Financial Results and Financial Analysis

Consolidated Financial Results for Fiscal 2018

Consolidated Financial Results

(Billions of yen)

	FY2017 Results	FY2018 Results	YoY	
Revenue	960.2	929.7	–30.5	(–3.2%)
Cost of sales	346.0	364.6	+18.6	
SG&A expenses	301.8	277.7	–24.2	
R&D expenses	236.0	203.7	–32.3	
Operating profit	76.3	83.7	+7.4	(+9.7%)
Profit before tax	81.0	85.8	+4.8	(+5.9%)
Profit attributable to owners of the Company	60.3	93.4	+33.1	(+55.0%)

Yen Exchange Rates for Major Currencies (Annual Average Rate)

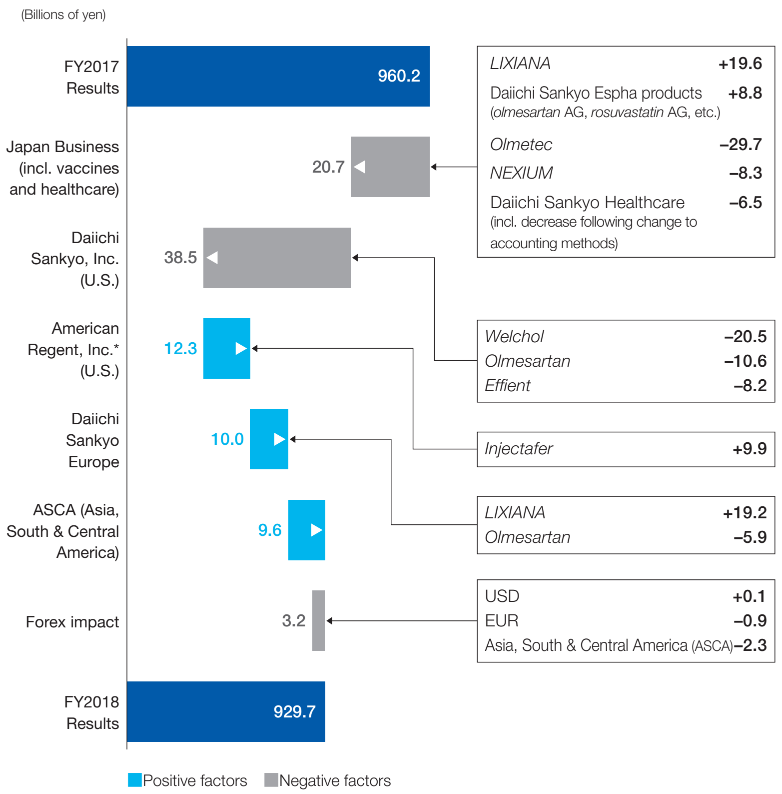
	FY2017 Results	FY2018 Results	YoY
USD/JPY	110.86	110.91	+0.05
EUR/JPY	129.70	128.40	–1.30

1. Revenue

Consolidated revenue in fiscal 2018 decreased by ¥30.5 billion, or 3.2% year on year, to ¥929.7 billion. The impacts of yen appreciation placed downward pressure on revenue to the extent of ¥3.2 billion. When the impacts of foreign exchange influences are excluded, revenue was down ¥27.3 billion year on year.

Revenue

Decreased by ¥30.5 billion (Decreased by ¥27.3 billion excl. forex impact)



* Formerly Luitpold Pharmaceuticals, Inc.

In the Japan Business, *LIXIANA* and Daiichi Sankyo Espha products enjoyed an increase in revenue, but *Olmetec* experienced a significant decrease in revenue owing to the impact of the increased number of generic drugs. In addition, *NEXIUM* experienced a decrease in revenue due to the impact of price revisions, and Daiichi Sankyo Healthcare saw a reduction in revenue following a change to our accounting methods. These factors among others resulted in an overall decrease of ¥20.7 billion.

