually and at any time there is an indication that an asset may be impaired.

The recoverable amount of an intangible asset is the higher of its fair value less costs of disposal and its value in use, which is calculated based on risk-adjusted future cash flows discounted by an appropriate discount rate. If the carrying amount of an intangible asset exceeds the recoverable amount, an impairment loss is recognized in profit or loss and the carrying amount is reduced to the recoverable amount.

For measurement of the value in use, the Group considers the possibility that the manufacturing and marketing of new products are approved, sales forecasts of products and other factors. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments in the amount of intangible assets may be required in the consolidated financial statements for the next fiscal year ending March 31, 2022.

### (2) Valuation of Deferred Tax Assets

1) Amount recorded in the consolidated financial statements as of March 31, 2021: Deferred tax assets  
128,525 million yen

### 2) Information regarding the content of accounting estimates

Deferred tax assets are measured at the tax rates that are expected to apply to the period when the asset is realized, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized for temporary differences, the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Deferred tax assets of the Group include unused tax losses for which deferred tax assets are only partially recognized. For the recognition of deferred tax assets related to unused tax losses, the Group considers the estimated amount and timing of generation of future taxable profit based on future business plans. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments may be required in the consolidated financial statements for the next fiscal year ending March 31, 2022.

(3) Provisions and Contingent Liabilities

1) Amount recorded in the consolidated financial statements as of March 31, 2021: Provisions 14,793 million yen

2) Information regarding the content of accounting estimates

A provision is recognized when there is a present obligation (legal or constructive) as a result of a past event and 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 it is not probable that an outflow of resources embodying economic benefits will be required or the amount of the outflow of resources cannot be estimated with sufficient reliability, the Group discloses it as a contingent liability.

Provisions are calculated and contingent liabilities are assessed based on the best estimate of the timing and the amount of the future outflows of economic benefits as of the reporting dates. Due to uncertainty in the underlying assumptions, it is possible that actual results may differ and, as a result, significant adjustments may be required in the consolidated financial statements for the next fiscal year ending March 31, 2022.

### 3. Notes to Consolidated Statement of Financial Position

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

Trade and other receivables .....	642 million yen
Other financial assets .....	1 million yen

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

488,240 million yen

#### (3) Contingent Liabilities

##### 1) Loan guarantees

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

Employees (housing and other loans) .....	291 million yen
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##### 2) Litigations

Litigations Related to Proprietary Antibody Drug Conjugate Technology with Seagen Inc. (formerly Seattle Genetics, Inc.)

The Company filed a Declaratory Judgement action in the District Court of Delaware in November 2019 in response to receiving communications from Seagen Inc., claiming certain intellectual property rights related to Daiichi Sankyo's antibody-drug conjugate (ADC) products with respect to a collaboration between the two companies for the development of ADCs.

On the other hand, Seagen Inc. applied for an arbitration on the objection in November 2019 and thereafter the arbitration procedure has been in progress.

Although the Company does not currently recognize any obligation to Seagen Inc., the Company may need to make payments depending on the results of the arbitration or other proceedings. However, it is not considered possible at present to reasonably estimate the monetary amount of any such payments.

##### 3) Others

###### a. Contingent liabilities related to environmental measures on the site of the former Yasugawa Plant

Between 2006 and 2008, after the Yasugawa Plant was shut down, the Company had carried out cleanup, excavation and removal of contaminated soil on the site. Since then the Company has been monitoring the quality of groundwater there through the observation wells installed around the site.

###### (i) Removal of contaminated soil storage facilities

There are 2 storage facilities of contaminated soil on the site, which were built in 1993; one beneath a playground and the other beneath the plant building. The Company has managed the facilities and monitored the quality of groundwater there without any issues noted. However, 27 years have passed since the installment of the facilities and the perception toward "Safety and Security" has changed globally during that period. Therefore, considering the risk of unexpected events, the Company, which values environmental stewardship, decided to remove those facilities in the year ended March 31, 2020 in order to avoid any potential business risks and issues related to managing those facilities.

