April 25, 2019

Consolidated Financial Results for Year Ended March 31, 2019 (Fiscal 2018) <under IFRS>

Listed company name: Daiichi Sankyo Company, Limited
Listed exchange: First Section of the Tokyo Stock Exchange
Stock code number: 4568
URL: https://www.daiichisankyo.com
Representative: Dr. Sunao Manabe, Representative Director, President and COO.
Contact: Mr. Junichi Onuma, Vice President of Corporate Communications Department
Telephone: +81-3-6225-1125

Scheduled date of Ordinary General Meeting of Shareholders: June 17, 2019
Scheduled date of dividend payments: From June 18, 2019
Scheduled date of Annual Securities Report filing: June 17, 2019
Preparing supplementary material (Reference Data) on financial results: Yes
Holding 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 Year Ended March 31, 2019

(1) Consolidated Financial Results

(Percentages indicate changes from the previous fiscal year.)

	Revenue		Operating profit		Profit before tax		Profit for the year	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2019	929,717	-3.2	83,705	9.7	85,831	5.9	93,422	56.2
Year ended March 31, 2018	960,195	0.5	76,282	-14.2	81,021	-7.7	59,811	26.0

	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
Year ended March 31, 2019	93,409	55.0	163,893	164.8	144.20	143.88
Year ended March 31, 2018	60,282	12.7	61,890	91.4	91.31	91.10

	Return on equity attributable to owners of the Company	Ratio of profit before tax to total assets	Ratio of operating profit to revenue
	%	%	%
Year ended March 31, 2019	7.8	4.3	9.0
Year ended March 31, 2018	5.2	4.3	7.9

Reference: Share of profit or loss of investments accounted for using the equity method:

Year ended March 31, 2019: -105 million yen
Year ended March 31, 2018: 320 million yen

(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 March 31, 2019	2,088,051	1,249,705	1,249,642	59.8	1,928.80
As of March 31, 2018	1,897,754	1,133,041	1,132,982	59.7	1,749.33

(3) Consolidated Cash Flows

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Cash and cash equivalents at the end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Year ended March 31, 2019	92,033	-142,520	-66,203	243,155
Year ended March 31, 2018	108,439	108,568	-101,766	357,702

2. Dividends

	Annual dividends per share					Total dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to equity attributable to owners of the Company (Consolidated)
	First quarter	Second quarter	Third quarter	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Year ended March 31, 2018	–	35.00	–	35.00	70.00	45,885	76.7	4.0
Year ended March 31, 2019	–	35.00	–	35.00	70.00	45,348	48.5	3.8
Year ending March 31, 2020 (Forecast)	–	35.00	–	35.00	70.00		63.0	

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

*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 *"4. Consolidated Financial Statements with Primary Notes, (5) Notes to Consolidated Financial Statements, (Changes in Accounting Policies)"* on page 37

(3) Number of ordinary shares issued

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

As of March 31, 2019	709,011,343 shares
As of March 31, 2018	709,011,343 shares

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

As of March 31, 2019	61,124,702 shares
As of March 31, 2018	61,343,747 shares

3) Average number of shares during the period

Year ended March 31, 2019	647,785,171 shares
Year ended March 31, 2018	660,161,874 shares

(Reference)

Non-Consolidated Financial Results

Non-Consolidated Financial Results for Year Ended March 31, 2019

(1) Non-Consolidated Financial Results

(Percentages indicate changes from the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Year ended March 31, 2019	625,046	-0.9	7,889	-54.1	50,724	-43.7	134.069	60.1
Year ended March 31, 2018	630,954	0.3	17,177	-7.1	90,136	120.0	83,729	699.0

	Basic net income per share	Diluted net income per share
	Yen	Yen
Year ended March 31, 2019	206.97	206.51
Year ended March 31, 2018	126.83	126.53

(2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of March 31, 2019	1,619,500	957,680	59.0	1,475.37
As of March 31, 2018	1,464,338	880,001	60.0	1,355.65

Reference: Equity:

As of March 31, 2019: 955,875 million yen
As of March 31, 2018: 878,008 million yen

* This financial results report is not subject to audit 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. Financial Results (3) Future Outlook"* on page 18 for matters related to the above forecasts.

Attached Material

Index

1. Results of Operations

(1) Operating Results for Year ended March 31, 2019

1) Overview

[Consolidated Financial Results]

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

	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
Revenue	960,195	929,717	–30,478 –3.2%
Operating profit	76,282	83,705	7,423 9.7%
Profit before tax	81,021	85,831	4,809 5.9%
Profit attributable to owners of the Company	60,282	93,409	33,127 55.0%
Total comprehensive income	61,890	163,893	102,003 164.8%

<Revenue from global mainstay products>

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

Product name	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
Edoxaban anticoagulant	77,089	117,686	40,597 52.7%
Olmesartan antihypertensive agent	149,672	105,922	–43,750 –29.2%
Prasugrel antiplatelet agent	32,815	23,214	–9,601 –29.3%

<Selling, general and administrative expenses>

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

	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
Selling, general and administrative expenses	301,845	277,695	–24,150 –8.0%
Ratio of selling, general and administrative expenses to revenue	31.4%	29.9%	–1.6%

<Research and development expenses>

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

	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
Research and development expenses	236,046	203,711	–32,334 –13.7%
Ratio of research and development expenses to revenue	24.6%	21.9%	–2.7%

<Yen exchange rates for major currencies (average rate for year)>

(Yen)

	Year ended March 31, 2018	Year ended March 31, 2019
USD/Yen	110.86	110.91
EUR/Yen	129.70	128.40

a. Revenue

- Revenue in the year ended March 31, 2019 (fiscal 2018) decreased by ¥30.5 billion, or 3.2% year on year, to ¥929.7 billion.
- The negative effect from a decrease in sales of *Olmesartan* due to the loss of exclusivity and drug price reductions resulting from revisions to the National Health Insurance (NHI) system led to the decline in revenue, despite growth in sales of mainstay products such as *Edoxaban*.
- The negative effect on revenue from foreign exchange was ¥3.2 billion in total.

b. Operating profit

- Operating profit increased by ¥7.4 billion, or 9.7% year on year, to ¥83.7 billion.
- Gross profit decreased by ¥49.1 billion, or 8.0%, to ¥565.1 billion due to an increase in cost of sales largely as a result of change in the product mix as well as having recorded impairment losses for intangible assets (¥15.1 billion) particularly in relation to the antitumor agent *Zelboraf*, in addition to a decrease of revenue.
- Selling, general and administrative expenses fell by ¥24.2 billion, or 8.0%, to ¥277.7 billion, mainly due to the effect of cost reductions by the increase in gain on sale of property, plant and equipment, in addition to the effect of cost reductions in the U.S.
- Research and development expenses decreased by ¥32.3 billion, or 13.7% year on year, to ¥203.7 billion mainly because impairment losses (¥30.2 billion) on intangible assets related to *CL-108*, a combination drug for the treatment of pain and opioid-induced nauseas and vomiting (OINV), and others were recorded in the previous fiscal year, while no impairment loss was recorded in fiscal 2018.
- The negative effect on operating profit from foreign exchange was ¥1.4 billion in total.

c. Profit before tax

- Profit before tax increased by ¥4.8 billion, or 5.9% year on year, to ¥85.8 billion.
- The increase in profit before tax was modest compared to the increase in operating profit mainly due to a deterioration of loss (gain) on exchange differences relating to assets denominated in foreign currencies.

d. Profit attributable to owners of the Company

- Profit attributable to owners of the Company increased by ¥33.1 billion, or 55.0% year on year, to ¥93.4 billion.
- The future taxable income amount has increased in conjunction with strategic collaboration with AstraZeneca on *DS-8201* (HER2-targeting ADC). As a result, it has become possible to recognize additional deferred tax assets and realize a substantial decrease in income taxes, etc., leading to a significant increase in profit attributable to owners of the Company.

e. Total comprehensive income

- Total comprehensive income increased by ¥102.0 billion, or 164.8% year on year, to ¥163.9 billion.
- Total comprehensive income increased significantly year on year mainly due to the reversal of tax liabilities related to business restructuring of Daiichi Sankyo and its consolidated subsidiaries (“the Group”) carried out in prior years.

[Revenue by Geographic Area]

Primary revenue by geographic area is as follows.

a. Japan

Revenue in Japan decreased by ¥23.2 billion, or 3.8% year on year, to ¥589.7 billion.

<Prescription drug business>

- Revenue from prescription drug business decreased by ¥16.7 billion, or 3.1% year on year, to ¥523.3 billion. The decrease was mainly due to drug price reductions resulting from revisions to the National Health Insurance (NHI) system and the effect of a decrease in sales of *Olmetec* due to the loss of exclusivity, despite the growth in sales of mainstay products *LIXIANA*, *Canalia*, *PRALIA*, *Vimpat* and others, and the contribution to sales from authorized generic[*1] products. This revenue also includes revenue generated by the generic pharmaceutical business of Daiichi Sankyo Espha Co., Ltd., and revenue generated by the vaccine business of companies that include Kitasato Daiichi Sankyo Vaccine Co., Ltd., Japan Vaccine Co., Ltd., etc. In December 2018, Daiichi Sankyo decided that Japan Vaccine's commercial activities will be transferred to Daiichi Sankyo and GlaxoSmithKline, and the joint venture will be dissolved.
- In May 2018, Daiichi Sankyo launched *Naruvein Injection* for cancer pain treatment, whose principal ingredients are hydromorphone hydrochloride. In addition, Daiichi Sankyo launched the transdermal long-acting treatment for cancer pain *FENTANYL CITRATE TAPE for 1 day "DAIICHI SANKYO"* in June, thereby enhancing the lineup of opioid analgesics to better meet the various needs of cancer pain treatment.
- Daiichi Sankyo decided in July 2018 that the domestic manufacturing and sales approvals for 41 long-listed products that Daiichi Sankyo and its subsidiary Daiichi Sankyo Espha Co., Ltd. are currently manufacturing and selling will be transferred to Alfresa Pharma Corporation.
- In November 2018, Daiichi Sankyo launched the antitumor agent *trastuzumab BS for intravenous drip infusions "DAIICHI SANKYO,"* a biosimilar product to the anti-HER2 antibody, trastuzumab.
- In March 2019, Daiichi Sankyo launched the antiepileptic drug *Vimpat Dry syrup* and *Vimpat for I.V. infusion*.

