July 31, 2019

Consolidated Financial Results for the First Three Months of the Year Ending March 31, 2020 (Fiscal 2019) <under IFRS>

Listed company name: Daiichi Sankyo Company, Limited
Listed exchange: First Section of the Tokyo Stock Exchange
Stock code number: 4568
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Scheduled date of Quarterly Report filing: August 6, 2019
Scheduled date of dividend payments: -
Preparing supplementary material (Reference Data) on quarterly financial results: Yes
Holding quarterly information meeting: Yes (for institutional investors, analysts and the press)

(All amounts have been rounded down to the nearest million yen.)

1. Consolidated Financial Results for the First Three Months of the Year Ending March 31, 2020 (from April 1, 2019 to June 30, 2019)

(1) Consolidated Financial Results

(Percentages indicate changes from the same period in the previous fiscal year.)

	Revenue		Operating profit		Profit before tax		Profit for the period	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended June 30, 2019	249,239	10.4	56,993	90.5	57,067	92.6	43,322	80.9
Three months ended June 30, 2018	225,737	-5.6	29,917	-25.7	29,629	-29.8	23,954	-16.8

	Profit attributable to owners of the Company		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Three months ended June 30, 2019	43,347	81.0	27,699	-72.8	66.91	66.77
Three months ended June 30, 2018	23,951	-17.8	101,753	168.6	36.98	36.89

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity per share attributable to owners of the Company
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of June 30, 2019	2,060,965	1,254,914	1,254,299	60.9	1,935.98
As of March 31, 2019	2,088,051	1,249,705	1,249,642	59.8	1,928.80

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2019	–	35.00	–	35.00	70.00
Year ending March 31, 2020	–				
Year ending March 31, 2020 (Forecast)		35.00	–	35.00	70.00

Note: Revision of the forecast from most recently announced figures: No

3. Forecast of Consolidated Financial Results for Year Ending March 31, 2020

(Percentages indicate changes from the same period in the previous fiscal year.)

	Revenue		Operating profit		Profit before tax		Profit for the year		Profit attributable to owners of the Company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	940,000	1.1	100,000	19.5	100,000	16.5	72,000	-22.9	72,000	-22.9	111.13

Note: Revision of the forecast from most recently announced figures: No

*Notes

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in scope of consolidation): None

(2) Changes in accounting policies and changes in accounting estimates

1) Changes in accounting policies required by IFRS: Yes
2) Changes in accounting policies due to other reasons: No
3) Changes in accounting estimates: No

Note: Please see *"2. Condensed Interim Consolidated Financial Statements with Primary Notes, (5) Notes to Condensed Interim Consolidated Financial Statements, (Changes in Accounting Policies)"* on page 22.

(3) Number of ordinary shares issued

1) Number of shares issued at the end of the period (including treasury shares)

As of June 30, 2019	709,011,343 shares
As of March 31, 2019	709,011,343 shares

2) Number of treasury shares at the end of the period

As of June 30, 2019	61,120,977 shares
As of March 31, 2019	61,124,702 shares

3) Average number of shares during the period (cumulative from the beginning of the fiscal year)

Three months ended June 30, 2019	647,887,006 shares
Three months ended June 30, 2018	647,676,442 shares

* This quarterly financial results summary is not subject to quarterly review procedures by Certified Public Accountants or audit firm

*Disclaimer regarding forward-looking information including appropriate use of forecast financial results

The forecast information included in these materials is based on information currently available and certain assumptions that the Company regards as reasonable. Actual performance and results may differ from those forecast due to various factors.

Please see *"1. Qualitative Information about Consolidated Results for the First Three Months (3) Information about Forecasts of Consolidated Financial Results and Other Forward-Looking Statements"* on page 13 for matters related to the above forecasts.

Attached Material

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1. Qualitative Information about Consolidated Results for the First Three Months

(1) Information about Operating Results

1) Overview

[Consolidated Financial Results]

(Millions of yen; all amounts have been rounded down to the nearest million yen.)

	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
Revenue	225,737	249,239	23,501 10.4%
Operating profit	29,917	56,993	27,075 90.5%
Profit before tax	29,629	57,067	27,437 92.6%
Profit attributable to owners of the Company	23,951	43,347	19,396 81.0%
Total comprehensive income	101,753	27,699	-74,053 -72.8%

<Revenue of global mainstay products>

(Millions of yen; all amounts have been rounded down to the nearest million yen.)

Product name	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
Edoxaban anticoagulant	25,797	37,235	11,437 44.3%
Olmesartan antihypertensive agent	28,516	27,484	-1,031 -3.6%
Prasugrel antiplatelet agent	6,409	5,019	-1,389 -21.7%

<Selling, general and administrative expenses>

(Millions of yen; all amounts have been rounded down to the nearest million yen.)

	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
Selling, general and administrative expenses	65,611	63,161	-2,450 -3.7%
Ratio of Selling, general and administrative expenses to revenue	29.1%	25.3%	-3.7%

<Research and development expenses>

(Millions of yen; all amounts have been rounded down to the nearest million yen.)