The Company had been carrying out a contamination study of those 2 storage facilities in compliance with the Soil Contamination Countermeasures Act of Japan since February 2020 and completed it in March 2021. Accordingly, the removal work for the storage facility beneath the playground is beginning from April 2021. On the other hand, the work for the storage facility beneath the plant building is to be discussed along with the countermeasures against contamination on the Yasu River bank as described in (ii) below as the facility is adjacent with the river bank.

(ii) Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site

From March 2018 to September 2019, the Company examined the soil and groundwater of the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, since endrin exceeding the guideline value was continuously observed in some observation wells through monitoring. Consequently, the Company identified an area where endrin is excessively distributed. Complying with the Soil Contamination Countermeasures Act of Japan, the Company is continuously examining the area. The Company has decided to begin a consultation process with the government and other authorities, and discuss countermeasures with them.

The expected cost of (i) Removal of contaminated soil storage facilities, which has been included in “Provisions for environmental measures” since March 31, 2020, was re-evaluated as of March 31, 2021 based on the latest cost estimate. The amount is disclosed in “11. Other Notes, Notes Concerning Provisions for environmental measures”.

Regarding (ii) Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, the Company is going to discuss and plan countermeasures with the government and other authorities once the study of the contamination of the area is completed, which reflects that the area to implement countermeasures against contamination is partly under the jurisdiction of the government. Without consultation with the government, at this time the Company by itself cannot design a civil engineering plan against contamination and make a reliable cost estimation. As of March 31, 2021, therefore, the Company does not recognize any provision for the cost of countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site.

b. Possible compensation to Sun Pharmaceutical Industries Ltd.

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.

4. Notes to Consolidated Statement of Profit or Loss

Selling, general and administrative expenses

The Company terminated its marketing alliance agreement for the “Squarekids subcutaneous injection syringe”, a tetravalent combination vaccine, and its joint development agreement on pentavalent combination vaccine with Sanofi K.K. (hereafter, “Sanofi”) effective March 31, 2021. The Company recorded a 15,000 million yen loss in Selling, general and administrative expenses in the year ended

March 31, 2021 relating to compensation to Sanofi for the loss sustained from the termination of the 2 agreements.

## 5. 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, 2020	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2021
Ordinary shares	709,011 thousand shares	1,418,022 thousand shares	– shares	2,127,034 thousand shares

Notes:

- Effective October 1, 2020, Daiichi Sankyo implemented a three-for-one share split of its ordinary shares.
- The increase in number of shares during the year is an increase of 1,418,022 thousand shares due to the share split.

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

Class of shares	Number of shares at April 1, 2020	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2021
Ordinary shares	60,943 thousand shares	150,495 thousand shares	570 thousand shares	210,868 thousand shares

Notes:

- Effective October 1, 2020, Daiichi Sankyo implemented a three-for-one share split of its ordinary shares.
- The increase in the number of treasury shares was due to an increase of 121,014 thousand shares as a result of the share split, purchases of 29,471 thousand shares in accordance with the provisions of the Articles of Incorporation pursuant to Article 165.2 of the Companies Act of Japan and purchases of 9 thousand shares of less than one unit.
- 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 539 thousand shares as a result of exercise of subscription rights to shares and a decrease of 30 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 15th Ordinary General Meeting of Shareholders held on June 15, 2020

- Total amount of dividends: 22,682 million yen
- Dividend per share: 35.00 yen
- Record date: March 31, 2020
- Effective date: June 16, 2020

b. Dividends based on a resolution made at Board of Directors Meeting held on October 30, 2020

- Total amount of dividends: 26,264 million yen
- Dividend per share: 40.50 yen
- Record date: September 30, 2020
- Effective date: December 1, 2020

Note: Effective October 1, 2020, Daiichi Sankyo implemented a three-for-one share split of its ordinary shares. The dividend per share presents the amount prior to the share split.

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 16th Ordinary General Meeting of Shareholders, which will be held on June 21, 2021.

- Total amount of dividends: 25,868 million yen
- Resource of dividends: Retained earnings
- Dividend per share: 13.50 yen
- Record date: March 31, 2021
- Effective date: June 22, 2021

Note: Effective October 1, 2020, Daiichi Sankyo implemented a three-for-one share split of its ordinary shares. The dividend per share presents the amount after the share split.