*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 ¥6.5 billion, or 9.0% year on year, to ¥66.4 billion. The decrease is mainly due to changes in the accounting for applying new accounting policy (sales incentives, previously accounted for as expenses, are treated as sales deductions effective from this fiscal year) despite growth in sales including those of the *Transino* series handled by Daiichi Sankyo Healthcare Co., Ltd.

<Primary revenue composition in Japan>

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

	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
Prescription drug business*	540.0	523.3	–16.7 –3.1%
Healthcare (OTC) products business	72.9	66.4	–6.5 –9.0%

* Includes generic pharmaceutical business and vaccine business.

<Domestic revenue from mainstay prescription drugs>

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

Product name	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
NEXIUM ulcer treatment	86.5	78.3	-8.3 -9.6%
LIXIANA anticoagulant	45.3	64.9	19.6 43.2%
Memary Alzheimer's disease treatment	48.6	50.2	1.7 3.4%
Loxonin anti-inflammatory analgesic	36.5	30.5	-6.0 -16.4%
PRALIA treatment for osteoporosis/ inhibitor of the progression of bone erosion associated with rheumatoid arthritis	23.2	27.4	4.2 18.1%
TENELIA type 2 diabetes mellitus treatment	26.3	25.3	-1.0 -3.7%
Inavir anti-influenza treatment	25.3	18.2	-7.1 -28.0%
Olmetec antihypertensive agent	44.6	14.9	-29.7 -66.7%
RANMARK treatment for bone complications caused by bone metastases from tumors	15.4	16.4	1.0 6.5%
Efient antiplatelet agent	12.8	13.9	1.1 8.3%
Rezaltas antihypertensive agent	16.8	15.5	-1.3 -7.5%
Urief treatment for dysuria	11.1	10.3	-0.9 -7.7%
Omnipaque contrast medium	14.0	12.0	-2.0 -14.4%
Canalia type 2 diabetes mellitus treatment	2.7	9.2	6.5 241.9%
Vimpat anti-epileptic agent	2.6	6.6	3.9 148.5%

b. North America

- In January 2019, the company name of former Luitpold Pharmaceuticals, Inc. was changed to American Regent, Inc. “American Regent” is a product brand being used for most of company’s products and being widely known in the U.S. market.
- Revenue in North America decreased by ¥26.1 billion, or 14.5% year on year, to ¥154.1 billion. Revenue in local currency terms decreased by US$236 million, or 14.5%, to US$1,389 million. This revenue includes revenue generated by Daiichi Sankyo, Inc., and American Regent, Inc..
- At Daiichi Sankyo, Inc., sales of *Effient* and *Olmesartan* and its combination drugs declined, in addition to a decrease of sales of *Welchol* due to entry of generics in May 2018.
- At American Regent, Inc., sales of *Injectafer* increased.

<Revenue of Daiichi Sankyo, Inc. mainstay products>

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

Product name	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
*Olmesartan** antihypertensive agent	192	97	–96 –49.6%
Welchol hypercholesterolemia treatment/ type 2 diabetes mellitus inhibitor	306	121	–185 –60.5%
Effient antiplatelet agent	96	22	–74 –77.1%
SAVAYSA anticoagulant	20	21	1 5.8%
MOVANTIK opioid-induced constipation treatment	42	38	–4 –9.7%

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

<Revenue of American Regent, Inc.* mainstay products>

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

Product name	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
Venofer treatment for iron deficiency anemia	279	261	–18 –6.6%
Injectafer treatment for iron deficiency anemia	310	399	89 28.7%

* *Formerly, Luitpold Pharmaceuticals, Inc.*

c. Europe

- Revenue in Europe increased by ¥9.1 billion, or 11.5% year on year, to ¥88.6 billion. Revenue in local currency terms increased by EUR77 million, or 12.6%, to EUR690 million.
- The increase of revenue is mainly attributable to increase in sales of *LIXIANA* despite decreases in sales of *Olmesartan* and its combination drugs and *Efient*.
- In January 2019, Daiichi Sankyo Europe GmbH entered into a licensing agreement with Esperion Therapeutics, Inc. of the U.S. for the exclusive sales rights in Europe of bempedoic acid for the treatment of hypercholesterolemia.

<Revenue of Daiichi Sankyo Europe GmbH mainstay products>

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

Product name	Year ended March 31, 2018	Year ended March 31, 2019	YoY change
*Olmesartan** antihypertensive agent	258	213	–45 –17.5%
Efient antiplatelet agent	62	44	–17 –28.1%
LIXIANA anticoagulant	208	357	148 71.3%

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

d. Asia, South & Central America

- Revenue in Asia, South & Central America increased by ¥7.3 billion, or 9.0% year on year, to ¥87.7 billion. This revenue includes revenue to overseas' licensees.
- Mainstay products such as synthetic antibacterial agent *Cravit* grew in China.
- Products such as *LIXIANA* and *Olmesartan* and its combination drugs grew in South Korea.

2) R&D Activities

- 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 activities.
- Additionally, the Group is accelerating research activities in areas other than oncology, particularly for rare diseases and immune diseases.
- Furthermore, the Group is also working on research and development activities 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) utilizing partnering*[4], open innovation*[5] and translational research*[6] in the research and early-stage of development.
- As for the late-stage of development, the Group is developing drugs in oncology, cardiovascular-metabolics and other fields.
- The Group is continuously undertaking life cycle management activities*[7] particularly in the field of cardiovascular-metabolics.

*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 Partnering: Cooperation between companies, universities and research institutions utilizing their own strengths mutually to generate new values.

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

*6 Translational research: Research process that translates basic scientific results obtained in preclinical studies into new drugs or medical technologies for practical application via testing at clinical settings, or applies the efficacy and safety confirmed at clinical settings to new basic researches.

*7 Life cycle management: Initiatives to bring the value of pharmaceuticals to the healthcare fields over a long period by further enhancing its product value through expanding indications and improving dosage and administration.

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

【Oncology Area】

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

- The second part (expansion study) of the Phase I clinical trial for multiple types of HER2-expressing cancers is underway in Japan and the U.S.
- Updated safety and efficacy data in these trials were presented at the American Society of Clinical Oncology (ASCO) meeting in June 2018. These most recent data suggest that *DS-8201* is a promising treatment, regardless of the level of HER2 expression, and for a wide variety of types of cancer.
- In September 2018, updated safety and efficacy data for patients with HER2-expressing or -mutated non-small cell lung cancer were presented at the World Conference on Lung Cancer (WCLC). These most recent data suggest that *DS-8201* is also a promising treatment for non-small cell lung cancer.
- Updated safety and efficacy data for patients with colorectal cancer in these trials were presented at the European Society for Medical Oncology (ESMO) congress in October 2018.
- Updated safety and efficacy data for patients with HER2 low expressing metastatic breast cancer in these trials were presented at the San Antonio Breast Cancer Symposium (SABCS) in December 2018. These most recent data suggest that *DS-8201* is also a promising treatment for patients with HER2 low expressing metastatic breast cancer.

  In addition, concerning interstitial lung disease (ILD), the first analysis of interstitial lung disease (ILD) data of all clinical trials for *DS-8201*, including adjudicated case results, was presented.

- In addition to the above clinical trials, the Group is conducting the following trials for each type of cancer.

<Breast cancer>

- Patient enrollment (approximately 230 patients) was completed in September 2018 for the 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 March 2019, the Group announced that the filing of the application for approval to the U.S. Food and Drug Administration (FDA), which was originally planned for 2020, has now been brought forward to the first half of fiscal 2019. The results from DESTINY-Breast01 will be presented at scientific forums, after the results are obtained. The decision regarding the exact timing of the filing of the application for approval will be based on future discussions with the FDA.

- The global Phase III clinical trial (DESTINY-Breast02) designed to compare the safety and efficacy of *DS-8201* versus the investigator's choice for the above-mentioned patients also commenced in September 2018.

- *DS-8201* has been granted Breakthrough Therapy designation*[8] by the FDA for the treatment of the above patients.

- The global Phase III clinical trial (DESTINY-Breast03) designed to compare the safety and efficacy 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) commenced in September 2018.

- The global Phase III clinical trial (DESTINY-Breast04) designed to compare the safety and efficacy of *DS-8201* versus the investigator's choice (chemotherapy) for the patients with HER2 low expressing metastatic breast cancer commenced in January 2019.

*8 Breakthrough Therapy Designation system: System that is designed 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*[9] by the Japan Ministry of Health, Labour and Welfare (MHLW) for the treatment of the above patients.

*9 SAKIGAKE Designation System: 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>

- In May 2018, the Group initiated 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 and R&D Alliances, 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 (product name: *Opdivo*) in patients with HER2-positive breast cancer.