	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
Research and development expenses	45,460	41,184	-4,275 -9.4%
Ratio of research and development expenses to revenue	20.1%	16.5%	-3.6%

<Yen exchange rates for major currencies (average rate during the period)>

(Yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
USD/Yen	109.07	109.90
EUR/Yen	130.06	123.49

a. Revenue

- Revenue in the first three months of the year ending March 31, 2020 increased by ¥23.5 billion, or 10.4% compared to the same period of the previous fiscal year (year on year), to ¥249.2 billion.
- The increase of revenue is mainly due to the growth in sales of mainstay products such as *Edoxaban*, and the revenue recognition of upfront payments for the global development and commercialization collaboration of *DS-8201* (HER2-targeting ADC) with AstraZeneca (Amount corresponding to the first three months ended June 30, 2019 : ¥2.5 billion).
- The negative effect on revenue from foreign exchange was ¥2.2 billion in total.

b. Operating profit

- Operating profit increased by ¥27.1 billion, or 90.5% year on year, to ¥57.0 billion.
- Gross profit increased by ¥20.4 billion, or 14.4%, to ¥161.3 billion due to an improvement in cost-to-sales ratio as a result of change in the product mix, in addition to an increase in revenue.
- Selling, general and administrative expenses fell by ¥2.5 billion, or 3.7%, to ¥63.2 billion, mainly due to the effect of cost reductions by the increase in gain on sale of property, plant and equipment.
- Research and development expenses decreased by ¥4.3 billion, or 9.4% year on year, to ¥41.2 billion due to the effect of sharing the development costs related to *DS-8201* equally by partnering with AstraZeneca.
- The negative effect on operating profit from foreign exchange was ¥1.2 billion in total.

c. Profit before tax

- Profit before tax increased by ¥27.4 billion, or 92.6% year on year, to ¥57.1 billion.

d. Profit attributable to owners of the Company

- Profit attributable to owners of the Company increased by ¥19.4 billion, or 81.0% year on year, to ¥43.3 billion.

e. Total comprehensive income

- Total comprehensive income decreased by ¥74.1 billion, or 72.8% year on year, to ¥27.7 billion.
- Total comprehensive income decreased significantly mainly because the tax liabilities related to business restructuring of Daiichi Sankyo and its consolidated subsidiaries (“the Group”), which was carried out in the past fiscal year, were reversed in the same period of the previous fiscal year.

[Revenue by Geographic Area]

Primary revenue by geographic area is as follows.

a. Japan

- Revenue in Japan increased by ¥12.1 billion, or 8.5% year on year, to ¥154.4 billion.

<Prescription drug business>

- Revenue from prescription drug business increased by ¥15.0 billion, or 12.1% year on year, to ¥139.0 billion. The increase was mainly due to the growth in sales of mainstay products *LIXIANA*, *NEXIUM*, *PRALIA*, *Vimpat*, *Canalia* and others, and the contribution to sales from authorized generic[*1] products. This revenue also includes revenue generated by the vaccine business and revenue generated by the generic pharmaceutical business of Daiichi Sankyo Espha Co., Ltd.
- In April 2019, Daiichi Sankyo launched *Tarlige* (generic name: *mirogabalin besilate*) for the indication of peripheral neuropathic pain.
- In May 2019, Daiichi Sankyo launched *MINNEBRO* (generic name: *esaxerenone*) for the indication of hypertension.
- In June 2019, Daiichi Sankyo decided that it will return the exclusive development and marketing rights in Japan for four diagnostic imaging agents (*Omnipaque*, *Omniscan*, *Visipaque* and *Sonazoid*) to U.S. company GE Healthcare and transfer marketing authorization rights in Japan to GE Healthcare Pharma Limited, an entity of GE Healthcare to run its business in Japan.

*1 Authorized generic: Generic drug manufactured after receiving consent from the manufacturer of the original drug.

<Healthcare (OTC) products business>

- Revenue from the healthcare (OTC) products business decreased by ¥3.0 billion, or 16.1% year on year, to ¥15.4 billion. The decrease is mainly due to changes in the accounting for applying new accounting policy[*2], despite sales of products handled by Daiichi Sankyo Healthcare Co., Ltd. being approximately the same level as the same period of the previous fiscal year.

*2 Changes in the accounting for applying new accounting policy: Sales incentives, previously accounted for as selling, general and administrative expenses, are treated as sales deductions from the second quarter of the fiscal year ending March 31, 2019.

<Primary revenue composition in Japan>

(Billions of yen; all amounts have been rounded to the nearest single decimal place.)

	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
Prescription drugs*	123.9	139.0	15.0 12.1%
Healthcare (OTC) products	18.4	15.4	-3.0 -16.1%

* Includes generic pharmaceutical business and vaccine business.

<Domestic revenue from mainstay prescription drugs>

(Billions of yen; all amounts have been rounded to the nearest single decimal place.)