(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	9 thousand shares
The Company	No. 2 Subscription Rights to Shares granted in November 2008 (Share remuneration-type stock option)	Ordinary shares	15 thousand shares
The Company	No. 3 Subscription Rights to Shares granted in August 2009 (Share remuneration-type stock option)	Ordinary shares	105 thousand shares
The Company	No. 4 Subscription Rights to Shares granted in August 2010 (Share remuneration-type stock option)	Ordinary shares	221 thousand shares
The Company	No. 5 Subscription Rights to Shares granted in July 2011 (Share remuneration-type stock option)	Ordinary shares	261 thousand shares
The Company	No. 6 Subscription Rights to Shares granted in July 2012 (Share remuneration-type stock option)	Ordinary shares	379 thousand shares
The Company	No. 7 Subscription Rights to Shares granted in July 2013 (Share remuneration-type stock option)	Ordinary shares	306 thousand shares
The Company	No. 8 Subscription Rights to Shares granted in July 2014 (Share remuneration-type stock option)	Ordinary shares	302 thousand shares
The Company	No. 9 Subscription Rights to Shares granted in July 2015 (Share remuneration-type stock option)	Ordinary shares	269 thousand shares
The Company	No. 10 Subscription Rights to Shares granted in July 2016 (Share remuneration-type stock option)	Ordinary shares	388 thousand shares

Note: Effective October 1, 2020, Daiichi Sankyo implemented a three-for-one share split of its ordinary shares. The number of shares to be converted presents the number after the share split.

## 6. Notes Concerning Tax Effect Accounting

Sources of deferred tax assets and liabilities are as follows:

Deferred tax assets	(Millions of yen)
Prepaid outsourced research expenses and co-development expenses	20,167
Depreciation and amortization	3,737
Unrealized gain and valuation loss of inventories	31,600
Unused tax losses	53,230
Accrued expenses	22,637
Valuation loss of securities	1,575
Impairment loss	5,944
Lease liabilities	10,394
Others	24,219
Total deferred tax assets	173,507
Deferred tax liabilities	
Intangible assets	(17,311)
Financial assets measured at fair value through other comprehensive income	(18,902)
Post-employment benefit assets	(2,048)
Reserve for advanced depreciation of property, plant and equipment	(6,018)
Right-of-use assets	(7,875)
Others	(10,339)
Total deferred tax liabilities	(62,496)
Net deferred tax assets (liabilities)	111,010

## 7. 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, 2021, are as follows:

(Millions of yen)

	Amount recorded in consolidated statement of financial position (*)	Fair value	Difference
(1) Cash and cash equivalents	380,547	380,547	-
(2) Trade and other receivables	232,036	232,036	-
(3) Other financial assets	584,360	584,373	13
(4) Trade and other payables	(297,499)	(297,499)	-
(5) Bonds and borrowings	(183,832)	(185,612)	(1,779)
(6) Other financial liabilities	(46,342)	(46,342)	-

(\*) 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.



## 8. Notes Concerning Revenue Recognition

## (1) Disaggregation of revenue

Breakdown of revenue of the Group is as follows:

Year ended March 31, 2021

(Millions of yen)

		Region				
		Japan	North America	Europe	Other regions	Total
Sales of finished goods and merchandise	Prescription drugs	487,855	166,107	107,458	93,527	854,948
	Healthcare (OTC) products	66,465	—	—	560	67,025
	Total	554,320	166,107	107,458	94,087	921,974
License fee revenue		160	23,384	1,725	981	26,252
Others		6,244	2,159	4,864	1,022	14,290
Total		560,725	191,651	114,047	96,091	962,516

## (2) Basic information to understand the Company's revenue

The information is provided in “1. Basis of Preparation of Consolidated Financial Statements, (4) Significant Accounting Policies, 4) Method of Accounting for Revenue and Expenses.”