- In September 2018, Daiichi Sankyo entered into a clinical trial collaboration agreement with a subsidiary of the U.S. company, Merck & Co., Inc., to evaluate the combination of *DS-8201* and *pembrolizumab*, the immune checkpoint inhibitor (product name: *KEYTRUDA*) in patients with HER2-expressing breast cancer and non-small cell lung cancer.
- In October 2018, Daiichi Sankyo entered into a clinical trial collaboration agreement with German company, Merck KGaA and U.S. company Pfizer Inc., to evaluate the combination of *DS-8201* and *avelumab*, the immune checkpoint inhibitor (product name: *BAVENCIO*) and DNA damage response inhibitor (DDR) being developed by Merck KGaA, in patients with HER2-expressing or mutated solid tumors.

- To maximize the value of *DS-8201*, which was created using Daiichi Sankyo's proprietary ADC technology, Daiichi Sankyo has entered into a global development and commercialization agreement concerning the *DS-8201* with AstraZeneca, a company with a wealth of global experience and resources in oncology, in March 2019.

b. U3-1402 (HER3-targeting ADC)

- Phase I/II clinical trials in patients with HER3-positive recurrent and/or metastatic breast cancer is underway in Japan and the U.S.
- Safety and efficacy data in these trials were presented for the first time at the American Society of Clinical Oncology (ASCO) meeting in June 2018. In addition, in December 2018 updated data of these trials were presented at the San Antonio Breast Cancer Symposium (SABCS). These most recent data suggest that *U3-1402* is a promising treatment. Daiichi Sankyo considers that these data suggest that Daiich Sankyo's ADC technology could provide a new treatment approach for patients.
- Currently, in addition to the above trials, 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).

c. Quizartinib (FLT3 Inhibitor)

- The FDA has granted Fast Track designation to *Quizartinib* for the treatment of relapsed or refractory acute myeloid leukemia (AML) with FLT3-ITD mutations. Also, it has been granted Orphan Drug designation*[10] by the FDA and the European Medicines Agency (EMA) for the treatment of AML.

  The FDA also granted *Quizartinib* Breakthrough Therapy designation for the treatment of relapsed or refractory AML with FLT3-ITD mutations in August 2018, and in September 2018 *Quizartinib* was granted Orphan Drug designation by the Japan Ministry of Health, Labour and Welfare (MHLW) for the treatment of AML with FLT3 mutations.
- In the QuANTUM-R, a Phase III clinical trial being conducted in Europe, the U.S., and Asia for patients with relapsed or refractory AML with FLT3-ITD mutations, the primary endpoint was met in May 2018, and this was presented in a Late Breaking Session of the European Hematology Association (EHA) in June 2018.

  Based on these results, an application for manufacturing and marketing approval was filed in Japan in October 2018. In addition, in November 2018, the applications for approval for marketing were accepted for review and granted Accelerated Assessment designation*[11] and Priority Review designation*[12] at the European Medicines Agency (EMA) and the FDA, respectively.
- Currently, in addition to the above trials, we are conducting global Phase III clinical trials (QuANTUM-First) to obtain approval for the indication as a first-line treatment of AML.

*10 Orphan Drug designation: A designation, that is granted by the FDA to drugs that can expect an accelerated assessment period because they are a promising treatment for severe disease with high unmet medical needs.

*11 Accelerated Assessment: A designation, that is granted by the EMA to drugs that can expect an accelerated assessment period because they are a promising treatment considered to be of major interest for public health and therapeutic innovation.

*12 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.

<Combination, etc.>

- In December 2018, Daiichi Sankyo initiated global Phase I trials to evaluate the combination of *Quizartinib* and *milademetan*[*13], 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 unfit for intensive chemotherapy.

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

d. Pexidartinib (CSF-1R/KIT/FLT3 Inhibitor）

- *Pexidartinib* was granted Breakthrough Therapy designation by the FDA for the treatment of tenosynovial giant cell tumor (TGCT). Furthermore, it has been granted Orphan Drug designation.
- In October 2017, in Phase III clinical trials for TGCT patients in Europe and the U.S., the primary endpoints were met, and this was presented at the American Society of Clinical Oncology (ASCO) meeting in June 2018. In February 2019, the FDA has accepted the application for approval for marketing based on these results, and granted Priority Review designation for *Pexidartinib*.

e. Axicabtagene ciloleucel (CD19-targeting CAR-T cell)

- In October 2018, *axicabtagene ciloleucel* was granted Orphan Drug designation by the Japan Ministry of Health, Labour and Welfare (MHLW) for the treatment of diffuse large B-cell lymphoma (DLBCL), primary mediastinal (thymus) large B-cell lymphoma (PMBCL), high-grade B-cell lymphoma (HGBL) and transformed follicular lymphoma (TFL), which are aggressive forms of non-Hodgkin lymphoma (NHL).

f. DS-1205 (AXL Inhibitor)

- In October 2018, the Group commenced the Phase I clinical trials in Japan to evaluate the combination of *DS-1205* and *gefitinib*, epidermal growth factor receptor (EGFR) tyrosine kinase inhibitor (TKI) (product name: *IRESSA*) for patients with EGFR-mutated non-small cell lung cancer (NSCLC) whose disease has progressed while taking an EGFR TKI.

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

g. Conclusion of research collaboration agreement with DarwinHealth, Inc. for identifying new cancer targets

- In April 2018, Daiichi Sankyo entered into a research collaboration agreement with DarwinHealth, Inc. in order to identify potential new targets for cancer drug development.
- Under this agreement, both companies will search for, evaluate, and verify potential targets for specific types of cancer using DarwinHealth's bioinformatics technology*[14].

*14 Bioinformatics technology: Technology to efficiently analyze and extract beneficial information that is biologically meaningful, using the computational power of computers on the vast information obtained from living bodies, such as the sequence of genes and the expression information of proteins.

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

- In September 2016, Daiichi Sankyo entered a cross-licensing and collaboration agreement with Zymeworks Inc. of Canada regarding bispecific antibodies*[15]. Under this agreement, Daiichi Sankyo obtained the right to use Zymeworks' proprietary technology platform in the manufacture of one bispecific antibody. At the same time, Daiichi Sankyo gave Zymeworks the right to research, develop and commercialize bispecific antibodies based on the immuno-oncology-related antibodies held by Daiichi Sankyo.
- In May 2018, Daiichi Sankyo entered into an agreement expanding the collaborative research with Zymeworks, and obtained the right to use Zymeworks' technology platform in the manufacture of two more bispecific antibodies.

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

i. Worldwide licensing agreement with Glycotope GmbH for ADC

- In October 2017, Daiichi Sankyo has signed an option agreement with the German company, Glycotope GmbH (Glycotope), for future strategic collaboration and licensing to develop an ADC by combining Daiichi Sankyo's proprietary ADC technology with Glycotope's investigational tumor-associated TA-MUC1 antibody *gatipotuzumab*.
- In July 2018, Daiichi Sankyo exercised the option based on the results of the feasibility study and entered into an exclusive worldwide licensing agreement for the rights to develop and commercialize *gatipotuzumab*.

j. Agreement of collaboration with Roche on the development of HER2 low companion diagnostic test

- In November 2018, Daiichi Sankyo entered into an agreement of collaboration with Roche in Switzerland on the development of a HER2 low companion diagnostic test*[16].

*16 Companion diagnostic test: It is diagnostic test that measures the efficacy and safety of a therapeutic treatment before drugs are administered. It is used to select the most suitable therapeutic treatment. It is also a clinical test that is used when monitoring the therapeutic effects of treatment.

k. Conclusion of collaboration agreement with Sarah Cannon Research Institute for the global development of the oncology field

- In December 2018, Daiichi Sankyo entered into a collaboration agreement with U.S. company Sarah Cannon Research Institute to carry out global clinical trials including Japan for the purpose of accelerating development of drugs in the oncological pipeline, including the ADC franchise held by Daiichi Sankyo.

l. Worldwide exclusive license agreement ("Agreement") with AnHeart Therapeutics Inc. for DS-6051

- In December 2018, Daiichi Sankyo entered into a worldwide exclusive license agreement ("Agreement") with U.S. company AnHeart Therapeutics Inc. for *DS-6051*, Daiichi Sankyo's selective ROS1/NTRK inhibitor.
- Following the conclusion of this agreement, Daiichi Sankyo will work in cooperation with AnHeart Therapeutics Inc. in the Phase I trial in patients with solid tumors harboring either a ROS1 or NTRK fusion gene and neuroendocrine tumors in the U.S. and Japan.

【Areas Other than Oncology】

a. Edoxaban (Anticoagulant)

- *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 more than 30 countries and regions.
- Currently, we are undertaking activities to generate new clinical and real-world data, concerning the use of *Edoxaban* in patients with AF and VTE. The efficacy and safety data in ELIMINATE-AF study for patients with AF undergoing catheter ablation[*17], was presented in a Late Breaking Session of the European Heart Rhythm Association (EHRA) in March 2019.

*17 Catheter ablation: a procedure used to ablate abnormal electrical pathways in the heart tissue by inserting a thin tube (catheter) through the blood vessels to the heart in order to restore normal rhythm of the heart of patients with AF.

b. Esaxerenone (Antihypertensive agent)

- Based on the result of Phase III clinical trials in Japan for patients with essential hypertension, an application was filed in Japan for manufacturing and marketing approval in February 2018.
- In January 2019, manufacturing and marketing approval was received for the treatment of hypertension in Japan.
- The Phase III clinical trials in Japan are underway in patients with diabetic nephropathy.

c. Mirogabalin (Pain agent)

- Based on the results of Phase III clinical trials for patients with diabetic peripheral neuropathic pain and Phase III clinical trials for patients with postherpetic neuralgia, both conducted in Japan and other countries in Asia, an application was filed in Japan for manufacturing and marketing approval in February 2018.
- In January 2019, manufacturing and marketing approval was received for the treatment of peripheral neuropathic pain[*18] in Japan.
- In March 2019, the Group initiated Phase III clinical trials for patients with post-spinal cord injury neuropathic pain in Japan and other countries in Asia.