Product name	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
LIXIANA anticoagulant	14.7	21.6	6.8 46.4%
NEXIUM ulcer treatment	19.8	21.9	2.1 10.6%
Memary Alzheimer's disease treatment	12.9	13.7	0.8 6.4%
PRALIA treatment for osteoporosis/ inhibitor of the progression of bone erosion associated with rheumatoid arthritis	6.6	8.2	1.6 23.5%
TENELIA type 2 diabetes mellitus treatment	6.4	6.9	0.5 7.6%
Loxonin anti-inflammatory analgesic	7.9	7.8	-0.1 -1.4%
Inavir anti-influenza agent	0.1	0.0	-0.0 -21.3%
RANMARK treatment for bone complications caused by bone metastases from tumors	3.9	4.7	0.7 18.7%
Efient antiplatelet agent	3.6	3.8	0.2 6.6%
Rezaltas antihypertensive agent	4.1	4.2	0.1 2.0%
Canalia type 2 diabetes mellitus treatment	2.0	3.2	1.2 61.1%
Vimpat anti-epileptic agent	1.4	2.7	1.3 91.1%
Omnipaque contrast agent	3.3	3.0	-0.2 -7.1%
Olmetec antihypertensive agent	4.2	3.5	-0.6 -14.9%

b. North America

- Revenue in North America increased by ¥4.2 billion, or 10.6% year on year, to ¥43.8 billion. Revenue in local currency terms increased by US$35 million, or 9.7%, to US$398 million.
  This revenue includes revenue generated by Daiichi Sankyo, Inc., and American Regent, Inc.
- At Daiichi Sankyo, Inc., sales of *Welchol* declined.
- At American Regent, Inc., sales of *Injectafer* increased.

<Revenue of Daiichi Sankyo, Inc. mainstay products>

(Millions of US$; all amounts have been rounded to the nearest million US$.)

Product name	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
*Olmesaratan** antihypertensive agent	29	28	-1 -2.6%
Welchol hypercholesterolemia treatment/ type 2 diabetes mellitus treatment	45	23	-21 -47.6%

* *Benicar*/*Benicar HCT*, *AZOR*, *TRIBENZOR* and authorized generics for *Olmesartan*

<Revenue of American Regent, Inc. mainstay products>

(Millions of US$; all amounts have been rounded to the nearest million US$.)

Product name	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
Injectafer treatment for iron deficiency anemia	103	125	22 21.6%
Venofer treatment for iron deficiency anemia	75	85	9 12.1%

c. Europe

- Revenue in Europe was ¥22.1 billion, approximately the same level as the same period of the previous fiscal year (decreased year on year by 0.3%). Revenue in local currency terms was EUR179 million (increased year on year by 5.0%).
- Sales of *LIXIANA* increased despite sales of *Olmesartan* and its combination drugs declined.

<Revenue of Daiichi Sankyo Europe GmbH mainstay products>

(Millions of euro; all amounts have been rounded to the nearest million euro.)

Product name	Three months ended June 30, 2018	Three months ended June 30, 2019	YoY change
LIXIANA anticoagulant	75	109	35 46.2%
*Olmesaratan** antihypertensive agent	63	52	-11 -17.8%
Efient antiplatelet agent	15	6	-8 -56.4%

* *Olmetec*/*Olmetec Plus*, *Sevikar* and *Sevikar HCT*

d. Asia, South & Central America

- Revenue in Asia, South & Central America increased by ¥4.6 billion, or 23.6% year on year, to ¥24.3 billion. This revenue includes revenue to overseas' licensees.
- Mainstay products such as *Olmesartan* and its combination drugs and synthetic antibacterial agent *Cravit* grew in China.

2) Status of R&D

- The Group has established its 2025 Vision of being a "Global Pharma Innovator with Competitive Advantage in Oncology."
- In setting out to achieve our 2025 Vision, the Group established antibody drug conjugates (ADC)*1 franchise, acute myeloid leukemia (AML) franchise and Breakthrough Science*2 as three pillars for oncology which is the primary focused area, and is working on strategic research and development.
- The Group is accelerating research activities in areas other than oncology, particularly for rare diseases and immune diseases.
- The Group is also working on research and development based on innovative drug discovery technology through technical research on new modalities*3.
- The Group is trying to continuously generate innovative medicine that transforms standards of care (SOC) by actively utilizing partnering, open innovation*4 and other activities.

*1 Antibody drug conjugate (ADC): Drugs composed of an antibody drug and a payload (a low molecule drug) linked via appropriate linker. By using a monoclonal antibody that binds to a specific target expressed on cancer cells, a cytotoxic payload is delivered to cancer cells effectively with reducing systemic exposure.

*2 Breakthrough Science: New treatment that brings radical innovation to cancer treatment methods through the practical application of innovative science and technology.

*3 New modalities: New drug discovery fundamentals technology such as ADC, nucleic acid drugs, viruses for treatment, and cell therapy.

*4 Open innovation: Development method in which external development capabilities and ideas are used to overcome internal development challenges and create innovative new value.

- The following section describes the Group's major development projects and progress made in each project.