## (3) Information to understand the amount of the Company's revenue for the year ended March 31, 2021 and following years

## 1) Contract balances

The balances of accounts receivable arising from contracts with customers and contract liabilities are as follows:

(Millions of yen)

	Year Ended March 31, 2021
Accounts receivable arising from contracts with customers	201,032
Contract liabilities	198,430

Note: The main contract liabilities are consideration received from customers prior to satisfaction of performance obligations regarding license fee revenue, which is reclassified to revenue as the performance obligations are satisfied.

## 2) Transaction prices allocated to remaining performance obligations

Transaction prices allocated to remaining performance obligations were mainly related to license fee revenue, and the period in which revenue will be recognized are as set out in the table below. The disclosure of contracts for which the initial expected period is within one year is omitted applying the practical expedient.

(Millions of yen)

	Year Ended March 31, 2021
Within 1 year	20,939
Over 1 year within 5 years	74,386
Over 5 years	102,804
Total	198,130

## 9. Notes Concerning Per Share Information

(1) Equity per share attributable to owners of the Company:	663.85 yen
(2) Basic earnings per share:	39.17 yen
(3) Diluted earnings per share:	39.11 yen

Note: Effective October 1, 2020, Daiichi Sankyo implemented a three-for-one share split of its ordinary shares. Each amount of per share information is calculated as if the share split had taken place at the beginning of the year ended March 31, 2021.

## 10. Notes Concerning Significant Subsequent Events

Not applicable.

## 11. Other Notes

## Notes Concerning Provisions for environmental measures

In the previous year, the Company recorded 8,198 million yen in “Provisions for environmental measures” as the estimated cost of the removal work for the contaminated soil storage facilities on the site of the former Yasugawa Plant. The amount was re-evaluated to 7,573 million yen as of March 31, 2021 based on the latest cost estimate.

In accordance with the payment schedule of the cost of removal work, 1,015 million yen and 6,558 million yen of “Provisions for environmental measures” is classified as current liabilities and non-current liabilities, respectively.

Details of the removal work are provided in “3. Notes to Consolidated Statement of Financial Position, (3) Contingent Liabilities, 2) Others, a. Contingent liabilities related to environmental measures on the site of the former Yasugawa Plant”.

**Non-Consolidated Statement of Changes in Net Assets**  
(From April 1, 2020 to March 31, 2021)

(Millions of yen)

	Shareholders' equity						
	Share Capital	Capital surplus			Retained earnings		
		Legal reserve	Other capital surplus	Total capital surplus	Other retained earnings	Retained earnings carried forward	Total retained earnings
				Reserve for advanced depreciation of property, plant and equipment			
<b>Balance as of April 1, 2020</b>	50,000	179,858	476,237	656,095	5,568	437,696	443,265
Movement in the current year							
Reversal of reserve for advanced depreciation of property, plant and equipment					(300)	300	-
Dividends from surplus						(48,946)	(48,946)
Net income						81,002	81,002
Purchase of treasury shares							
Cancellation of treasury shares			(474)	(474)			
Movement in the year (net) other than shareholders' equity							
<b>Total movement in the current year</b>	-	-	(474)	(474)	(300)	32,355	32,055
<b>Balance as of March 31, 2021</b>	50,000	179,858	475,762	655,620	5,267	470,052	475,320

	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		
<b>Balance as of April 1, 2020</b>	(162,519)	986,841	17,044	17,044	1,611	1,005,497
Movement in the current year						
Reversal of reserve for advanced depreciation of property, plant and equipment		-				-
Dividends from surplus		(48,946)				(48,946)
Net income		81,002				81,002
Purchase of treasury shares	(100,054)	(100,054)				(100,054)
Cancellation of treasury shares	1,320	845				845
Movement in the year (net) other than shareholders' equity			9,994	9,994	(572)	9,422
<b>Total movement in the current year</b>	(98,733)	(67,153)	9,994	9,994	(572)	(57,731)
<b>Balance as of March 31, 2021</b>	(261,252)	919,688	27,039	27,039	1,038	947,766

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 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.

3) Provisions for environmental measures

Provisions for environmental measures are recorded based on the estimated costs for purification of polluted soils contained in certain land.