*18 Peripheral neuropathic pain (PNP): PNP is caused by damage or functional abnormality of peripheral nerves due to various causes. Typical PNPs are diabetic peripheral neuropathic pain and postherpetic neuralgia.

d. DS-5141 (Duchenne muscular dystrophy treatment drug)

- *DS-5141*, whose clinical trials are jointly underway with Orphan Disease Treatment Institute Co., Ltd., has been granted SAKIGAKE Designation by the Japan Ministry of Health, Labour and Welfare (MHLW).
- The top-line results of the Phase I/II clinical trials in Japan were announced in April 2018. In these trials, although we were not able to confirm clear expression of the dystrophin protein during the trial, no safety concerns were observed, and because it was confirmed that messenger RNA was produced by skipping the gene exon 45, we are proceeding with development as quickly as possible.

e. VN-100 (Intradermal seasonal influenza vaccine)

- As a result of having reviewed the influenza vaccine project within the Daiichi Sankyo Group, in October 2018, Daiichi Sankyo decided to discontinue the development of *VN-100* for strategic reasons.

[Major R&D Alliances, etc. in Areas Other than Oncology]

f. Commencement of open innovation research on iPS cell-derived insulin producing cells

- In January 2019, Daiichi Sankyo commenced open innovation research with the aim of creating insulin producing cells from iPS cells for use in regenerative medicine and cell therapy, with Mitsubishi UFJ Capital Co., Ltd. (Mitsubishi UFJ Capital) and National University Corporation Tokyo Institute of Technology.
- To carry out the research, a new company called OiDE RYO-UN, Inc. was established. OiDE RYO-UN, Inc. was wholly funded by the OiDE Fund Investment Limited Partnership, a fund jointly set up by Daiichi Sankyo and Mitsubishi UFJ Capital in 2013.

3) Production and Logistics

- The Group is working on transforming its production platform toward the establishment of an oncology business.
- To accelerate oncology development and launches, the Group is seeking to make capital investments of more than ¥25.0 billion over the five years from fiscal 2018 to fiscal 2022.
  In the current fiscal year, Daiichi Sankyo made capital investments for ADC, including *DS-8201*. Moreover, Daiichi Sankyo has been using overseas CMOs (pharmaceutical contract manufacturing organizations) with its sights set on global expansion of *DS-8201*, in addition working to train oncology and bioscience professionals while also establishing production infrastructure looking toward market launches.
- With regard to the global product *Edoxaban*, preparations have been made for establishing the product supply system to accommodate sales growth in Japan and Europe as well as further approvals and market launches particularly in countries in Asia and South & Central America.
- In Japan, Daiichi Sankyo has set up a production platform for fiscal 2019 market launches of *Mirogabalin* (product name: *Tarlige* tablets) and *Esaxerenone* (product name: *MINNEBRO* tablets).
- In April 2018, as part of a review of the vaccine business, Daiichi Sankyo decided to transfer the manufacturing and production technology functions of Kitasato Daiichi Sankyo Vaccine Co., Ltd. to Daiichi Sankyo Biotech Co., Ltd., a newly established subsidiary specializing in manufacturing, and to transfer the functions other than manufacturing and production technologies (research and development, quality assurance, sales, etc.) to Daiichi Sankyo on April 1, 2019.
- In January 2019, Daiichi Sankyo decided to transfer Takatsuki plant owned by Daiichi Sankyo Propharma Co., Ltd. to Taiyo Holdings Co., Ltd. on October 1, 2019, aiming to achieve transformation to future oriented global supply chain structure.

4) Corporate Social Responsibility (CSR) Activities

- The Daiichi Sankyo Group Corporate Conduct Charter commits the Group to working as a whole with respect to social challenges and business activities in a manner that actively respond to the varied demands of our society.
- The Group has been undertaking initiatives such as those that involve addressing unmet medical needs, providing a stable supply of top-quality pharmaceutical products, and improving access to pharmaceuticals, and seamlessly with our business activities, we have also been engaging in projects addressing challenges posed by the Sustainable Development Goals (SDGs) adopted by the United Nations in September 2015, including goals regarding climate change and human rights. In so doing, the Group has been increasing its corporate value while helping to bring about a sustainable society by fulfilling its responsibilities to society.
- For working on these activities, Daiichi Sankyo seeks to upgrade its stakeholder communications by improving disclosure of information related to environmental, social and governance (ESG) issues.

(2) Analysis of Financial Position as of March 31, 2019

1) Assets, Liabilities and Capital Position

- Total assets as of the fiscal year-end were ¥2,088.1 billion, an increase of ¥190.3 billion from the previous fiscal year-end, mainly due to an increase in trade and other receivables.
- Total liabilities as of the fiscal year-end were ¥838.3 billion, an increase of ¥73.6 billion from the previous fiscal year-end, mainly due to increases in trade and other payables and other non-current liabilities which were partially offset by decreases in income taxes payable and provisions.
- Total equity as of the fiscal year-end was ¥1,249.7 billion, an increase of ¥116.7 billion from the previous fiscal year-end, mainly because of the profit for the year which was partially offset by dividends paid.
- The ratio of equity attributable to owners of the Company to total assets increased by 0.1% from the previous fiscal year-end to 59.8%.

2) Status of Cash Flows

Cash and cash equivalents decreased by ¥114.5 billion during the year ended March 31, 2019 to ¥243.2 billion. The cash flow status and the contributing factors are summarized as follows:

Cash Flows from Operating Activities

- Net cash flows provided by operating activities totaled ¥92 billion (previous year: ¥108.4 billion). Besides profit before tax (¥85.8 billion) and non-cash items such as depreciation and amortization (¥46.2 billion) and impairment loss (¥15.2 billion), this reflected cash outflows from the payments of income taxes.

Cash Flows from Investing Activities

- Net cash flows used in investing activities totaled ¥142.5 billion (previous year: ¥108.6 billion inflow), which reflected spending on payments into time deposits, and acquisitions of property, plant and equipment and intangible assets.

Cash Flows from Financing Activities

- Net cash flows used in financing activities totaled ¥66.2 billion (previous year: ¥101.8 billion), which reflected spending on dividend payments and repayments of borrowings.

(Reference) Cash flow-related indicators

Principal Cash Flow Indicators

	Year ended March 31, 2018	Year ended March 31, 2019
Ratio of equity attributable to owners of the Company to total assets (%)	59.7	59.8
Ratio of equity attributable to owners of the Company to total assets (at market value) (%)	120.3	158.2
Interest-bearing debt to cash flow ratio (years)	2.13	2.02
Interest coverage ratio (times)	65.1	73.5

Ratio of equity attributable to owners of the Company to total assets: equity attributable to owners of the Company /total assets

Ratio of equity attributable to owners of the Company to total assets (at market value): total market capitalization/total assets

Interest-bearing debt to cash flow ratio: interest-bearing debt/cash flows

Interest coverage ratio: cash flows/interest paid

(Notes)

1. All indicators are calculated on a consolidated basis.
2. Total market capitalization is calculated based on the number of outstanding ordinary shares (net of treasury shares).
3. Cash flows equal the amount of net cash provided by operating activities in the consolidated statement of cash flows less the amounts of “interest paid” and “income taxes paid.” Interest paid equals the “interest paid” included in the consolidated statement of cash flows.
4. Interest-bearing debt includes all liabilities reported on the consolidated statement of financial position which are subject to interest payments.

(3) Future Outlook

Consolidated Financial Results

1) Differences between Forecast and Actual Result of Financial Results for Year Ended March 31, 2019 (April 1, 2018 to March 31, 2019)

- The following section describes the differences between the consolidated forecasts for the fiscal year ended March 31, 2019, announced on April 27, 2018, and the actual consolidated results for the fiscal year.

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

	Forecast announced on April 27, 2018 (A)	Result (B)	Amount change (B) - (A)	Percentage change
Revenue	910,000	929,717	19,717	2.2
Operating profit	78,000	83,705	5,705	7.3
Profit before tax	78,000	85,831	7,831	10.0
Profit for the year	55,000	93,422	38,422	69.9
Profit attributable to owners of the Company	55,000	93,409	38,409	69.8

<Reasons for the Differences>

- Revenue increased by ¥19.7 billion higher than the amount forecast due to steady growth in sales of mainstay products in Japan as well as outside Japan.
- Operating profit and Profit before tax increased by ¥5.7 billion and ¥7.8 billion higher than the amount forecast respectively due to research and development expenses lower than amount forecast, in addition to an increase of revenue.
- Profit of the year and Profit attributable to owners of the Company increased by ¥38.4 billion higher than the amount forecast respectively. The future taxable income amount has increased in conjunction with strategic collaboration with AstraZeneca on *DS-8201*. As a result, it has become possible to recognize additional deferred tax assets and realize a substantial decrease in income taxes, etc.,.

2) Forecast of Consolidated Financial Results for Year Ending March 31, 2020

- The following section describes the forecast of consolidated financial results for the year ending March 31, 2020.