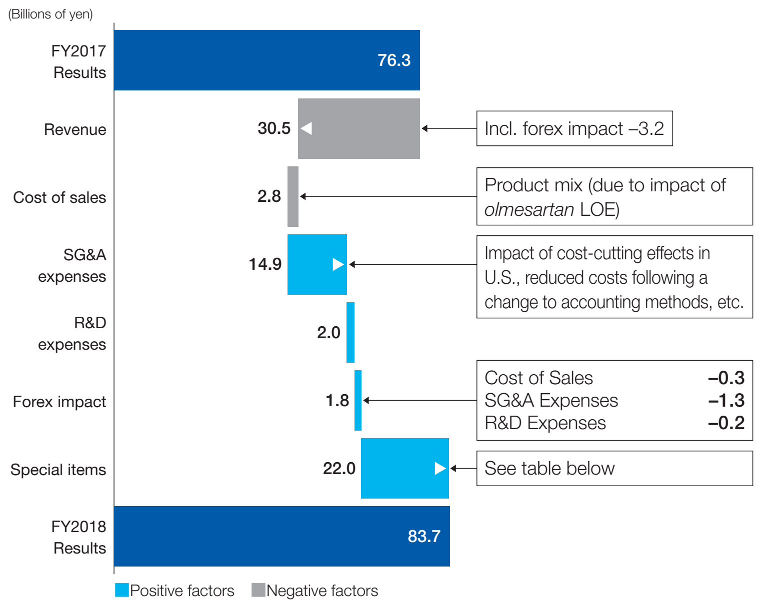
In the United States, revenue from Daiichi Sankyo, Inc. declined ¥38.5 billion year on year following a decrease in revenue from *Welchol*, *olmesartan*, and *Effient* among other factors. Meanwhile, American Regent, Inc. saw a revenue increase of ¥12.3 billion year on year following higher sales of *Injectafer*. Revenue at Daiichi Sankyo Europe GmbH increased ¥10.0 billion year on year due to a large increase in *LIXIANA* sales, despite decreases in sales from *olmesartan*. In the Company's operations in ASCA, Asia and South & Central America, revenue was up ¥9.6 billion year on year, with results chiefly seen in China and Korea.

2. Operating Profit

Operating profit in fiscal 2018 increased ¥7.4 billion, or 9.7% year on year, to ¥83.7 billion.
When the impacts of foreign exchange influences and special items are excluded, the actual decrease in operating profit was ¥13.2 billion.

Operating profit

Increased by ¥7.4 billion
(Decreased by ¥13.2 billion excl. forex impact and special items)



Special items

(Billions of yen)

	FY2017 Results		FY2018 Results		YoY
Cost of sales	Gain on Sales of fixed assets	–1.0	Impairment loss (intangible assets)**	15.1	+16.1
SG&A expenses	Restructuring costs in the U.S.	4.5	Gain on Sales of fixed assets	–3.5	–7.9
R&D expenses	Impairment loss (intangible assets)*	30.2			–30.2
Total		33.6		11.6	–22.0

* *CL-108*, etc. ** *Zelboraf* and *MOVANTIK*

Consolidated revenue in fiscal 2018 decreased ¥30.5 billion, including impact from foreign exchange to the extent of ¥3.2 billion.

Cost of sales was up ¥2.8 billion year on year as the ratio of cost of sales to revenue increased due to the impact of LOE of *olmesartan*.

SG&A expenses decreased ¥14.9 billion year on year, owing to effects from cost reductions in the U.S. as well as decreased costs following a change to accounting methods at Daiichi Sankyo Healthcare. R&D expenses dropped ¥2.0 billion year on year.

Foreign exchange influences caused a total decrease of ¥1.8 billion in expenses.