(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) Method of Accounting for Revenue and Expenses

The main business of the Company is the manufacturing and marketing of pharmaceutical products, and the main performance obligation(s) based on the contracts with customers and usual timing of revenue recognition are as follows:

1) Sales of finished goods and merchandise

The promised goods or services to be transferred to customers are mainly the sales of prescription drugs. Regarding this type of sale, the Company recognizes revenue when finished goods and merchandise are transferred to and accepted by customers, because control of finished goods and merchandise is transferred and the performance obligation is satisfied at that time. The Company receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

The Company is obliged to take trade discounts, cash discounts, rebates and returns depending on the conditions of contracts. In this case, the transaction price is measured at the amount after deducting the estimated amounts of those items from the consideration promised in the contract with customers, and the amount of consideration expected to be returned to customers is recorded as a refund liability. The estimation of refund liabilities is based on the contractual conditions and/or

historical experience.

2) License fee revenue

The Company receives consideration for upfront payments, milestone revenue and running royalties by entering into agreements to grant rights to third parties for the research and development of products, manufacturing and marketing of products, and usage of technologies.

Revenue from upfront payments is recognized at the time of granting a license if the performance obligation is satisfied at a point in time, and milestone revenue is recognized when a milestone agreed among parties such as application for approval to regulatory agencies is achieved, considering the possibility that a significant reversal of revenue might occur subsequently. If a performance obligation is not satisfied at a point in time, its consideration is accounted for as a contract liability and recognized as revenue over a period in accordance with the satisfaction of the performance obligation. Running royalties are measured based on sales of counterparties or other indexes, and recognized as revenue considering the timing of occurrence. The Company receives consideration approximately within 3 months from the timing of satisfaction of the performance obligation, and there are no significant financing components.

(7) Accounting Method for Consumption Taxes

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

(8) Adoption of consolidated taxation system

The Company has adopted a consolidated taxation system from the year ended March 31, 2021. Regarding the items for which the stand-alone tax regulations were revised in line with the transition to the Group Tax Sharing System, established under the “Act Partially Amending the Income Tax Act” (Act No.8 of 2020), the Company recorded deferred tax assets and liabilities as of March 31, 2021 based on the provisions of the income tax act before the revisions and not applying clause 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No.28, February 16, 2018). This treatment is in accordance with clause 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (ASBJ PITF No.39, March 31, 2020).

(9) Changes in presentation

Adoption of “Accounting Standard for Disclosure of Accounting Estimates”

The Company has adopted “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No.31, March 31, 2020) from the year ended March 31, 2021 and has disclosed notes concerning significant accounting estimates in the non-consolidated financial statements.

2. Notes concerning accounting estimates

Items which are recognized in the non-consolidated financial statements as of March 31, 2021 based on accounting estimates and could have a significant impact on the non-consolidated financial statements for the next fiscal year ending March 31, 2022 are as follows:

(1) Valuation of Deferred Tax Assets

1) Amount recorded in the non-consolidated financial statements as of March 31, 2021: Deferred tax assets 89,388 million yen

2) Information regarding the content of accounting estimates

The information is omitted as the relevant information is disclosed in “2. Notes Concerning Accounting Estimates” in the notes to the consolidated financial statements.

## (2) Provisions and Contingent Liabilities

1) Amount recorded in the non-consolidated financial statements as of March 31, 2021: Provisions for environmental measures 7,573 million yen

## 2) Information regarding the content of accounting estimates

The information is omitted as the relevant information is disclosed in “2. Notes Concerning Accounting Estimates” in the notes to the consolidated financial statements.

## 3. Notes to Non-Consolidated Balance Sheet

(1) Accumulated depreciation of property, plant and equipment ..... 149,746 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. .... 7 million yen

Plexxikon Inc. .... 5,342 million yen

Employees (housing and other loans) ..... 291 million yen

## 2) Litigations

Judgement Action Related to Proprietary Antibody Drug Conjugate Technology with Seagen Inc. (formerly Seattle Genetics, Inc.)

The Company filed a Declaratory Judgement action in the District Court of Delaware in November 2019 in response to receiving communications from Seagen Inc., claiming certain intellectual property rights related to Daiichi Sankyo's antibody-drug conjugate (ADC) products with respect to a collaboration between the two companies for the development of ADCs.