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

	Year ended March 31, 2019	Year ending March 31, 2020	Amount change	Percentage change
Revenue	929,717	940,000	10,282	1.1
Operating profit	83,705	100,000	16,294	19.5
Profit before tax	85,831	100,000	14,168	16.5
Profit for the year	93,422	72,000	–21,422	–22.9
Profit attributable to owners of the Company	93,409	72,000	–21,409	–22.9

- Regarding revenue, the Company is expecting a 1.1% increase in revenue year on year, to ¥940.0 billion due to implication of upfront payment in conjunction with strategic collaboration with AstraZeneca on *DS-8201* recognizable as revenue in fiscal 2019.
- Although an increase in expenses is expected due to the future concentrated injection of resources into the oncology business, operating profit is expected to be ¥100.0 billion, a 19.5% increase year on year mainly due to ongoing cost reductions and recording of gain on sales of real estate properties.
- Profit for the year and Profit attributable to owners of the Company are expected to be ¥72.0 billion respectively, which is a 22.9% decrease year on year due to a tentative decrease in income taxes, etc., in conjunction with strategic collaboration with AstraZeneca on *DS-8201* recognizable in the previous fiscal year.
- Forecasts are based on assumption of foreign exchange rates at ¥110 against U.S. dollar and ¥130 against euro.

(4) Basic Policy on Profit Distribution and Dividends for the Years Ended March 2019 and Ending March 2020

- 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

- During the fiscal year under review, Daiichi Sankyo paid an interim dividend of ¥35 per share to shareholders on December 3, 2018. The year-end dividend for the fiscal year ended March 31, 2019 is forecast at ¥35 per share, and, accordingly, the annual dividend for the fiscal year ended March 31, 2019 is forecast at ¥70 per share.
- Daiichi Sankyo intends to pay a dividend of ¥70 per share for the fiscal year ending March 2020.

(5) Prospective Challenges

1) 2025 Vision

The Group has established its 2025 Vision of being a “Global Pharma Innovator with Competitive Advantage in Oncology.”

Specifically, the Group aspires to be a Company having a specialty area business centered on oncology as its core business, having enriched regional value products aligned with each regional market, and having innovative products and pipeline changing the SOC in each market. At the same time, the Company aims to realize high shareholder value through highly efficient management in 2025.

2) 5-Year Business Plan

- The Group has established the fourth medium-term plan as a plan for transformation toward 2025 Vision, and has been working on the establishment of foundations for ensuring sustainable growth centered on six strategic targets.

[Six strategic targets in the fourth medium-term plan]
a. Grow Edoxaban
b. Grow as No. 1 Company in Japan
c. Expand U.S. Businesses
d. Establish Oncology Business
e. Continuously Generate Innovative Medicine Changing SOC
f. Enhance Profit Generation Capabilities

- The following section describes the details of the progress made and issues in the six strategic targets, cash generation and allocation in investment for future growth, and shareholder return policy.

【Six Strategic Targets】

a. Grow Edoxaban

- We are forging ahead with efforts geared to bringing about growth of the anticoagulant *Edoxaban*, which acts as a mainstay product underpinning revenues. It has achieved steadily expanding market share, which is a result of developing it into a top-selling product in Japan drawing on its outstanding product strengths and our high-quality marketing capabilities, and also a result of having completed approvals and market launches in major nations of the European and Asian regions.
- Going forward, we aim to disseminate new clinical and real-world data generated through activities to gain evidences on efficacy and safety concerning the use of *Edoxaban*. We also aim to achieve value maximization of the product by successfully launching it in the Chinese market.

b. Grow as No. 1 Company in Japan

- Japan is an important market for the Daiichi Sankyo Group in terms of its revenue generated on a regional basis. We aim to grow into Japan's No. 1 company in name and substance alike. To such ends, we will leverage the strengths of our innovative pharmaceuticals business[*1], while precisely addressing various social and medical needs such as prevention, self-medication and medical treatment, with the innovative business as well as our vaccines, generics and OTC drug businesses.
- Although our mainstay innovative business has grown steadily, the market environment has become increasingly severe, due to the fundamental reforms in the current NHI drug price system in Japan.
- Going forward, we will leverage our high-quality marketing capabilities and accordingly overcome the severe market environment by developing new products such the pain agent *Tarlige* and the antihypertensive agent *MINNEBRO*, both developed in-house and actively engaging in in-licensing initiatives.

*1 Innovative pharmaceutical products: Ethical drugs protected by the exclusivity period granted by patents.

c. Expand U.S. Businesses

- As the world's largest market for pharmaceuticals, the U.S. market stands as a key market for the Daiichi Sankyo Group, given that we aspire to be a global enterprise. We have been aiming to expand the pain franchise business of Daiichi Sankyo Inc. (DSI), while also expanding business centering on American Regent, Inc. with respect to growth of the *Injectafer* treatment for iron deficiency anemia and the generic injectable franchise.

- Efforts to expand the pain franchise business have come up against hurdles to achieving initial targets due to failures incurred in developing pain treatment medication. On the other hand, we have been achieving steady growth with respect to *Injectafer* treatment for iron deficiency anemia and the generic injectable franchise.
- Going forward, we will swiftly develop a framework for the oncology business, with the aim of launching operations and expanding business by rolling out new products such as the FLT3 inhibitor *Quizartinib* and the CSF-1R/KIT/FLT3 inhibitor *Pexidartinib*.

d. Establish Oncology Business

- We are taking a variety of approaches to establish an oncology business by bringing late-stage products to market, steadily develop products in the early stage of the pipeline, and enrich the product-line and the pipeline through the acquisition of external assets.
- Going forward, in addition to launching the new products of *Quizartinib* and *Pexidartinib*, we will promptly roll out *DS-8201* and promote the establishment of a global business framework. We will also maximize the value of the ADC franchise encompassing *DS-8201*, *U3-1402* and *DS-1062*, by engaging in partnerships and a full range of other initiatives.

e. Continuously Generate Innovative Medicine Changing SOC

- We will make oncology the primary focused area with respect to target disease, while in other fields aiming to generate innovative medicine that changes SOC by drawing on initiatives that involve partnering, open innovation and translational research, with a focus on rare disease and immunodeficiency.
- We have been making steady progress in carrying out research and development of medicines with new modalities, such as oncolytic viruses, nucleic acid drugs and cell therapy.
- Going forward, we will also explore the possibilities of drug discovery extending beyond our own laboratories by collaborating with various organizations, including companies and academia, with our sights set ahead to our 2025 Vision.

f. Enhance Profit Generation Capabilities

- We are working on optimization of our systems for research and development, manufacturing, and sales on a global level and strengthening of procurement functions.
- Going forward, we will further enhance our ability to generate profits by cutting costs and streamlining operations across the entire Group, while also conducting reviews with respect to research and development expenses, cost of sales, and selling, general and administrative expenses.

【Cash Generation and Allocation in Investment for Future Growth】

- During the 5-Year Business Plan, we will prioritize growth investments while enhancing shareholder returns.
- We will generate cash through efforts that involve increasing free cash flow before R&D expenses by enhancing our profit generation capabilities while downsizing assets including cross-held shares and real estate properties.
- We will make best use of our funds available by allocating funds to R&D investments, which we consider to be growth investment, giving priority to oncology while concentrating our business development investments on boosting the oncology businesses.

【Shareholder Return Policy】

- During the 5-Year Business Plan, we will seek a total return ratio[*2] of 100% or more over the period of the plan and annual ordinary dividends of more than ¥70 per share. While continuing stable dividend payments, we will conduct flexible acquisition of our own shares.

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

【Revised Target】

- In October 2018, we revised our initial quantitative targets in order to accelerate growth in the oncology business, amid a scenario of steady progress being achieved in developing new products such as *DS-8201* in oncology.
- We have now set our sights on achieving a fiscal 2025 revenue target of ¥500.0 billion, thereby exceeding the initial target of ¥300.0 billion, which will entail augmenting and concentrating investment in the oncology business.
- We have also set the goal of achieving our initial fiscal 2020 target (revenue of ¥1,100.0 billion, operating profit of ¥165.0 billion, and ROE of 8% or more) by fiscal 2022, thereby extending the timeline by two years.
- With shareholder returns, we will hold to the initial policy of achieving a total return ratio of 100% or more by fiscal 2022.

[Targets for Fiscal 2022]
- Revenue: ¥1,100.0 billion
- Operating profit: ¥165.0 billion
- ROE: 8% or more
- Increase value of late-stage pipeline: Total expected revenue at peak of ¥500.0 billion or more

[Revenue Target of Oncology Business]
- Fiscal 2020: ¥150.0 billion
- Fiscal 2025: ¥500.0 billion

[Shareholder Return Policy]
- Total return ratio: 100% or more during the 7-year period from fiscal 2016 through fiscal 2022

* The above targets do not include the effect of strategic collaboration relating to *DS-8201* with AstraZeneca.

3) DS-8201 Strategic Collaboration

- To maximize the value of *DS-8201*, which was created using Daiichi Sankyo's proprietary ADC technology, Daiichi Sankyo has entered into a global development and commercialization agreement concerning the *DS-8201* with AstraZeneca, a company with a wealth of global experience and resources in oncology, in March 2019.
- Under the terms of the agreement, Daiichi Sankyo will receive an upfront payment of US$1.35 billion. Upon the achievement of all the future regulatory milestones and other contingencies and sales-related milestones, total consideration will reach up to US$6.90 billion.
- Both companies are to share profits and losses worldwide, excluding Japan. Whereas Daiichi Sankyo is to recognize revenue in Japan, the U.S., Europe, and other markets, AstraZeneca is to recognize revenue in China, Australia, Canada, and other markets.