【Oncology Area】

a. [Fam-] trastuzumab deruxtecan (DS-8201): HER2-targeting ADC

- To maximize the value of *DS-8201*, which was created using Daiichi Sankyo's proprietary ADC technology, Daiichi Sankyo is jointly developing *DS-8201* with AstraZeneca, a company with a wealth of global experience in oncology.

<Breast cancer>

- The Group has conducted global Phase II clinical trial (DESTINY-Breast01) with the primary endpoint being the overall response rate in patients with HER2-positive recurrent and/or metastatic breast cancer previously treated with medicines including T-DM1 (the third or later line treatment). In May 2019, Daiichi Sankyo announced clinically meaningful results in this trial. Based on these results, Daiichi Sankyo and AstraZeneca will proceed with preparations for global approval applications.
- The global Phase III clinical trial (DESTINY-Breast02) designed to compare the efficacy and safety of *DS-8201* versus the investigator's choice for the above-mentioned patients is also underway.
- *DS-8201* has been granted Fast Track designation*5 and Breakthrough Therapy designation*6 by the U.S. Food and Drug Administration (FDA) for the treatment of the above patients.
- The global Phase III clinical trial (DESTINY-Breast03) designed to directly compare the efficacy and safety of *DS-8201* versus T-DM1 in patients with HER2-positive recurrent and/or metastatic breast cancer previously treated with *trastuzumab*, etc. (the second line treatment) is underway.
- The global Phase III clinical trial (DESTINY-Breast04) designed to compare the efficacy and safety of *DS-8201* versus the investigator's choice (chemotherapy) for the patients with HER2 low expressing metastatic breast cancer is underway.

*5 Fast Track designation: System that is designed in the U.S. to accelerate the development and review of promising medicines for the treatment of severe disease with high unmet medical needs.

*6 Breakthrough Therapy designation: System that is designed in the U.S. to expedite the development and review of medicines that may demonstrate substantial benefit over currently available treatments in order to ensure that patients with serious diseases have access to new treatments as soon as possible.

<Gastric cancer>

- The Group is conducting Phase II clinical trials (DESTINY-Gastric01) in Japan and South Korea for patients with HER2-positive recurrent and/or advanced gastric cancer.
- *DS-8201* has been granted SAKIGAKE Designation*7 by the Japan Ministry of Health, Labour and Welfare (MHLW) for the treatment of the above patients.

*7 SAKIGAKE Designation: System that promotes R&D in Japan by providing prioritized access to clinical trials and approval procedures aiming at early practical application for innovative pharmaceutical products.

<Non-small cell lung cancer>

- The Group is conducting global Phase II clinical trials for patients with HER2-positive, recurrent and/or advanced non-small cell lung cancer (NSCLC).

<Colorectal cancer>

- The Group is conducting global Phase II clinical trials for patients with HER2-positive, recurrent and/or advanced colorectal cancer.

<Combination, etc.>

- Daiichi Sankyo is conducting a collaborative clinical trial with the U.S. company, Bristol-Myers Squibb Company, to evaluate the combination of *DS-8201* and *nivolumab*, the immune checkpoint inhibitor (brand name: *Opdivo*) in patients with HER2-positive breast cancer.

b. U3-1402: HER3-targeting ADC

<Breast cancer>

- The Group is conducting Phase I/II clinical trials in patients with HER3-positive recurrent and/or metastatic breast cancer in Japan and the U.S.

<Non-small cell lung cancer>

- The Group is conducting Phase I clinical trials in the U.S. for patients with epidermal growth factor receptor (EGFR)-mutated non-small cell lung cancer (NSCLC) whose disease has progressed while taking an EGFR tyrosine kinase inhibitor (TKI). In May 2019, the Group presented the preliminary results concerning safety and efficacy in the dose escalation part of the trial at the 2019 American Society of Clinical Oncology (ASCO).

c. DS-1062: TROP2-targeting ADC

- Phase I clinical trials for patients with recurrent and/or advanced non-small cell lung cancer are underway in Japan and the U.S. In June 2019, the Group presented the preliminary results concerning safety and efficacy in the dose escalation part of the trial at the 2019 American Society of Clinical Oncology (ASCO).

d. Quizartinib: FLT3 Inhibitor

- In June 2019, manufacturing and marketing approval in Japan was received for the treatment of adults with relapsed or refractory FLT3-ITD AML.
- In June 2019, Daiichi Sankyo received a Complete Response Letter (CRL)*8 from the U.S. Food and Drug Administration (FDA) for the New Drug Application (NDA) for marketing approval of *Quizartinib* for the treatment of adults with relapsed or refractory AML with FLT3-ITD mutations. Daiichi Sankyo is currently evaluating the CRL and will determine the next steps in the U.S.
- In November 2018, the application for approval for marketing was accepted by the European Medicines Agency (EMA) for the treatment of adults with relapsed or refractory AML with FLT3-ITD mutations.
- Currently, the Group is conducting global Phase III clinical trials (QuANTUM-First) to obtain approval for the indication as a first-line treatment of AML.
- *Quizartinib* has been granted Orphan Drug designation by the Japan Ministry of Health, Labour and Welfare (MHLW), the FDA and the EMA for the treatment of AML.

