Operations and Financial Position

Summary of Financial Results in Fiscal 2015

- Revenue up ¥67.1 billion, to ¥ **986.4** billion (**7.3**% ↗up)
- Operating profit up ¥56.0 billion, to ¥**130.4** billion (**75.2**% ↗up)
- Profit before tax up ¥42.5 billion, to ¥**122.4** billion (**53.1**% ↗up)
- Profit from continuing operations up ¥36.8 billion, to ¥ **80.4** billion (**84.5**% ↗up)
- Profit attributable to owners of the Company down ¥239.8 billion, to ¥ **82.3** billion (**74.5**% ↘down)

Consolidated Financial Results for Fiscal 2015

Revenue

Group revenue in fiscal 2015 increased ¥67.1 billion, or 7.3% year on year, to ¥986.4 billion.

The increase in revenue was mainly due to growth in sales of mainstay products in Japan, the United States, and Asia, combined with the positive impact of foreign exchange rate movements, which boosted revenue by approximately ¥12.9 billion.

Operating Profit

Operating profit increased ¥56.0 billion, or 75.2% year on year, to ¥130.4 billion.

Operating profit increased largely due to higher gross profit combined with lower selling, general and administrative expenses despite a rise in research and development expenses.

Profit before Tax

Profit before tax increased ¥42.5 billion, or 53.1% year on year, to ¥122.4 billion.

The increase in profit before tax was not as substantial as the increase in operating profit due to foreign exchange rate movements coupled with a rise in financial expenses related to payments regarding the sale of Sun Pharmaceutical Industries Ltd.'s shares.

Profit from Continuing Operations

Profit from continuing operations increased ¥36.8 billion, or 84.5% year on year, to ¥80.4 billion.

Profit Attributable to Owners of the Company

Profit attributable to owners of the Company declined ¥239.8 billion, or 74.5% year on year, to ¥82.3 billion.

Profit attributable to owners of the Company declined substantially because the gain from merger of a subsidiary of ¥278.7 billion (after tax effect) resulting from Ranbaxy Laboratories Ltd.'s merger with Sun Pharmaceutical Industries Ltd. was included in fiscal 2014.

Consolidated financial results

(Billions of yen)

	FY2014	FY2015	YoY change
Revenue	919.4	986.4	67.1 7.3%
Operating profit	74.4	130.4	56.0 75.2%
Profit before tax	79.9	122.4	42.5 53.1%
Profit from continuing operations	43.6	80.4	36.8 84.5%
Profit (loss) from discontinued operations	275.4	—	(275.4) —
Profit attributable to owners of the Company	322.1	82.3	(239.8) (74.5%)

Note: During fiscal 2014, following the fact that Ranbaxy Laboratories Ltd. ("Ranbaxy") was merged into Sun Pharmaceutical Industries Ltd. ("Sun Pharma"), the Ranbaxy Group was excluded from the cope of consolidation. In fiscal 2014, the Ranbaxy Group was classified as a discontinued operation. Consequently, for the amounts of revenue, operating profit and profit before tax, only the figures for continuing operations excluding the Ranbaxy Group are presented.

Revenue from global mainstay products

(Billions of yen)

Product name		FY2014	FY2015	YoY change
Olmesartan	Antihypertensive agent	293.5	284.1	(9.4) (3.2%)
Prasugrel	Antiplatelet agent	24.9	32.2	7.3 29.4%
Edoxaban	Anticoagulant	4.3	15.0	10.7 251.1%

Research and development expenses

(Billions of yen)

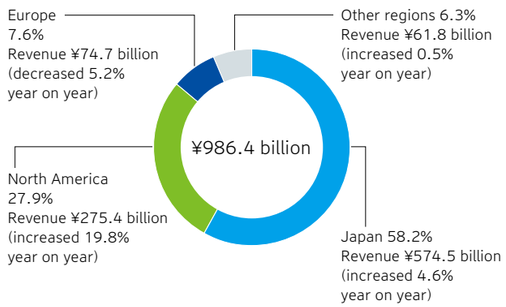
	FY2014	FY2015
Research and development expenses	190.7	208.7
Ratio of research and development expenses to revenue	20.7%	21.2%

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

(Yen)

	FY2014	FY2015
USD / JPY	109.94	120.14
EUR / JPY	138.78	132.57

Revenue by Geographic Area



Reports by Segment

Japan

Revenue: ¥574.5 billion (increased 4.6% year on year);
Revenue Composition Ratio: 58.2%

Revenue in Japan increased 4.6% year on year, to ¥574.5 billion.