[Collaboration Overview]

- Collaborator: AstraZeneca (Headquarters: Cambridge, UK)
- Details of collaboration: Joint development and commercialization for *DS-8201*
- Development: Jointly develop monotherapy and combination therapy for HER2 expressing cancers including breast cancer, gastric cancer, non-small cell lung cancer and colorectal cancer, and equally share development costs
- Commercialization: [Region excluding Japan] Both companies will jointly commercialize and share profits and losses
  [Japan] Daiichi Sankyo will commercialize on a stand-alone basis and pay royalties to AstraZeneca

  <Revenue booking by region>
  [Daiichi Sankyo] Japan, the U.S., certain countries in Europe, and certain other markets where Daiichi Sankyo has affiliates
  [AstraZeneca] All other markets worldwide, including China, Australia, Canada and Russia
- Manufacturing and supply: Daiichi Sankyo manufactures and supplies *DS-8201*
- Consideration: Up to US$6.9 billion in total
  Upfront payment: US$1.35 billion
  Future regulatory milestones and other contingencies: US$3.8 billion (max)
  Sales-related milestones: US$1.75 billion (max)

- Going forward, we aim to deliver *DS-8201* to more patients earlier by accelerating the development and commercialization of *DS-8201*. Specifically, for the cancer types and indications currently under development, we aim to accelerate market penetration in the U.S. and Europe and realize early launch in markets other than Japan, the U.S. and Europe; while for the cancer types and indications we plan to develop in the future, we aim to fast-track the development plans in order to pursue a further increase in possibilities regarding cancer types and indications.
- Through the strategic collaboration with AstraZeneca, we will accelerate the establishment of in-house oncology business structure in global oncology market.
- Further, we will enrich our pipeline value by allocating research and development expenses and human resources that had been concentrated in *DS-8201* to other ADC projects

(6) Other Information

1) Strategic Targets and Forward-Looking Statements

- Strategic targets, forward-looking statements and other information disclosed in this material are all determined by the Company based on information obtained at the time of disclosure of this material with certain assumptions, premises and future forecasts, and thus, there are various inherent risks as well as uncertainties involved. As such, actual results of the Company may diverge materially from the content of this material.
- Various risks and uncertainties are included in these, such as manufacture and sales of rival products and generic drugs, lawsuits, regulatory trends including laws and regulations and restraint of healthcare expenditures, M&As and other such initiatives, R&D and alliances with other companies, manufacturing and procurement, emergence of side effects, intellectual property, developing business overseas, operations related to occurrence of disasters, environmental problems, financial market and

currency fluctuation, IT security and information management, and maintenance of internal control related to financial reporting.

2. Corporate Governance

(1) Systems and Policies on Corporate Governance

- In addition to creating a management structure that can respond speedily and flexibly to changes in the business environment, the Daiichi Sankyo is working to secure legal compliance and management transparency and to strengthen oversight of management and the conduct of operations. We place great importance on building up a corporate governance structure that is responsive to the trust of our stakeholders, especially our shareholders.

1) Corporate Governance Structure

a. To clarify Members' of the Board management responsibility and reinforce their oversight of management and the conduct of operations, their terms of office are set at one year, and four out of our nine Members of the Board are Members of the Board (Outside).

b. To ensure management transparency, nomination of candidates for Member of the Board and Corporate Officer and compensation thereof are deliberated on by a Nomination Committee and a Compensation Committee, respectively, which are established as voluntary committees. These Committees consist of at least three Members of the Board, of whom Members of the Board (Outside) form a majority, and are chaired by a Member of the Board (Outside). Currently, these Committees consist only of Members of the Board (Outside).

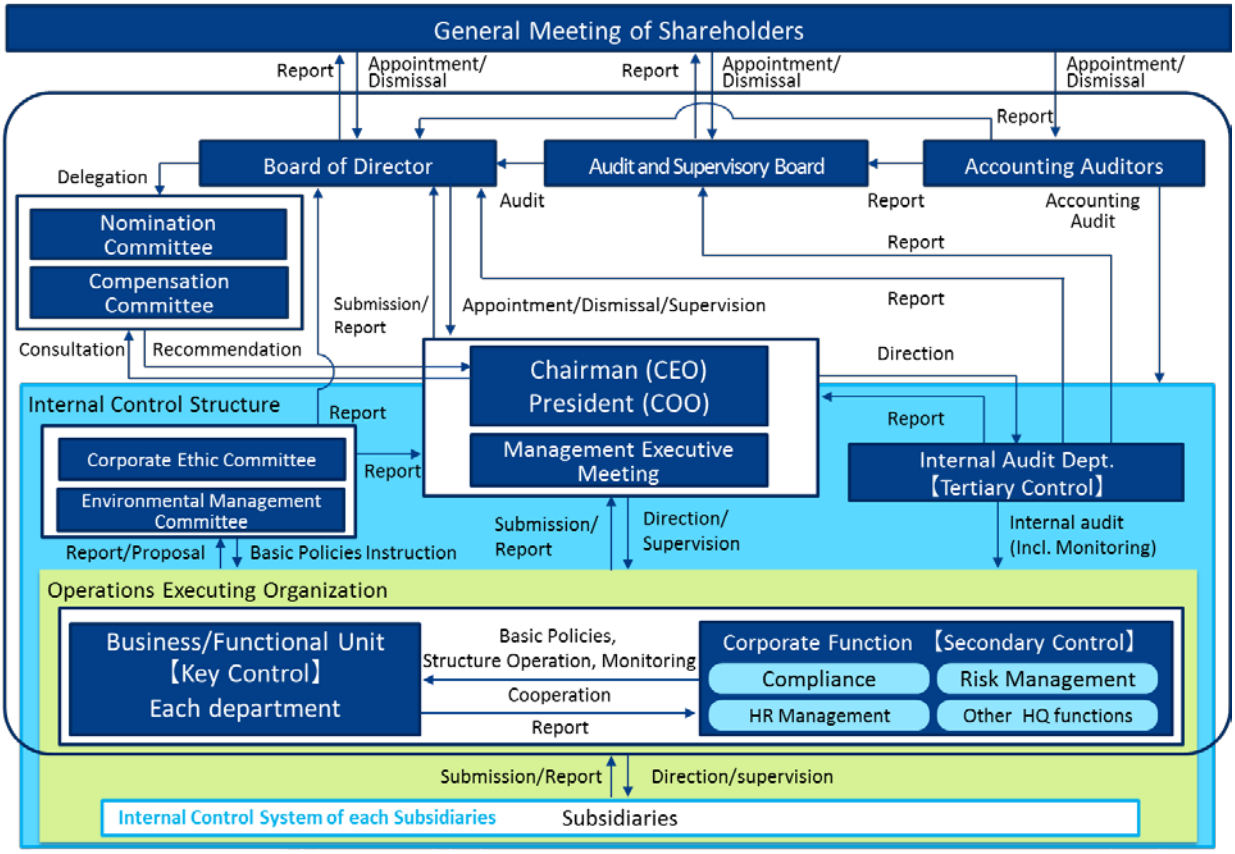
c. For audits of legal compliance and soundness of management, the Company has adopted an Audit& Supervisory Board system and established the Audit & Supervisory Board comprising five Members of the Audit & Supervisory Board, the majority of which are Members of the Audit & Supervisory Board (Outside).

d. The Company prescribes specific criteria on the judgment of independence of Members of the Board (Outside) and Members of the Audit & Supervisory Board (Outside) and basic matters regarding execution of duties by Members of the Board and Members of the Audit & Supervisory Board.

e. The Company employs a Corporate Officer System which contributes to appropriate and swift management decision-making and the conduct of operations.

f. With the aims of ensuring effectiveness and efficiency of operations, ensuring reliability of financial reporting, complying with applicable laws and regulations relevant to business activities, and safeguarding assets, the Company structures its internal control system to consist of self-monitoring carried out by respective organizations which execute its functions (primary controls), policy development and monitoring for respective organizations carried out by the corporate organization (secondary controls), and internal auditing encompassing monitoring carried out by the Internal Audit Department (tertiary controls).

Overview of the Corporate Governance Structure



2) Policies and Procedures for Appointment of Members of the Board and CEO

- The candidates for Members of the Board shall meet the requirement of being personnel of excellent character and insight who contribute to maximizing the corporate value of the Group.
- The candidates for Members of the Board shall meet the requirements of being appropriate candidates with respect to term of office and age, and of being suitably competent of performing timely and accurate judgment, looking at the changes in the business environment while giving importance to the continuance of management policies, etc.
- The candidates for Members of the Board shall meet the requirements that there shall always be Members of the Board (Outside) included to strengthen the decision-making functions based on various perspectives and to strengthen the function of supervising conduct of operations.
- The candidates for Members of the Board (Outside) shall meet the requirements that they are the individuals with expertise, experience and insight in Japan and overseas in fields including corporate management, medical and pharmaceutical sciences, legal and administrative affairs, and finance and accounting.
- When appointing the candidates for Members of the Board, the Board of Directors shall appoint the candidates after they have been sufficiently deliberated by the Nomination Committee, of which Members of the Board (Outside) form a majority.
- The candidates for Members of the Audit & Supervisory Board shall be examined prudently concerning their suitability as Members of the Audit & Supervisory Board, such as whether they can fulfil their duties, ensuring their independence from the representative directors, members of the board, and corporate officers.
- The candidates for Members of the Audit & Supervisory Board (Outside), in addition to meeting the aforementioned requirements, shall be confirmed to have no problems according to specific criteria on the judgment of independence.