*8 Complete Response Letter: Notice issued upon completion of the review of an approval application when it was not approved in its present content.

<Combination, etc.>

- The Group is conducting global Phase I trials to evaluate the combination of *Quizartinib* and *milademetan*[*9], the MDM2 inhibitor (*DS-3032*), in patients with relapsed or refractory AML with FLT3-ITD mutation or patients, with newly-diagnosed AML with FLT3-ITD mutation, who are not tolerant to intensive chemotherapy.

*9 *Milademetan* (*DS-3032*): Phase I trials are underway targeting patients with solid and hematologic malignancies. Data from preclinical AML animal model studies suggests that when combined with *Quizartinib*, it has a synergetic effect that is greater than when used as a single agent.

e. Valemetostat (DS-3201): EZH1/2 Dual Inhibitor

- The Group is conducting Phase I clinical trials for patients with non-Hodgkin lymphomas including peripheral T-cell lymphoma (PTCL) in Japan and the U.S.
- In April 2019, *DS-3201* has been granted SAKIGAKE Designation by the Japan Ministry of Health, Labour and Welfare (MHLW) for the treatment of PTCL.
- The Group is conducting Phase I clinical trials for patients with AML and acute lymphocytic leukemia (ALL) in the U.S.

f. Pexidartinib: CSF-1R/KIT/FLT3 Inhibitor

- *Pexidartinib* has been granted Breakthrough Therapy designation by the FDA for the treatment of tenosynovial giant cell tumor (TGCT), and Orphan Drug designation by the FDA and the EMA.
- In February 2019, the FDA, upon accepting the application for approval for marketing based on the results of Phase III clinical trials (ENLIVEN study) for TGCT patients in Europe and the U.S., granted Priority Review designation[*10] for *Pexidartinib*. In May 2019, the FDA Oncologic Drugs Advisory Committee (ODAC) voted (Vote: 12 yes, 3 no) that the demonstrated benefit of the drug outweighs the risks in the treatment of adult patients with TGCT. The FDA is expected to decide whether to approve the application by August 3, 2019.
- In April 2019, the EMA has accepted the marketing authorization application in Europe.

*10 Priority Review: A designation, that is granted by the FDA to drugs that would be significant improvements in the safety or effectiveness of the treatment, diagnosis or prevention of serious conditions when compared to standard applications. Under Priority Review, the FDA aims to take action on an application within six months as compared to 10 months under standard review.

[Major R&D Alliances, etc. in Oncology Area]

g. Expansion of collaboration with Zymeworks Inc. regarding bispecific antibodies

- In September 2016, Daiichi Sankyo entered a cross-licensing and collaboration agreement with Zymeworks Inc. in Canada regarding bispecific antibodies*[11]. In April 2019, based on this agreement, Daiichi Sankyo has exercised its option for a commercial license to proprietary immuno-oncology bispecific antibodies. Daiichi Sankyo will continue to effectively use the technology platforms of manufacturing bispecific antibodies with the aim of providing novel therapeutic options for patients with cancer.

*11 Bispecific antibodies: An antibody that can bind different antigens to the two antigen binding sites of one antibody molecule.

【Areas Other than Oncology】

a. Edoxaban: Factor Xa-inhibitor

- *Edoxaban* has been on the Japanese market since 2011 under the brand name *LIXIANA* with indication for the prevention of venous thromboembolism (VTE) after major orthopedic surgery. In 2014, the product also received approval in Japan for additional indications for the prevention of ischemic stroke and systemic embolism in patients with non-valvular atrial fibrillation (AF), and for the treatment and prevention of recurrence of VTE (deep vein thrombosis (DVT) and pulmonary embolism (PE)).
- As for global including Japan, *Edoxaban* has been on the market in over 30 countries and regions.
- Currently, the Group is conducting Phase III clinical trials in Japan for 80 years of age or older patients with non-valvular atrial fibrillation with the targeted indication of the prevention of stroke and systemic embolism.

b. Mirogabalin: α2δ ligand

- *Mirogabalin* has been marketed in Japan since April 2019 under the brand name *Tarlige* with indication for peripheral neuropathic pain.
- Currently, the Group is conducting Phase III clinical trials for patients with post-spinal cord injury neuropathic pain in Japan and other countries in Asia.

c. Esaxerenone: Mineralocorticoid receptor blocker

- *Esaxerenone* has been marketed in Japan since May 2019 under the brand name *MINNEBRO* with indication for hypertension.
- Currently, the Group is conducting Phase III clinical trials in Japan for patients with diabetic nephropathy.