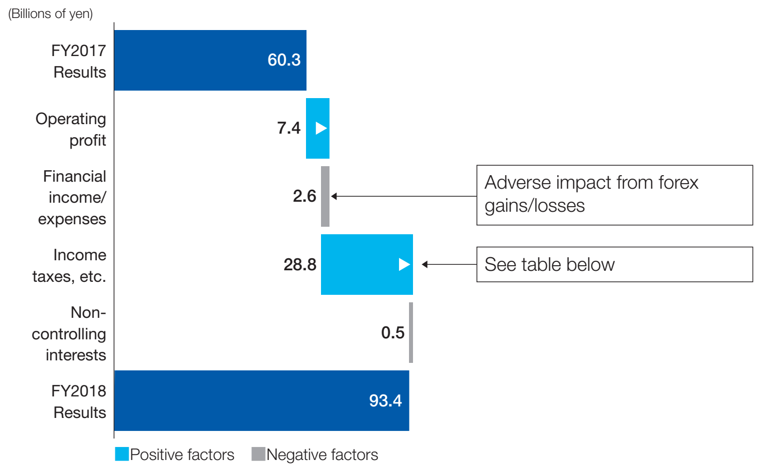
Special items in fiscal 2017 included impairment loss in intangible assets related to *CL-108*, and restructuring expenses in the U.S. Business, causing a total increase of ¥33.6 billion in expenses. Special items in fiscal 2018 included impairment loss in intangible assets related to *Zelboraf* and *MOVANTIK*, resulting in a total increase of ¥11.6 billion in expenses, and a decrease of ¥22.0 billion in expenses year on year.

3. Profit Attributable to Owners of the Company

Profit attributable to owners of the Company increased ¥33.1 billion, or 55.0% year on year, to ¥93.4 billion.

Profit attributable to owners of the Company

Increased by ¥33.1 billion



Income taxes, etc.

(Billions of yen)

	FY2017 Results	FY2018 Results	YoY
Profit before tax	81.0	85.8	+4.8
Income taxes, etc.	21.2	–7.6	–28.8
Tax rate	26.2%	–8.8%	–35.0%

Operating profit increased ¥7.4 billion year on year including foreign exchange influences and special items.

Financial income and expenses increased ¥2.6 billion year on year due to the adverse impact from foreign exchange losses following due to the strong yen, among other factors.

Income taxes decreased ¥28.8 billion year on year as a result of the fact that we could include additional deferred tax assets due to a significant increase in the amount of our future taxable income through the strategic collaboration with AstraZeneca for *DS-8201*, among other factors.

Regarding non-controlling interests, we experienced a negative impact to profit, to the amount of ¥0.5 billion.

As a result of the above, the profit attributable to owners of the Company came to ¥93.4 billion.

Financial Results and Financial Analysis

Financial Position

1. Assets, Liabilities, and Equity

Assets

Total assets at the end of fiscal 2018 amounted to ¥2,088.1 billion. Trade and other receivables increased (¥188.1 billion year on year) among other factors, ultimately leading to an increase of ¥190.3 billion compared to the end of fiscal 2017.

Liabilities

Total liabilities at the end of fiscal 2018 amounted to ¥838.3 billion. Income taxes payable and provisions decreased (¥124.1 billion year on year), while trade and other payables as well as other non-current liabilities increased (¥216.6 billion year on year) among other factors, ultimately leading to an increase of ¥73.6 billion compared to the end of fiscal 2017.

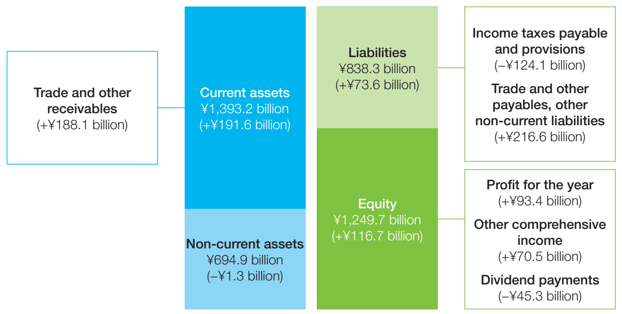
Equity

Total equity at the end of fiscal 2018 amounted to ¥1,249.7 billion. Dividend payments (¥45.3 billion) contributed to a decrease, while profit attributable to owners of the Company (¥93.4 billion) and other comprehensive income (¥70.5 billion) recorded for the year among other factors ultimately led to an increase of ¥116.7 billion compared to the end of fiscal 2017.