Revenue from prescription drugs in Japan increased 4.6% year on year, to ¥499.1 billion. This increase was attributable to factors including growth in sales of products such as *NEXIUM*, *Memary*, *TENELIA*, *LIXIANA*, *PRALIA*, *RANMARK*, and *Efient*, which offset the impact of a rise in prescriptions of generic drugs. This segment also includes revenue generated by Daiichi Sankyo Espha Co., Ltd., which engages mainly in the generic business, and revenue generated from the vaccine business of Kitasato Daiichi Sankyo Vaccine Co., Ltd., and Japan Vaccine Co., Ltd. In addition, *Olmetec orally disintegrating (OD) tablets* and *Squarekids*, a tetravalent combination vaccine (DPT-IPV) for the prevention of diphtheria, pertussis, tetanus, and poliomyelitis, were launched in December 2015.

Revenue from royalty and exports, which centered on exports of the active pharmaceutical ingredients of *levofloxacin*, a synthetic antibacterial agent, decreased 13.1% year on year, to ¥18.7 billion.

Revenue from the OTC related business of Daiichi Sankyo Healthcare Co., Ltd., increased 11.6% year on year, to ¥53.4 billion. In November 2015, Daiichi Sankyo Healthcare Co., Ltd. acquired all of the shares of Im Co., Ltd., in order to reinforce foundations for the direct marketing business in the skincare field.

Primary revenue composition in Japan

(Billions of yen)

Category	FY2014	FY2015	YoY change
Prescription drugs	477.0	499.1	22.1 4.6%
Royalty and exports	21.5	18.7	(2.8) (13.1%)
Healthcare (OTC) products	47.8	53.4	5.5 11.6%

Domestic revenue from mainstay prescription drugs

(Billions of yen)

Product name		FY2014	FY2015	YoY change
NEXIUM	Ulcer treatment	69.3	82.4	13.1 18.8%
Olmetec	Antihypertensive agent	76.3	73.9	(2.5) (3.2%)
Loxonin	Anti-inflammatory analgesic [of which *Loxonin Tape*]	49.5 [31.1]	48.1 [31.8]	(1.4) (2.8%)
Memary	Alzheimer's disease treatment	36.8	42.4	5.6 15.3%
Cravit	Synthetic antibacterial agent	27.8	18.4	(9.5) (34.0%)
Rezaltas	Antihypertensive agent	18.4	18.2	(0.2) (1.3%)
Omnipaque	Contrast medium	17.2	16.9	(0.3) (1.9%)
TENELIA	Type 2 diabetes mellitus inhibitor	7.6	16.5	9.0 118.9%
Artist	Treatment for hypertension, angina pectoris and chronic heart failure	18.1	15.1	(3.0) (16.8%)
Inavir	Anti-influenza treatment	16.6	14.0	(2.6) (15.4%)
Mevalotin	Antihyperlipidemic agent	16.2	13.4	(2.7) (16.9%)
LIXIANA	Anticoagulant	3.6	13.0	9.4 262.6%
PRALIA	Treatment for osteoporosis	7.3	12.5	5.1 70.1%
RANMARK	Treatment for bone complications caused by bone metastases from tumors	10.2	12.4	2.2 22.0%
Urief	Treatment for dysuria	11.5	11.8	0.3 2.8%
Efient	Antiplatelet agent	0.7	4.9	4.2 613.5%

North America

Revenue: ¥275.4 billion (increased 19.8% year on year);
Revenue Composition Ratio: 27.9%

Revenue in North America increased 19.8% year on year, to ¥275.4 billion. Revenue in local currency terms rose by 9.6%, to US$2,292 million.