- When appointing the candidates for Members of the Audit & Supervisory Board, the Board of Directors shall appoint the candidates after the relevant proposal has been sufficiently verified and agreed to by the Audit & Supervisory Board.
- When appointing the candidates for Members of the Board and Members of the Audit & Supervisory Board, the General Meeting of Shareholders shall appoint the candidates after the relevant proposal.
- Candidates for CEO shall be appointed based on the successor plan and defined eligibility requirements, etc. that have been repeatedly discussed at the Nomination Committee.
- Appointment of CEO (including reelection) shall be determined by resolution of the Board of Directors over a recommendation from the Nomination Committee that the Committee submits after sufficient deliberation.

3) Policies and Procedures for Dismissal of Members of the Board and CEO

- If any Member of the Board is found not meeting eligibility requirements or requirements for execution of duties defined in the Companies Act or the Members of the Board Regulations, following deliberation at the Nomination Committee and the Board of Directors, the General Meeting of Shareholders shall deem that it meets criteria for dismissal of Members of the Board, and resolve dismissal of such Member of the Board after the relevant proposal.
- Dismissal of CEO shall be called into account in light of the Companies Act, defined CEO eligibility requirements or requirements for execution of duties, and determined in the same manner as appointment, by resolution of the Board of Directors over a recommendation from the Nomination Committee that the Committee submits after sufficient deliberation.

4) Policy and Determination Methods on Remuneration Amounts or Related Calculation Methods to Members of the Board and Members of the Audit & Supervisory Board

a. Basic design of remuneration to Members of the Board and Members of the Audit & Supervisory Board

- Remuneration to Members of the Board (excluding Members of the Board (Outside)) is designed to provide remuneration that contributes to maximize corporate value. Specifically, in addition to a basic, fixed remuneration, performance based bonuses serving as short-term incentive and restricted share-based remuneration serving as long-term incentive are adopted as variable remunerations.
- Performance based bonuses serving as short-term incentives are determined by the degree of achievement of a single fiscal year measured by adopting revenue, operating profit margin and profit attributable to owners of the Company as the relevant indices.
- As long-term incentives, the Company grants, every year in principle, restricted stocks with 3-5 years of transfer restriction to the eligible Members of the Board. The objective of the scheme is to provide Member of the Board an incentive to sustainably increase the Company’s corporate value and to further promote shared value between shareholders and them by having the restricted stocks.
- In order to enhance an incentive to further increase the Company’s corporate value, the Company will increase variable remunerations and increasing the ratio of it.
- In order to ensure that Members of the Board (Outside) and Members of the Audit & Supervisory Board adequately perform their role, which is oversight of management, short-term and long-term incentives are not provided and only basic remuneration is granted.
- The level of remunerations is set aiming to provide medium to high level remunerations in the industrial sector, referring to the levels of other companies learned from the surveys of external specialist institutions.

b. Procedures for deciding remuneration of Members of the Board and Members of the Audit & Supervisory Board

- The General Meeting of Shareholders has approved a basic remuneration of Members of the Board at a maximum limit of 450 million yen per fiscal year and a total amount of restricted share-based remuneration to be granted to Members of the Board at a maximum limit of 140 million yen per fiscal year. Performance based bonuses are approved by the General Meeting of Shareholders for the relevant fiscal year.
- The General Meeting of Shareholders has approved a basic, fixed remuneration of Members of the Audit & Supervisory Board, which shall be the only remuneration they receive, at a maximum limit of 120 million yen per fiscal year.
- Establishment of the remuneration system and criteria for Members of the Board and Corporate Officers, examination and review of the remuneration level for each position, confirmation of the results of performance based bonuses, and allotment of restricted stocks have been thoroughly deliberated at the Compensation Committee, in which the majority of members are Members of the Board (Outside).

(2) Basic Policy Regarding Moves toward Large-Scale Acquisition of Company's Stock

- The Company believes that it is the shareholders to decide whether or not to respond to any moves toward large-scale acquisition of Company stock. The Company does not deny the potentially significant impact that transfers of management control may have in terms of stimulating business enterprise. In line with this thinking, the Company has not prepared any specific takeover defenses.
- Nonetheless, the Company would consider it a self-evident duty of the Company management to oppose any takeover plans whose aims were generally considered inappropriate (such as schemes to ramp up the share price) or that would otherwise be deemed detrimental to the value of the Company or the mutual interests of shareholders. Accordingly, the Company will continue monitoring closely share transactions and changes in shareholders. In the event any moves toward large-scale acquisition of Company stock are noticed, the Company would evaluate any takeover proposal with outside experts and determine carefully the impact of such on the value of the Company and the mutual interests of shareholders. If any proposal were deemed detrimental to such interests, the Company would institute appropriate anti-takeover measures in response to individual cases.

3. Rationale for the Selection of Accounting Standards

The Group have adopted International Financial Reporting Standards as issued by the International Accounting Standards Board ("IFRS") starting in the fiscal year ended March 31, 2014. Having considered what accounting and financial reporting standards would be best to contribute to growth in corporate value through a concerted global business development program, Daiichi Sankyo made this move (1) to improve the international comparability of the Group's financial statements with global capital markets, (2) to unify the accounting treatments applied across the Group, and (3) to contribute to diversification of the Group's methods of fund procurement in global markets.

4. Consolidated Financial Statements with Primary Notes

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
ASSETS		
Current assets		
Cash and cash equivalents	357,702	243,155
Trade and other receivables	231,529	419,609
Other financial assets	429,380	536,880
Inventories	172,586	176,067
Other current assets	10,347	15,471
Subtotal	1,201,545	1,391,183
Assets held for sale	–	2,000
Total current assets	1,201,545	1,393,184
Non-current assets		
Property, plant and equipment	217,946	229,085
Goodwill	75,479	77,851
Intangible assets	173,537	169,472
Investments accounted for using the equity method	1,693	2,200
Other financial assets	179,177	114,895
Deferred tax assets	40,339	94,809
Other non-current assets	8,035	6,551
Total non-current assets	696,209	694,866
Total assets	1,897,754	2,088,051

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	226,164	312,660
Bonds and borrowings	20,000	40,000
Other financial liabilities	516	530
Income taxes payable	64,609	10,451
Provisions	34,015	7,837
Other current liabilities	7,800	12,715
Subtotal	353,105	384,195
Liabilities directly associated with assets held for sale	–	349
Total current liabilities	353,105	384,544
Non-current liabilities		
Bonds and borrowings	260,564	220,585
Other financial liabilities	8,155	5,680
Post-employment benefit liabilities	10,547	10,384
Provisions	48,752	4,985
Deferred tax liabilities	18,676	17,166
Other non-current liabilities	64,911	195,000
Total non-current liabilities	411,608	453,802
Total liabilities	764,713	838,346
Equity		
Equity attributable to owners of the Company		
Share capital	50,000	50,000
Capital surplus	94,633	94,633
Treasury shares	(163,531)	(162,964)
Other components of equity	120,504	115,166
Retained earnings	1,031,376	1,152,806
Total equity attributable to owners of the Company	1,132,982	1,249,642
Non-controlling interests		
Non-controlling interests	58	62
Total equity	1,133,041	1,249,705
Total liabilities and equity	1,897,754	2,088,051

(2) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Consolidated Statement of Profit or Loss

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Revenue	960,195	929,717
Cost of sales	346,021	364,605
Gross profit	614,173	565,112
Selling, general and administrative expenses	301,845	277,695
Research and development expenses	236,046	203,711
Operating profit	76,282	83,705
Financial income	8,642	8,141
Financial expenses	4,223	5,910
Share of profit (loss) of investments accounted for using the equity method	320	(105)
Profit before tax	81,021	85,831
Income taxes	21,210	(7,591)
Profit for the year	59,811	93,422
Profit attributable to:		
Owners of the Company	60,282	93,409
Non-controlling interests	(471)	12
Profit for the year	59,811	93,422
Earnings per share		
Basic earnings per share (Yen)	91.31	144.20
Diluted earnings per share (Yen)	91.10	143.88

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Profit for the year	59,811	93,422
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	10,688	60,976
Remeasurements of defined benefit plans	1,616	205
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(10,229)	9,289
Share of other comprehensive income of investments accounted for using the equity method	3	–
Other comprehensive income (loss) for the year	2,078	70,471
Total comprehensive income for the year	61,890	163,893
Total comprehensive income attributable to:		
Owners of the Company	62,361	163,881
Non-controlling interests	(471)	12
Total comprehensive income for the year	61,890	163,893

(3) Consolidated Statement of Changes in Equity

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

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

Year ended March 31, 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, 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 year	–	–	–	–	–	–
Other comprehensive income (loss) for the year	–	–	–	–	9,289	60,976
Total comprehensive income (loss) for the year	–	–	–	–	9,289	60,976
Purchase of treasury shares	–	–	(45)	–	–	–
Cancellation of treasury shares	–	–	612	(187)	–	–
Dividends	–	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	(75,415)
Others	–	–	–	–	–	–
Total transactions with owners of the Company	–	–	567	(187)	–	(75,415)
Balance as of March 31, 2019	50,000	94,633	(162,964)	1,805	66,628	46,732

(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 year	–	–	93,409	93,409	12	93,422
Other comprehensive income (loss) for the year	205	70,471	–	70,471	–	70,471
Total comprehensive income (loss) for the year	205	70,471	93,409	163,881	12	163,893
Purchase of treasury shares	–	–	–	(45)	–	(45)
Cancellation of treasury shares	–	(187)	(115)	310	–	310
Dividends	–	–	(45,340)	(45,340)	–	(45,340)
Transfer from other components of equity to retained earnings	(205)	(75,621)	74,006	(1,615)	–	(1,615)
Others	–	–	–	–	(8)	(8)
Total transactions with owners of the Company	(205)	(75,808)	28,550	(46,691)	(8)	(46,699)
Balance as of March 31, 2019	–	115,166	1,152,806	1,249,642	62	1,249,705