(2) Analysis of Financial Position as of June 30, 2019

- Total assets as of June 30, 2019 are ¥2,061.0 billion, a decrease of ¥27.1 billion from the previous fiscal year-end, mainly due to a decrease in trade and other receivables, which was partially offset by an increase in property, plant and equipment.
- Total liabilities as of June 30, 2019 are ¥806.1 billion, a decrease of ¥32.3 billion from the previous fiscal year-end, mainly due to decreases in trade and other payables and bonds and borrowings (current liabilities), which were partially offset by an increase in other financial liabilities (non-current liabilities).
- Total equity as of June 30, 2019 is ¥1,254.9 billion, an increase of ¥5.2 billion from the previous fiscal year-end, mainly because of the profit for the period, which was partially offset by dividends paid.
- The ratio of equity attributable to owners of the Company to total assets increased by 1.0% from the previous fiscal year-end to 60.9%.

(3) Information about Forecasts of Consolidated Financial Results and Other Forward-Looking Statements

- There are no changes from the forecasts of consolidated financial results for the year ending March 31, 2020 publicly announced on April 25, 2019.

Note: The forecasted statements are based on information currently available and certain assumptions that the Company regards as reasonable. Actual performance and other results may differ from these forecasted figures due to various factors.

(4) Information about Return to Shareholders

- In order to secure sustainable growth in corporate value, one of the fundamental business policies of Daiichi Sankyo is to decide profit distributions based on a comprehensive consideration of the investments essential for implementing its growth strategy and returning profits to shareholders.
- In the 5-Year Business Plan, Daiichi Sankyo introduced policy to pay a total return ratio* of 100% or more during the period, and in terms of dividend payments, to distribute ordinary dividends to ¥70 or more yearly, to pay stable dividends, and to exercise the agile purchase of treasury shares.

  * Total return ratio = (Total amount of dividends + Total acquisition costs of treasury shares) / Profit attributable to owners of the Company

- Under this policy, Daiichi Sankyo paid a year-end dividend of ¥35 per share on June 17. Accordingly, the annual dividend for the year ended March 31, 2019, together with the interim dividend of ¥35 per share paid on December 3, 2018, is ¥70 per share in total. Furthermore, the annual dividend for the year ending March 31, 2020 is forecast at ¥70 per share.

2. Condensed Interim Consolidated Financial Statements with Primary Notes

(1) Condensed Interim Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
ASSETS		
Current assets		
Cash and cash equivalents	243,155	260,900
Trade and other receivables	419,609	356,824
Other financial assets	536,880	530,150
Inventories	176,067	186,016
Other current assets	15,471	14,229
Subtotal	1,391,183	1,348,121
Assets held for sale	2,000	–
Total current assets	1,393,184	1,348,121
Non-current assets		
Property, plant and equipment	229,085	255,043
Goodwill	77,851	76,220
Intangible assets	169,472	165,711
Investments accounted for using the equity method	2,200	930
Other financial assets	114,895	113,930
Deferred tax assets	94,809	94,502
Other non-current assets	6,551	6,505
Total non-current assets	694,866	712,844
Total assets	2,088,051	2,060,965

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	312,660	283,561
Bonds and borrowings	40,000	387
Other financial liabilities	530	9,390
Income taxes payable	10,451	11,320
Provisions	7,837	5,494
Other current liabilities	12,715	16,476
Subtotal	384,195	326,631
Liabilities directly associated with assets held for sale	349	–
Total current liabilities	384,544	326,631
Non-current liabilities		
Bonds and borrowings	220,585	224,087
Other financial liabilities	5,680	37,354
Post-employment benefit liabilities	10,384	10,363
Provisions	4,985	2,780
Deferred tax liabilities	17,166	16,624
Other non-current liabilities	195,000	188,208
Total non-current liabilities	453,802	479,420
Total liabilities	838,346	806,051
Equity		
Equity attributable to owners of the Company		
Share capital	50,000	50,000
Capital surplus	94,633	94,633
Treasury shares	(162,964)	(162,962)
Other components of equity	115,166	97,850
Retained earnings	1,152,806	1,174,778
Total equity attributable to owners of the Company	1,249,642	1,254,299
Non-controlling interests		
Non-controlling interests	62	614
Total equity	1,249,705	1,254,914
Total liabilities and equity	2,088,051	2,060,965

(2) Condensed Interim Consolidated Statement of Profit or Loss and Condensed Interim Consolidated Statement of Comprehensive Incom

Condensed Interim Consolidated Statement of Profit or Loss

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Revenue	225,737	249,239
Cost of sales	84,748	87,899
Gross profit	140,989	161,339
Selling, general and administrative expenses	65,611	63,161
Research and development expenses	45,460	41,184
Operating profit	29,917	56,993
Financial income	2,411	4,003
Financial expenses	2,590	3,935
Share of profit (loss) of investments accounted for using the equity method	(108)	6
Profit before tax	29,629	57,067
Income taxes	5,675	13,744
Profit for the period	23,954	43,322
Profit attributable to:		
Owners of the Company	23,951	43,347
Non-controlling interests	3	(24)
Profit for the period	23,954	43,322
Earnings per share		
Basic earnings per share (Yen)	36.98	66.91
Diluted earnings per share (Yen)	36.89	66.77