At Daiichi Sankyo, Inc. (DSI), overall sales increased thanks to contributions from higher sales of *TRIBENZOR*, *Effient*, and *MOVANTIK*, for which co-promotion started in April 2015 despite a decline in sales of *Benicar* and *Benicar HCT*, *AZOR*, *Welchol*, and *SAVAYSA*.

At Luitpold Pharmaceuticals, Inc., sales of *Injectafer* contributed significantly to the increase in revenue, though performance of *Venofer*. remained unchanged.

In addition, DSI decided to reorganize its commercial structure to prepare for the launch of new products in the U.S. market in highly specialized areas including the pain, oncology, and cardiovascular-metabolic fields. As part of its aim of transitioning to a more efficient and flexible organization, DSI reduced its workforce by around 1,000 people.

Revenue of Daiichi Sankyo, Inc.'s mainstay products

(Millions of US$)

Product name		FY2014	FY2015	YoY change
Benicar / Benicar HCT	Antihypertensive agent	700	661	(39) (5.6%)
AZOR	Antihypertensive agent	166	164	(2) (1.1%)
TRIBENZOR	Antihypertensive agent	103	103	1 0.5%
Welchol	Hypercholesterolemia treatment / type 2 diabetes mellitus inhibitor	431	403	(29) (6.6%)
Effient	Antiplatelet agent (co-promotion revenue)	160	173	13 8.0%
SAVAYSA	Anticoagulant	6	4	(3) (41.1%)
MOVANTIK	Opioid-induced constipation treatment (co-promotion revenue)	—	17	17 —%

Revenue of Luitpold Pharmaceuticals, Inc.'s mainstay products

(Millions of US$)

Product name		FY2014	FY2015	YoY change
Venofer	Treatment for iron deficiency anemia	260	260	(0) (0.1%)
Injectafer	Treatment for iron deficiency anemia	69	155	86 123.2%

Europe

Revenue: ¥74.7 billion (decreased 5.2% year on year);
Revenue Composition Ratio: 7.6%

Revenue in Europe decreased 5.2% year on year, to ¥74.7 billion. Revenue in local currency terms declined 0.7%, to €564 million.

Although sales of *Sevikar HCT*, *Efient*, and *LIXIANA* (launched in fiscal 2015) rose, this increase was offset by lower sales of *Olmetec* and *Olmetec Plus* as well as *Sevikar*.

Revenue of Daiichi Sankyo Europe GmbH's mainstay products

(Millions of euro)

Product name		FY2014	FY2015	YoY change
Olmetec / Olmetec Plus	Antihypertensive agent	272	248	(24) (9.0%)
Sevikar	Antihypertensive agent	127	124	(2) (1.9%)
Sevikar HCT	Antihypertensive agent	71	73	1 1.9%
Efient	Antiplatelet agent (co-promotion revenue)	34	41	6 18.3%
LIXIANA	Anticoagulant agent	—	12	12 —%

Other regions

Revenue: ¥61.8 billion (increased 0.5% year on year);
Revenue Composition Ratio: 6.3%

In other regions, revenue rose 0.5% year on year, to ¥61.8 billion.

Sales of mainstay products grew in China, South Korea, and other countries.

Revenue in Venezuela decreased ¥7.9 billion year on year, to ¥0.2 billion, due to changes in the exchange rates for Venezuela's currency (Venezuelan bolivar), which resulted from the deterioration of economic conditions in this country.

Financial Results Forecasts for Fiscal 2016

Revenue in fiscal 2016 is expected to decrease 6.7% year on year, to ¥920.0 billion, partially because of the loss of patent protection for *olmesartan*, which will occur first in the United States, as well as the adverse effects of the NHI price revisions in Japan and unfavorable foreign exchange influences. This decrease will occur despite Daiichi Sankyo's efforts focusing on increasing sales of *edoxaban*, expanding sales of mainstay products in Japan, and growing sales of *Injectafer* by U.S.-based Luitpold Pharmaceuticals.

