Message from the CFO

I would like to begin by thanking all of our stakeholders for the ongoing support to Daiichi Sankyo.

Along with the explanation of our 5-year business plan, reasons for its revision, and its current state, I would like to introduce examples of specific initiatives I am working on to improve the corporate value as CFO.

Toshiaki Sai
Representative Director, Member of the Board, Executive Vice President and CFO

5-Year Business Plan, Reasons for Its Revision, and Its Current State

1. 5-Year Business Plan (Presented in March 2016)

Since the development of 5-year business plan (fiscal 2016 to 2020) in March 2016, we are committed to establish a foundation for sustainable growth mainly consisting of the achievement of six strategic targets to transform ourselves along our 2025 Vision of becoming a "Global Pharma Innovator with competitive advantage in oncology." Daiichi Sankyo has set revenue of ¥1,100.0 billion, operating profit of ¥165.0 billion, and return on equity (ROE) of more than 8% for fiscal 2020 as key numerical targets. In addition, for fiscal 2020, we aim to have three to five late-stage pipeline products that can be launched within the next five years with the potential to generate annual revenue exceeding ¥100.0 billion each at peak.

Establish Foundation for Sustainable Growth (Six Strategic Targets)

- Grow *Edoxaban*
- Grow as No. 1 Company in Japan
- Expand U.S. Business
- Establish Oncology Business
- Continuously Generate Innovative Medicine Changing Standard of Care (SOC)*
- Enhance Profit Generation Capabilities

* Broadly applied best treatment practice in today's medical science

2. Revision of Targets (Presented in October 2018)

In October 2018, we revised the 5-year business plan. Although *edoxaban*, an oral anticoagulant that is one of our global mainstay products, strongly increased its market share in Japan and Europe, achievement of the targets initially set for fiscal 2020 has become challenging. This is due to the sense of uncertainty over future growth of Japan business as result of a radical reform of the NHI drug price system in the country, the unsuccessful development of new drugs in the U.S. pain business, and so on.

On the other hand, we decided to expand our investments to maximize the potential for our ADC franchise with *DS-8201* listed first, and based on several strong data for the ADC franchise.

Accordingly, we decided to delay our initial fiscal 2020 target (revenue of ¥1,100.0 billion, operating profit of ¥165.0 billion, and return on equity (ROE) of more than 8%) for two years to fiscal 2022. Meanwhile, as for returns to shareholders, we have decided to maintain the initial commitment calling for a total return ratio of 100% or more until 2022.

As for our oncology business, we decided to set a revenue target of ¥500 billion in fiscal 2025, exceeding the initial target of ¥300 billion by increasing and focusing our investment in the oncology business.

Fiscal 2022 Target

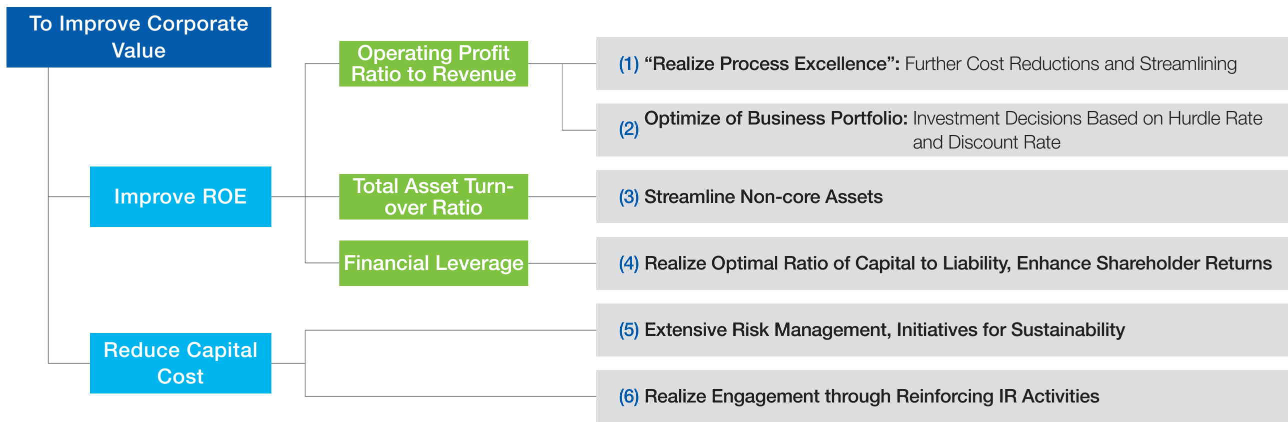
- Revenue ¥1,100.0 billion
- Operating Profit ¥165.0 billion
- ROE 8.0 % or more
- Increases Value of Late-Stage Pipelines
  Expected total revenue at peak:
  ¥500.0 billion or more