On the other hand, Seagen Inc. applied for an arbitration on the objection in November 2019 and thereafter the arbitration procedure has been in progress.

Although the Company does not currently recognize any obligation to Seagen Inc., the Company may need to make payments depending on the results of the arbitration or other proceedings. However, it is not considered possible at present to reasonably estimate the monetary amount of any such payments

## 3) Others

(i) Contingent liabilities related to environmental measures on the site of the former Yasugawa Plant

Between 2006 and 2008, after the Yasugawa Plant was shut down, the Company had carried out cleanup, excavation and removal of contaminated soil on the site. Since then the Company has been monitoring the quality of groundwater there through the observation wells installed around the site.

## a. Removal of contaminated soil storage facilities

There are 2 storage facilities of contaminated soil on the site, which were built in 1993; one beneath a playground and the other beneath the plant building. The Company has managed the facilities and monitored the quality of groundwater there without any issues noted. However, 27 years have

passed since the installment of the facilities and the perception toward “Safety and Security” has changed globally during that period. Therefore, considering the risk of unexpected events, the Company, which values environmental stewardship, decided to remove those facilities in the year ended March 31, 2020 in order to avoid any potential business risks and issues related to managing those facilities.

The Company had been carrying out a contamination study of those 2 storage facilities in compliance with the Soil Contamination Countermeasures Act of Japan since February 2020 and completed it in March 2021. Accordingly, the removal work for the storage facility beneath the playground is beginning from April 2021. On the other hand, the work for the storage facility beneath the plant building is to be discussed along with the countermeasures against contamination on the Yasu River bank as described in (ii) below as the facility is adjacent with the river bank.

b. Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site

From March 2018 to September 2019, the Company examined the soil and groundwater of the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, since endrin exceeding the guideline value was continuously observed in some observation wells through monitoring. Consequently, the Company identified an area where endrin is excessively distributed. Complying with the Soil Contamination Countermeasures Act of Japan, the Company is continuously examining the area. The Company has decided to begin a consultation process with the government and other authorities, and discuss countermeasures with them.

The expected cost of a. Removal of contaminated soil storage facilities, which has been included in “Provisions for environmental measures” since March 31, 2020, was re-evaluated as of March 31, 2021 based on the latest cost estimate. The amount is disclosed in “11. Other Notes, Notes Concerning Provisions for environmental measures”.

Regarding b. Countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site, the Company is going to discuss and plan countermeasures with the government and other authorities once the study of the contamination of the area is completed, which reflects that the area to implement countermeasures against contamination is partly under the jurisdiction of the government. Without consultation with the government, at this time the Company by itself cannot design a civil engineering plan against contamination and make a reliable cost estimation. As of March 31, 2021, therefore, the Company does not recognize any provision for the cost of countermeasures against contamination on the site of the former Yasugawa Plant and the Yasu River bank adjacent to the site.

(ii) Possible compensation to Sun Pharmaceutical Industries Ltd.

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 .....	61,315 million yen
2) Long-term monetary assets.....	16,171 million yen
3) Short-term monetary liabilities .....	132,369 million yen

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

## (1) Transactions with subsidiaries and associates

1) Net Sales .....	175,211 million yen
2) Purchases of goods .....	145,337 million yen
3) Selling, general and administrative expenses.....	184,564 million yen
4) Non-operating transactions.....	43,950 million yen

## (2) Extraordinary losses

## Loss compensation

This amount represents compensation to Sanofi K.K. (hereafter, “Sanofi”) relating to the loss sustained from the termination of a marketing alliance agreement for tetravalent combination vaccine and a joint development agreement on pentavalent combination vaccine with Sanofi.

## 5. 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, 2020	Increase in number of shares during the year	Decrease in number of shares during the year	Number of shares at March 31, 2021
Ordinary shares	60,943 thousand shares	150,495 thousand shares	570 thousand shares	210,868 thousand shares

## Notes:

- Effective October 1, 2020, Daiichi Sankyo implemented a three-for-one share split of its ordinary shares.
- The increase in the number of treasury shares was due to an increase of 121,014 thousand shares as a result of the share split, purchases of 29,471 thousand shares in accordance with the provisions of the Articles of Incorporation pursuant to Article 165.2 of the Companies Act of Japan and purchases of 9 thousand shares of less than one unit.
- 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 539 thousand shares as a result of exercise of subscription rights to shares and a decrease of 30 thousand shares by granting restricted stocks.