Condensed Interim Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Profit for the period	23,954	43,322
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	68,370	(1,783)
Remeasurements of defined benefit plans	(111)	(44)
Items that are or may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	9,539	(13,794)
Other comprehensive income for the period	77,798	(15,623)
Total comprehensive income for the period	101,753	27,699
Total comprehensive income attributable to:		
Owners of the Company	101,749	27,724
Non-controlling interests	3	(24)
Total comprehensive income for the period	101,753	27,699

(3) Condensed Interim Consolidated Statement of Changes in Equity
Three months ended June 30, 2018

(Millions of yen)

	Equity attributable to owners of the Company					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2018	50,000	94,633	(163,531)	1,993	57,339	61,171
Changes in accounting policies	–	–	–	–	–	–
Adjusted balance as of April 1, 2018	50,000	94,633	(163,531)	1,993	57,339	61,171
Profit for the period	–	–	–	–	–	–
Other comprehensive income for the period	–	–	–	–	9,539	68,370
Total comprehensive income for the period	–	–	–	–	9,539	68,370
Purchase of treasury shares	–	–	(5)	–	–	–
Cancellation of treasury shares	–	–	54	(23)	–	–
Dividends	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(69,705)
Others	–	–	–	–	–	–
Total transactions with owners of the Company	–	–	48	(23)	–	(69,705)
Balance as of June 30, 2018	50,000	94,633	(163,483)	1,969	66,878	59,837

(Millions of yen)

	Equity attributable to owners of the Company					
	Other components of equity					
	Remeasure-ments of defined benefit plans	Total other components of equity	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2018	–	120,504	1,031,376	1,132,982	58	1,133,041
Changes in accounting policies	–	–	(530)	(530)	–	(530)
Adjusted balance as of April 1, 2018	–	120,504	1,030,846	1,132,452	58	1,132,510
Profit for the period	–	–	23,951	23,951	3	23,954
Other comprehensive income for the period	(111)	77,798	–	77,798	–	77,798
Total comprehensive income for the period	(111)	77,798	23,951	101,749	3	101,753
Purchase of treasury shares	–	–	–	(5)	–	(5)
Cancellation of treasury shares	–	(23)	(30)	0	–	0
Dividends	–	–	(22,668)	(22,668)	–	(22,668)
Transfer from other components of equity to retained earnings	111	(69,593)	69,593	–	–	–
Others	–	–	–	–	(8)	(8)
Total transactions with owners of the Company	111	(69,617)	46,894	(22,674)	(8)	(22,682)
Balance as of June 30, 2018	–	128,685	1,101,691	1,211,527	53	1,211,581

Three months ended June 30, 2019,

(Millions of yen)

	Equity attributable to owners of the Company					
				Other components of equity		
	Share capital	Capital surplus	Treasury shares	Subscription rights to shares	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	50,000	94,633	(162,964)	1,805	66,628	46,732
Changes in accounting policies	–	–	–	–	–	–
Adjusted balance as of April 1, 2019	50,000	94,633	(162,964)	1,805	66,628	46,732
Profit for the period	–	–	–	–	–	–
Other comprehensive income for the period	–	–	–	–	(13,794)	(1,783)
Total comprehensive income for the period	–	–	–	–	(13,794)	(1,783)
Purchase of treasury shares	–	–	(15)	–	–	–
Cancellation of treasury shares	–	–	17	(7)	–	–
Dividends	–	–	–	–	–	–
Changes associated with obtaining control of subsidiaries	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(1,730)
Total transactions with owners of the Company	–	–	1	(7)	–	(1,730)
Balance as of June 30, 2019	50,000	94,633	(162,962)	1,798	52,833	43,218

(Millions of yen)

	Equity attributable to owners of the Company					
	Other components of equity					
	Remeasure-ments of defined benefit plans	Total other components of equity	Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
Balance as of April 1, 2019	–	115,166	1,152,806	1,249,642	62	1,249,705
Changes in accounting policies	–	–	(375)	(375)	–	(375)
Adjusted balance as of April 1, 2019	–	115,166	1,152,431	1,249,267	62	1,249,329
Profit for the period	–	–	43,347	43,347	(24)	43,322
Other comprehensive income for the period	(44)	(15,623)	–	(15,623)	–	(15,623)
Total comprehensive income for the period	(44)	(15,623)	43,347	27,724	(24)	27,699
Purchase of treasury shares	–	–	–	(15)	–	(15)
Cancellation of treasury shares	–	(7)	(9)	0	–	0
Dividends	–	–	(22,676)	(22,676)	–	(22,676)
Changes associated with obtaining controls of subsidiaries	–	–	–	–	576	576
Transfer from other components of equity to retained earnings	44	(1,685)	1,685	–	–	–
Total transactions with owners of the Company	44	(1,693)	(20,999)	(22,691)	576	(22,114)
Balance as of June 30, 2019	–	97,850	1,174,778	1,254,299	614	1,254,914