3. Revision Based on Impact of Strategic Alliance with AstraZeneca

After the revision of numerical targets for the current 5-year business plan in October 2018, Daiichi Sankyo decided to form strategic alliance with AstraZeneca for *DS-8201* in March 2019. Currently, we are having discussion with AstraZeneca on the details of the development and commercialization plan. Once we reach agreement, we will present Daiichi Sankyo's updated numerical targets including revised resource allocation for the other development projects such as *U3-1402*.

Examples of Initiatives for Improving Corporate Value

Here, I will explain our specific ROE improvement and capital cost reduction initiatives as part of our initiatives for improving corporate value, following (1) to (6) in the figure below.



Message from the CFO

(1) Realize Process Excellence

In order to improve the profit ratio as well as expand sales, we have taken steps to achieve further cost reductions and to streamline Daiichi Sankyo Group through activities called "Realize Process Excellence." Major initiatives include enhancement of the procurement function and optimization of operating structures for manufacturing, marketing & sales, and R&D. Concerning the optimization of operating structures, in the past three years to fiscal 2018 since the start of the current 5-year business plan, we have sold, closed, or transferred three sites within our supply chain organization, and closed four sites within our R&D organization. We have also implemented optimization within our marketing & sales organization in Europe and the United States. We will further accelerate initiatives to enhance profit generation capabilities in the future.

(2) Optimize Business Portfolio

In terms of investment, our focus is to optimize business portfolio by reinforcing financial investment decisions with capital cost in mind and taking synergies into consideration.

When making investment decisions for the business or capital expenditure, which has significant impact on future profit, we will support such decision through reading the future business environment, vision, and strategy, and by setting the hurdle rate, discount rate and other factors in response to market and business risks.

We assumed our cost of shareholders' equity to be approximately 6% and set forth the goal of more than 8% ROE, which is approximately 2% above the cost. Although we anticipate the WACC, the weighted average of our cost of shareholders' equity and cost of debt, to be 5 to 6%, we use an 8% hurdle rate for investment decisions, by adding 2 to 3% to the WACC. In addition, we make investment decisions based on discount rate for each region that takes into account the characteristics of each market.

(3) Streamline Non-core Assets

We streamline non-core assets through pursuing optimization in assets and enhancing our total asset turnover ratio, while working to create free cash that will lead to improvement of corporate value. With regard to assets including real estate, we implement liquidation of non-core assets at the appropriate timing while considering not only the necessity of the assets for business activities and the ability to be replaced, but also life-cycle costs (maintenance costs needed to maintain functions subject to deterioration and renovation costs required to improve performance) and business continuity plans (BCPs). We sold real estate worth ¥11.0 billion in fiscal 2018 and ¥25.0 billion in total so far. In fiscal 2019, we also sold our Nihonbashi Building.

As a rule, we are aggressively streamlining cross-shareholdings in accordance with Daiichi Sankyo's policy of not holding listed stocks, except in cases where holding such stocks will maintain or strengthen long-term business relationship and contribute to improving our corporate value. We sold 10 stock brands for a total amount of ¥14.3 billion in fiscal 2018, and an aggregated total of 33 stock brands for a total of ¥46.0 billion so far. We will pursue further cost reductions in the future to achieve an appropriate level of capital efficiency.