## 6. Notes Concerning Tax Effect Accounting

Sources of deferred tax assets and liabilities are as follows:

Deferred tax assets	(Millions of yen)
Unused tax losses	55,951
Prepaid outsourced research expenses and co-development expenses	20,103
Depreciation and amortization	12,944
Valuation loss of inventories	8,989
Prepaid expenses	6,329
Accrued bonuses	3,594
Valuation loss of securities	2,331
Provisions for doubtful accounts	703
Accrued enterprise taxes	273
Others	8,400
Subtotal of deferred tax assets	119,622
Valuation allowance	(5,591)
Total deferred tax assets	114,031
Deferred tax liabilities	
Net unrealized gain or loss on investment securities	(11,871)
Prepaid pension cost	(7,791)
Reserve for advanced depreciation of property, plant and equipment	(4,705)
Others	(273)
Total deferred tax liabilities	(24,642)
Net deferred tax assets (liabilities)	89,388

## 7. Notes Concerning Revenue Recognition

Notes concerning revenue recognition are omitted as the relevant information is disclosed in “8. Notes Concerning Revenue Recognition” in the notes to the consolidated financial statements.

## 8. 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	Directors: 1	Purchase of merchandise	Purchase of merchandise	69,309	Accounts payable - trade	—
						Custody of funds	18,980	Deposit received	18,980
Subsidiary	Daiichi Sankyo Healthcare Co., Ltd.	Research and development, manufacturing and marketing of healthcare products	Directly 100.0	Directors: 1	Lending and borrowing of funds	Custody of funds	22,278	Deposit received	22,278
Subsidiary	Daiichi Sankyo Propharma Co., Ltd.	Manufacturing of pharmaceuticals	Directly 100.0	Directors: 1	Purchase of merchandise	Purchase of merchandise	19,187	Accounts payable - trade	2,492
Subsidiary	Daiichi Sankyo Chemical Pharma Co., Ltd.	Manufacturing of pharmaceuticals	Directly 100.0	Directors: 1	Purchase of merchandise	Lending of funds	15,888	Short-term loans receivable	2,025
								Long-term loans receivable	13,863
Subsidiary	Daiichi Sankyo U.S. Holdings Inc.	Holding company	Directly 100.0	Directors: 1	Interlocking of officers	Receipt of dividend	23,411	—	—
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	76,386	Accounts receivable - trade	17,850
						Entrustment of research and marketing	118,784	Accounts payable - other	8,755
								Accrued expenses	15,615
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	79,811	Accounts receivable - trade	21,063

## 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."

## 9. Notes Concerning Per Share Information

- (1) Net assets per share ..... 494.07 yen  
(2) Earnings per share ..... 41.77 yen  
(3) Diluted earnings per share ..... 41.71 yen

Note: Effective October 1, 2020, Daiichi Sankyo implemented a three-for-one share split of its ordinary shares. Each amount of per share information is calculated as if the share split had taken place at the beginning of the year ended March 31, 2021.

## 10. Notes Concerning Significant Subsequent Events

Not applicable.

## 11. Other Notes

### Note Concerning Provision for environmental measures

In the previous year, the Company recorded 8,198 million yen in “Provisions for environmental measures” as the estimated cost of the removal work for the contaminated soil storage facilities on the site of the former Yasugawa Plant. The amount was re-evaluated to 7,573 million yen as of March 31, 2021 based on the latest cost estimate.

In accordance with the payment schedule of the cost of removal work, 1,015 million yen and 6,558 million yen of “Provisions for environmental measures” is classified as current liabilities and non-current liabilities, respectively.

Details of the removal work are provided in “3. Notes to Non-Consolidated Balance Sheet, (2) Contingent Liabilities, 2) Others, (i) Contingent liabilities relevant to environmental measures on the site of the former Yasugawa Plant”.