In addition, Daiichi Sankyo expects to secure operating profit of ¥100.0 billion, a decrease of 23.3% from fiscal 2015. Operating profit will be affected by one-time expenses of approximately ¥20.0 billion associated with restructuring costs to be carried out in fiscal 2016.

Profit attributable to owners of the Company is expected to be ¥65.0 billion, down 21.0% year on year.

Forecasts are based on an assumption of foreign exchange rates at ¥110 to the U.S. dollar and ¥125 to the euro.

Daiichi Sankyo Group

(Billions of yen)

	FY2015	FY2016	YoY change
Revenue	986.4	920.0	(66.4) (6.7%)
Cost of sales*	318.6	320.0	1.4
Selling, general and administrative expenses*	328.8	310.0	(18.8)
Research and development expenses*	208.7	190.0	(18.7)
Operating profit	130.4	100.0	(30.4) (23.3%)
Profit before tax	122.4	100.0	(22.4) (18.3%)
Profit attributable to owners of the Company	82.3	65.0	(17.3) (21.0%)

* These expenses in fiscal 2016 include one-time expenses of approximately ¥20.0 billion associated with restructuring costs.

		FY2015	FY2016
Foreign exchange rates	USD / JPY	120.14	110
	EUR / JPY	132.57	125

Shareholder Returns

In order to achieve sustainable growth in corporate value, the basic policy of management is to decide profit distributions based on a comprehensive consideration of the investments essential for implementing the growth strategy and profit returns to shareholders.

Under this basic policy, Daiichi Sankyo acquired approximately 20,650 thousand of its own shares for approximately ¥50.0 billion on the open market over the period from May to August 2015.

Daiichi Sankyo celebrated its 10th founding anniversary on September 28, 2015. To commemorate this event, the Company paid a commemorative dividend of ¥10 per share, in addition to the ordinary dividend of ¥30 to all shareholders as of September 30, 2015. Accordingly, annual dividends in fiscal 2015 amounted to ¥70 per share (regular dividend of ¥60 + commemorative dividend of ¥10 per share).

The 5-year business plan, which was announced in March 2016, sets forth a shareholder return policy that calls for a total return ratio of 100% or more for the duration of the plan (total return ratio = (dividends + total acquisition costs of own shares) / profit attributable to owners of the Company). On the basis of this policy, Daiichi Sankyo intends to pay a regular dividend of ¥70 per share for fiscal 2016, a ¥10 per share increase from fiscal 2015. In addition, over the period from June 21 to October 28, 2016, the Company will acquire its own shares from the open market. The upper limit for this acquisition will be ¥50.0 billion (28 million shares).

Shareholder returns

		FY2015	FY2016
Annual dividends per share (yen)	Ordinary dividend	60	70 (plan)
	Commemorative dividend	10	—
Acquisition of treasury shares (billion yen)		50.0 (Implemented from May through August)	50.0 limit (Implementing from June through October)

Business Risks

The following section provides an overview of the principal risks that could negatively affect the business results and financial condition of the Group. Any forward-looking statements or projections contained in this overview represent the best judgment of management based on information available as of March 31, 2016. Actual results may differ from the forecasts due to a range of factors.

1) Risks Related to Dependence on Specific Products

In fiscal 2015, sales of *olmesartan* accounted for 28.8% of consolidated revenue. A decrease in revenue resulting from expiration of the patent protection with respect to *olmesartan* or other factors could adversely affect Daiichi Sankyo's business results and financial position (the patent protection remains in effect until October 2016 in the United States, and until February 2017 in Japan and Europe).

2) Litigation-Related Risks

Besides potential fair transaction issues, the Group could face litigation of various forms concerning its business activities, including without limitation lawsuits related to drug side effects, product liability, or labor disputes. Any such litigation could have an adverse effect on the Group's business results and financial position.

Multiple lawsuits have been filed against Daiichi Sankyo Company, Limited; Daiichi Sankyo, Inc. (DSI); and Daiichi Sankyo U.S. Holdings, Inc., as well as Forest Laboratories, LLC (head office: New York, United States), and the subsidiaries and affiliates thereof in U.S. federal and state courts by claimants alleging to have experienced sprue-like enteropathy (primary symptoms include severe diarrhea) and other complications as a result of taking pharmaceuticals containing *olmesartan medoxomil* (sold under *Benicar* or other brand names in the United States). Although the Company and the Company's consolidated subsidiaries could incur damages as a result of the above-mentioned litigation, it would be difficult or impossible at present to reasonably estimate the monetary amount of any such damages.