In order to make prioritized investment of resources in the field of oncology, we decided to sell some of the long-listed products in Japan and recorded ¥6.3 billion in fiscal 2018. Going forward, we will continue to review our business portfolio to streamline our assets.

(Billions of yen)

		FY2016 Results	FY2017 Results	FY2018 Results	Total
Sale of properties	Sales proceeds	3.2	10.7	11.0	25.0
	Gain on sales	0.8	7.6	9.0	17.5
Reduce cross-shareholding shares	Number of stock brands	14 brands	9 brands	10 brands	Aggregated total of 33 33 brands
	Sales proceeds	17.3	14.4	14.3	46.0
	Gain on sales*	9.3	9.8	10.6	29.7
Gain on sales of business transfer	Gain on sales	-	-	(transferring long-listed products) 6.3	6.3

* Booked in other comprehensive income
Gain on sales of Takatsuki Plant transfer (¥19.0 billion) and Nihonbashi building (¥10.6 billion) will be booked in FY2019

(4) Realize Optimal Ratio of Capital to Liability, Enhance Shareholder Returns

In order to support sufficient investment to develop oncology projects including *DS-8201*, we will work to streamline our assets as well as to maintain our strong financial base. With the current equity ratio of around 60% as a guide, Daiichi Sankyo will continue to pay stable dividends and flexibly implement share buy-back.

(5) Extensive Risk Management, Initiatives for Sustainability

Extensive risk management and initiatives for ESG are crucial in order to eliminate the risk of declining corporate value.

As for extensive risk management, I oversee group-wide risk management as the CFO and risk management officer. I operate the risk management system in conjunction with an annual cycle for formulating and implementing business plans. Based on assessment of impact and the likelihood of occurrence, risks with the potential to significantly impact the management of the Company are identified through the Global Management Committee Meeting and the Board Meeting. Risk response measures are enacted as well as corrected and revised as necessary.

For details, refer to page 73.

With regard to sustainability, Daiichi Sankyo Group also works to address many issues relative to CSR in addition to mid-to-long-term initiatives and challenges. We also engage in proactive disclosure of ESG information to reduce the risk from the viewpoint of investors. We have been selected for various ESG indices including the "DJSI World Index," in which, we have been selected in the pharmaceutical sector for the first time as a Japanese company and also for two consecutive years.

For details, refer to page 96.

(6) Realize Engagement through Reinforcing IR Activities

Engagement means having conversation with purpose, and we will foster mutual understanding and increase transparency, and thus further improve corporate value through healthy discussions between investors and our management team. In the distribution of IR information, we disclose information in a timely manner while giving consideration to transparency and fairness, and we endeavor to undertake IR activities to narrow the gap between the corporate value envisioned by people inside and outside of the Company. Following the recent enhancement of our pipelines in particular, we have set up meetings and conference calls aimed at investors after presentations at major scientific conferences in the U.S. and Europe for better and deeper understanding among investors. In addition, we conduct more than 350 interviews with investors annually, including ten international road shows a year (interviews with international investors). As CFO, I myself engage by proactively holding conversations with investors and analysts, to realize engagement.

In Closing

Daiichi Sankyo Group aims to realize its 2025 Vision of striving to become a "Global Pharma Innovator with competitive advantage in oncology." In light of the strong progress in oncology development with focus on ADC, we formed a strategic alliance with AstraZeneca for *DS-8201*, which is our first ADC project, in March 2019 and have been making steady progress indevelopment.

From a mid-term perspective, prior investment in preparation for the launch of oncology products is anticipated in each region. With respect to business development, demand for funds is expected to increase further to obtain pipelines, products, and businesses that meet the strategy. In addition, strategic investment from a long-term perspective is also essential. As such, I understand the role of CFO is extremely significant.

Going forward, I will continue to improve corporate value by enhancing shareholder returns while paying attention to the balance between investment and profitability.