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from operating activities		
Profit before tax	81,021	85,831
Depreciation and amortization	46,680	46,169
Impairment loss	36,672	15,194
Financial income	(8,642)	(8,141)
Financial expenses	4,223	5,910
Share of (profit) loss of investments accounted for using the equity method	(320)	105
(Gain) loss on sale and disposal of non-current assets	(5,125)	(7,562)
(Increase) decrease in trade and other receivables	2,535	(187,792)
(Increase) decrease in inventories	(19,394)	(4,018)
Increase (decrease) in trade and other payables	238	60,419
Others, net	(9,755)	118,395
Subtotal	128,134	124,510
Interest and dividends received	4,516	5,437
Interest paid	(2,038)	(1,768)
Income taxes paid	(22,173)	(36,146)
Net cash flows from (used in) operating activities	108,439	92,033
Cash flows from investing activities		
Payments into time deposits	(388,376)	(452,338)
Proceeds from maturities of time deposits	488,576	378,448
Acquisition of securities	(128,492)	(149,672)
Proceeds from sale of securities	165,458	136,858
Acquisition of property, plant and equipment	(23,399)	(36,108)
Proceeds from sale of property, plant and equipment	139	1,901
Acquisition of intangible assets	(14,609)	(30,505)
Proceeds from sale of subsidiary	–	752
Payments for loans receivable	(982)	(548)
Proceeds from collection of loans receivable	753	839
Others, net	9,501	7,852
Net cash flows from (used in) investing activities	108,568	(142,520)

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from financing activities		
Repayments of bonds and borrowings	–	(20,000)
Purchase of treasury shares	(50,085)	(45)
Proceeds from sale of treasury shares	1	0
Dividends paid	(46,420)	(45,339)
Others, net	(5,262)	(819)
Net cash flows from (used in) financing activities	(101,766)	(66,203)
Net increase (decrease) in cash and cash equivalents	115,241	(116,689)
Cash and cash equivalents at the beginning of the year	246,050	357,702
Effect of exchange rate changes on cash and cash equivalents	(3,590)	2,143
Cash and cash equivalents at the end of the year	357,702	243,155

(5) Notes to Consolidated Financial Statements

Going Concern Assumption

Not applicable.

Changes in Accounting Policies

The significant accounting policies adopted in preparing the consolidated financial statements of the Group have not changed from the prior year except for the adoption of the following new and amended accounting standards and interpretation. In the year ended March 31, 2019, the Group adopted the following accounting standards and interpretation in accordance with their effective date.

IFRS		Overview
IFRS 2	Share-based Payment	Amendment to classification and measurement of share based payments
IFRS 9	Financial Instruments	Amendment to rules for general hedge accounting Limited amendment to classification and measurement of financial assets and implementation of expected loss model
IFRS 15	Revenue from Contracts with Customers	Amendment to accounting for revenue
IAS 40	Investment Property	Amendment to clarify the rules for transfers of investment property
IFRIC 22	Foreign Currency Transactions and Advance Consideration	Amendment to the exchange rate to be used on initial recognition of a related asset, expense or income when an entity has received or paid advance consideration in a foreign currency

The Group applied IFRS 15 retrospectively in accordance with the transition method and recognized the cumulative effect from initial application as an adjustment to the opening balance of retained earnings for the year ended March 31, 2019, and did not restate the consolidated financial statements for the year ended March 31, 2018.
With the adoption of IFRS 15, from the year ended March 31, 2019, revenue from a contract with a customer is recognized by applying the following five steps.
Step 1: Identify the contract with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to the performance obligations in the contract
Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

1) Sales of finished goods and merchandise
Revenue from sale of finished goods and merchandise is recognized when the performance obligation is satisfied, considering the following indicators:
-the Group has a present right to payment for the asset;
-the customer has legal title to the asset;
-the Group has transferred physical possession of the asset; and
-the customer has accepted the asset.
Revenue is measured at the amount after deducting the impact of trade discounts, cash discounts, rebates and returns from the consideration promised in the contract.

2) License fee revenue
Revenue arising from license agreements is recognized at a point in time or over time depending on the content of performance obligation(s).

Based on the above five-step model, as a result of reconsidering the timing of revenue recognition in light of the satisfaction of performance obligation, in some contracts, license fees which were already recognized as revenue based on the former accounting standard are accounted for as contract liabilities and related license fees are recognized over a period in accordance with the method of measuring of progress pertaining to

satisfaction of performance obligations determined by each contract based on IFRS 15.

In addition, with the adoption of IFRS 15, from the year ended March 31, 2019, provisions for sales returns, rebates and deductions which were previously presented as “Provisions” (current), have been reclassified to refund liabilities, which are included in “Trade and other payables”.
As a result, the opening balance of “Deferred tax assets”, “Trade and other payables”, and “Other non-current liabilities” increased by 233 million yen, 22,637 million yen and 557 million yen, respectively, and “Provisions” (current) and “Retained earnings” decreased by 22,431 million yen and 530 million yen, respectively, as compared to the balances which would be reported if the previous accounting standard was applied.
Also, “Deferred tax assets”, “Trade and other payables”, and “Other non-current liabilities” increased by 170 million yen, 21,961 million yen and 351 million yen, respectively, and “Provisions” (current) and “Retained earnings” decreased by 21,755 million yen and 387 million yen, respectively, as of March 31, 2019, as compared to the balances which would be reported if the previous accounting standard was applied.

Except for the above, the new and amended accounting standards and interpretation did not have a material impact on the consolidated financial statements.

Operating Segment Information

1) Reportable Segments
Disclosure is omitted as the Group has a single segment, “Pharmaceutical Operation”.

2) Information about products and services
Sales by products and services were as follows:

(Millions of yen)

	Year ended March 31, 2018		Year ended March 31, 2019		Increase / (decrease)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Prescription drugs	884,907	92.2	861,116	92.6	(23,791)	-2.7
Healthcare (OTC) products	72,943	7.6	66,377	7.1	(6,566)	-9.0
Others	2,344	0.2	2,223	0.3	(120)	-5.1
Total	960,195	100.0	929,717	100.0	(30,478)	-3.2

3) Information by geographical area

Revenue and non-current assets by geographical area were as follows:

a. Revenue

(Millions of yen)

	Japan	North America	Europe	Other regions	Consolidated
Year ended March 31, 2018	618,308	185,751	79,566	76,568	960,195
Year ended March 31, 2019	595,901	160,220	89,759	83,835	929,717

(Notes) Revenue is classified according to the geographical location of customers.

b. Non-current assets

(Millions of yen)

	Japan	North America	Europe	Other regions	Consolidated
As of March 31, 2018	265,787	174,969	17,806	8,400	466,963
As of March 31, 2019	270,072	165,077	33,520	7,738	476,409

(Notes) Non-current assets are primarily presented based on the geographical location of assets, and are comprised of property, plant and equipment, goodwill and intangible assets.

4) Information on major customers

Customers for which sales were over 10% of total revenue in the Consolidated Statement of Profit or Loss are as follows:

(Millions of yen)

Name of customer	Year ended March 31, 2018	Year ended March 31, 2019
Alfresa Holdings Corporation and its group companies	199,809	195,578
Suzuken Co., Ltd. and its group companies	98,603	93,697

Earnings per Share

1) Basis for calculation of basic earnings per share

	Year ended March 31, 2018	Year ended March 31, 2019
a. Profit Attributable to owners of the Company		
Profit attributable to owners of the Company (Millions of yen)	60,282	93,409
Profit not attributable to owners of the Company (Millions of yen)	–	–
Profit used to calculate basic earnings per share (Millions of yen)	60,282	93,409
b. Weighted-average Number of Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	660,161	647,785
c. Basic Earnings per Share		
Basic earnings per share (Yen)	91.31	144.20

2) Diluted Earnings per Share

	Year ended March 31, 2018	Year ended March 31, 2019
a. Diluted Profit Attributable to owners of the Company		
Profit used to calculate basic earnings per share (Millions of yen)	60,282	93,409
Adjustment to profit (Millions of yen)	–	–
Profit used to calculate diluted earnings per share (Millions of yen)	60,282	93,409
b. Weighted-average Number of Diluted Ordinary Shares		
Weighted-average number of ordinary shares (basic) (Thousands of shares)	660,161	647,785
Potential effect of issue of subscription rights (Thousands of shares)	1,550	1,443
Weighted-average number of ordinary shares (diluted) (Thousands of shares)	661,712	649,228
c. Diluted Earnings per Share		
Diluted earnings per share (Yen)	91.10	143.88

Subsequent Events

The Company transferred and leased back its own fixed assets on April 25, 2019 for reduction and optimization of the Group’s total assets. The overview of the transaction is as follows;

- Name of the assets: Daiichi Sankyo Nihonbashi Building
- Address of the assets: 3-14-2, Nihonbashi, Chuo-ku, Tokyo
- Type of assets: Land and building
- Current use of the assets: facilities for administration
- Execution date of the transfer agreement: March 29, 2019
- Execution date of the lease agreement: April 25, 2019
- Date of the transfer: April 25, 2019
- Gain from the transfer: Approximately 10.6 billion yen*

* The amount of gain is approximate after deduction of costs relating to the transfer and will be recorded in the first quarter for the year ending March 31, 2020.

Due to the arrangement between the Company and the transferee, the name of the transferee, the transfer price and the book value of the assets shall not be disclosed. There are no capital, personal or business relationships to be disclosed between the Group and the transferee and, and the transferee is not a related party of the Group.