3) Risks Related to Laws, Regulations, and Regulatory Trends to Limit Healthcare Expenditures

Prescription drugs in Japan are subject to a variety of laws, regulations, and ordinances. Any regulatory changes or associated trends related to the medical treatment system and national health insurance (NHI)—most notably NHI price revisions—could have a negative impact on the Group's earnings and financial position. Similarly, sales of prescription drugs in overseas markets are also subject to various legal and regulatory constraints; the Group's performance in these markets could be adversely affected by regulatory trends.

Following an investigation by the U.S. Department of Justice into the Physician Opinion & Discussion programs

related to the mainstay products, DSI concluded a legal settlement with the Department of Justice and other government agencies. Under the settlement, DSI agreed in fiscal 2014 to pay approximately US$39 million, while also entering into a Corporate Integrity Agreement with the Office of Inspector General of the U.S. Department of Health and Human Services.

The Daiichi Sankyo Group is making concerted efforts to ensure even greater thoroughness with respect to compliance with the laws and regulations of various countries around the world.

4) Risks Related to Corporate Acquisitions and Other Such Initiatives

Daiichi Sankyo engages in corporate acquisitions, capital alliances, and other such initiatives as part of its efforts to develop R&D and other operational areas. When acquiring a corporation or taking other such action, Daiichi Sankyo's efforts involve conducting due diligence in relation to the entity being considered for acquisition or the potential alliance counterparty and determining the potential effects anticipated as a result of the corporate acquisition or other such action taken. Nevertheless, a situation could develop involving an unanticipated outcome as a consequence of such an acquisition or other actions, amid factors including a changing business environment and business operations of the target company, or the emergence of information not revealed in the course of conducting due diligence. Such circumstances could adversely affect Daiichi Sankyo's business results and financial position.

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

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

5) Risks Related to R&D and Alliances

Research and development of new drug candidates is a costly process that requires many years to complete successfully, during which time there is a continual risk that R&D activities concerning a particular compound may be terminated due to failure to demonstrate the expected clinical efficacy. Even if favorable results are obtained in clinical trials, changes in the regulatory approval criteria may result in failure to gain drug approval. In addition, any changes in the terms of agreements related to R&D-related alliances with third parties, or the cancellation thereof, may adversely affect the outcomes of R&D programs.

Group subsidiary Kitasato Daiichi Sankyo Vaccine Co., Ltd. (KDSV), was selected in 2011 to receive a grant from the Ministry of Health, Labour and Welfare (MHLW) in Japan for a cell culture vaccine production facility as part of the MHLW's second initiative to build up Japan's capacity for producing H5N1 influenza vaccines. Under the terms of the grant, KDSV planned to build a vaccine supply chain capable of producing sufficient amounts of vaccine for 40 million people within six months by the end of March 2014. However, the company was not able to establish sufficient capacity to attain this goal due to declines in yield experienced in the viral antigen purification process. After taking steps to improve yields by subsequently revamping production processes, the project is expected to continue until the establishment of a vaccine supply chain capable of producing sufficient amounts of vaccine for 40 million people.

6) Manufacturing and Procurement Risks

The Group manufactures some of its products at its own production facilities using original technology but is also dependent on specific suppliers for the supply of some finished products, raw materials, and production intermediates. Any delay, suspension, or termination of manufacturing or supply activities for any reason could have a material impact on the Group's business results and financial position. The manufacture of pharmaceuticals in Japan is subject to strict regulation as stipulated in the Pharmaceuticals and Medical Device Act. Any quality assurance problem necessitating a product recall or other action could have an adverse effect on the Group's business results and financial position.