(4) Condensed Interim Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flows from operating activities		
Profit before tax	29,629	57,067
Depreciation and amortization	11,218	12,941
Financial income	(2,411)	(4,003)
Financial expenses	2,590	3,935
Share of (profit) loss of investments accounted for using the equity method	108	(6)
(Gain) loss on sale and disposal of non-current assets	(764)	(10,611)
(Increase) decrease in trade and other receivables	3,583	63,630
(Increase) decrease in inventories	(11,148)	(12,467)
Increase (decrease) in trade and other payables	(27,427)	(23,942)
Others, net	(4,723)	(363)
Subtotal	655	86,181
Interest and dividends received	1,845	2,160
Interest paid	(127)	(532)
Income taxes paid	(14,191)	(10,235)
Net cash flows from (used in) operating activities	(11,817)	77,574
Cash flows from investing activities		
Payments into time deposits	(161,839)	(249,603)
Proceeds from maturities of time deposits	140,546	261,010
Acquisition of securities	(30,035)	(38,901)
Proceeds from sale of securities	31,137	31,681
Acquisition of property, plant and equipment	(7,481)	(8,311)
Proceeds from sale of property, plant and equipment	477	80
Acquisition of intangible assets	(4,881)	(5,224)
Acquisition of subsidiaries	–	463
Payments for loans receivable	(56)	(24)
Proceeds from collection of loans receivable	232	113
Others, net	920	14,299
Net cash flows from (used in) investing activities	(30,978)	5,583

	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flows from financing activities		
Proceeds from bonds and borrowings	–	3,981
Repayments of bonds and borrowings	–	(40,097)
Purchase of treasury shares	(5)	(15)
Proceeds from sale of treasury shares	0	–
Dividends paid	(22,682)	(22,711)
Others, net	(363)	(2,457)
Net cash flows from (used in) financing activities	(23,052)	(61,300)
Net increase (decrease) in cash and cash equivalents	(65,848)	21,857
Cash and cash equivalents at the beginning of the period	357,702	243,155
Effect of exchange rate changes on cash and cash equivalents	2,129	(4,112)
Cash and cash equivalents at the end of the period	293,983	260,900

(5) Notes to Condensed Interim Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Changes in Significant Subsidiaries during the Period

Not applicable.

Changes in Accounting Policies

The significant accounting policies adopted in preparing the condensed interim consolidated financial statements of the Group have not changed from the prior year except for the adoption of the following new accounting standard.

[IFRS 16 "Leases"]

The Group adopted IFRS 16 "Leases" (issued in January 2016; hereafter "IFRS 16") since the first quarter of the year ending March 31, 2020. In adopting IFRS 16, the Group did not restate the comparative information and recognized the cumulative effect from initial application as an adjustment to the opening balance of retained earnings.

Regarding the determination of whether a contract is or contains a lease on transition to IFRS 16, the Group elected the practical expedient prescribed in IFRS 16 paragraph C3 and continued to apply the assessment under IAS 17 "Leases" (hereafter "IAS 17") and IFRIC 4 "Determining whether an Arrangement Contains a Lease". From the date of initial application, this assessment is determined based on the provisions of IFRS 16.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date.

A right-of-use asset is initially measured at cost and is subsequently depreciated using the straight-line method from the commencement date 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 equivalent tangible fixed assets. In addition, a right-of-use asset is reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

A lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments are allocated to financial expenses and repayments of lease liabilities so that the interest expenses in each period during the lease term will result in a constant interest rate on the outstanding lease liability. A lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

As for leases as lessee which the Group previously classified as operating leases applying IAS 17, right-of-use assets and lease liabilities were recognized at the date of initial application. Lease liabilities were measured at the present value of the remaining lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average lessee's incremental borrowing rate is 0.61%. Right-of-use assets were measured at either:

・carrying amounts as if IFRS 16 had been applied since the commencement date of the leases, but discounted using the lessee's incremental borrowing rate at the date of initial application; or

・amounts equal to lease liabilities as adjusted for prepaid or accrued lease payments.

As for leases as lessee which the Group previously classified as finance leases applying IAS 17, the carrying amounts of right-of-use assets and lease liabilities at the date of initial application are measured respectively as the carrying amounts of lease assets and lease liabilities based on IAS 17 immediately before the date of initial application.

As a result, compared to the application of the previous accounting standards, at the beginning of first quarter of the year ending March 31, 2020, right-of-use assets included in "Property, plant and equipment", "Trade and other receivables", "Other financial assets", "Deferred tax assets" and lease liabilities included in "Other financial liabilities" increased by 28,698 million yen, 2,881 million yen,

2,884 million yen, 46 million yen and 40,874 million yen, respectively, and “Intangible assets”, “Other non-current liabilities”, “Provisions” and “Retained earnings” decreased by 479 million yen, 3,424 million yen, 3,040 million yen and 375 million yen, respectively.

The Group applied following practical expedients in adopting IFRS 16:

・Right-of-use assets and lease liabilities for short-term leases and leases of low-value assets are not recognized;

・Leases for which the lease term will end within 12 months from the date of initial application are accounted for in the same way as short-term leases;

・Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.