7) Risks Related to Emergence of Side Effects or Sales of Rival Products

Daiichi Sankyo's business results and financial position could be adversely affected by a decline in sales of its pharmaceutical products due to situations such as those involving the emergence of unanticipated side effects of a drug or due to competition against rival products or the entry of generic products upon expiration of a patent within the same therapeutic area, particularly in situations where low-priced generic pharmaceuticals go on sale upon patent expiration. Any changes in the terms of sales or technology transfer agreements, or the expiration or cancellation thereof, could also adversely affect Daiichi Sankyo's business results and financial position. In addition, any new product may not necessarily generate sales and profits commensurate with the investment in its research and development due to growing use of generic products in the United States and other developed countries in which it is possible to file for the approval of generic pharmaceutical products even before patent expiration or due to unfavorable results emerging from negotiations with public and private insurers.

8) Intellectual Property Risks

Any infringement of patents or other intellectual property rights of other parties arising from the Group's business activities could result in legal restraints being placed on such activities or prompt related commercial litigation. Conversely, an infringement of the intellectual property rights of the Group by third parties could lead to legal action by the Group to protect such rights. In either case, the resulting outcome could have a material impact on the Group's business results and financial position.
In particular, due to the increasing use of generic products in developed countries, lawsuits and other challenges to Group-owned intellectual property could increase in prevalence.

9) Risks Related to Developing Business Overseas

Daiichi Sankyo faces risks with respect to operations abroad in the course of actively expanding its business overseas involving pharmaceutical product development, sales, and other such activities. Such risks include the possibility of violating laws and regulations of respective regions as well as those pertaining to local labor-management relations, particularly when faced with adverse geopolitical factors, including political instability and deteriorating economic conditions in a particular region. Accordingly, Daiichi Sankyo's business results and financial position could be adversely affected should any such risk materialize.

10) Operational Risks Related to Occurrence of Disasters

Any damage to Group production, research, or other facilities or any related suspension or cessation of business activities as a result of earthquakes, floods, typhoons, storms, or other natural disasters or due to conflicts, acts of terrorism, fire, or other man-made causes, including incidents at nuclear power stations or any other occurrences resulting in long-term damage to electricity supply networks or other social infrastructure, could have a negative impact on the Group's business results and financial position.

Based on our experience with the Great East Japan Earthquake that occurred in March 2011, the Group formulated a new business continuity plan (BCP) to support swift restoration of operations in an emergency and ensure an ability to maintain reliable supplies of high-quality pharmaceuticals for the benefit of Japan's medical system. The BCP revises the prioritization of actions from the perspectives of ensuring the continuity of operations, especially for mainstay products, and the rapid restoration of any supplies of medicines for emergency use and medicines with no substitutes, both of which are categories with high social significance.

The supply chain risks associated with the time required to restore supplies in the event of an emergency were also evaluated, based on the recovery period required after the Great East Japan Earthquake and the probability of further earthquakes. In addition, the Group has appropriately updated its preventative measures for natural disasters and emergencies, including its contingency measures to enable the restoration of supplies or switches to substitute products.

11) Environmental Risks

Certain chemicals used in pharmaceutical research and manufacturing processes include substances with the potential to exert a negative impact on human health and natural ecosystems. While the Group strives to ensure that the management of these substances is conducted properly at all times, any judgment that Group operations pose a risk of serious environmental impact due to soil contamination, air pollution, or water pollution could adversely affect the Group's business results and financial position.

12) Financial Market and Foreign Exchange Rate Fluctuation Risks

Declines in share prices could lead to write-downs or losses on disposal related to stocks owned by the Group. The Group's retirement benefit expenses could increase depending on trends in interest rates. In addition, fluctuations in foreign exchange rates could have an adverse effect on the Group's financial position. The Group conducts business, including production, sales, import, and export activities, on a global basis, and foreign rate exchange movements could therefore have a material impact on its business results and financial position.

13) Other Risks

Other risks besides those noted above that could have a negative impact on the Group's business results and financial position include an interruption of the Group's computer systems due to a network-mediated virus or other causes; unauthorized disclosures of confidential information; illegal or improper actions by officers or employees; and changes in share prices or interest rates and other risks related to funding procurement.