Summary of consolidated statement of financial position

As of March 31, 2019: parentheses ( ) indicate comparison to March 31, 2018

Consolidated total assets ¥2,088.1 billion (+¥190.3 billion)



Ratio of equity attributable to owners of the Company to total assets (equity ratio) was 59.8% (¥1,249.7 billion ÷ ¥2,088.1 billion), which was an increase of 0.1% compared to the end of fiscal 2017.

2. Cash Flows

Cash and cash equivalents at the end of fiscal 2018 decreased by ¥114.5 billion year on year to ¥243.2 billion.

Cash flows from operating activities

Cash inflows from operating activities were ¥92.0 billion (¥108.4 billion in the previous fiscal year) due to a decrease in cash caused by a profit before tax amounting to ¥85.8 billion, depreciation and amortization amounting to ¥46.2 billion, impairment loss amounting to ¥15.2 billion, and other non-cash items, as well as income tax payments and other factors.

Cash flows from investing activities

Cash outflows due to investing activities were ¥142.5 billion (+¥108.6 billion in the previous fiscal year) due to payments into time deposits, as well as capital expenditure and acquisitions of intangible assets, among other factors.

Cash flows from financing activities

Cash outflows due to financing activities were ¥66.2 billion (¥101.8 billion in the previous fiscal year) due to dividend payments, repayments of borrowings, and other factors.

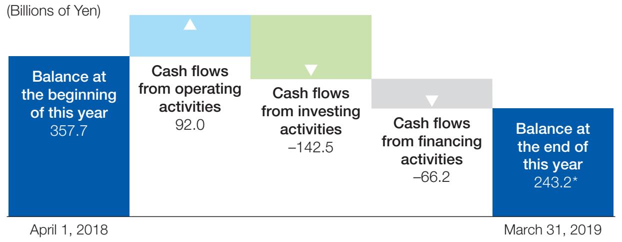
(Billions of yen)

	FY2017 Results	FY2018 Results	YoY
Cash flows from operating activities	108.4	92.0	–16.4
Cash flows from investing activities	108.6	–142.5	–251.1
Cash flows from financing activities	–101.8	–66.2	35.6
Net increase in cash and cash equivalents	115.2	–116.7	–231.9
Effect of exchange rate change on cash and cash equivalents	–3.6	2.1	5.7
Cash and cash equivalents at the end of the year	357.7	243.2	–114.5
Free cash flows*	217.0	–50.5	–267.5

* Free cash flows = Cash flows from operating activities + Cash flows from investing activities

Summary of consolidated statement of cash flows

(Billions of Yen)



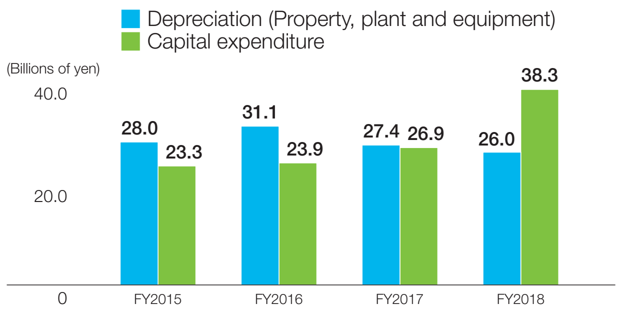
* incl. effect of exchange rate (¥2.1 billion)

3. Capital Expenditure

In fiscal 2018, we focused capital expenditure on production facilities for Daiichi Sankyo Chemical Pharma and Daiichi Sankyo Propharma. Especially, capital expenditure increased for our oncology business with a focus on the ADC franchise, and the total capital expenditure amounted to ¥38.3 billion.

(Billions of yen)

	FY2017 Results	FY2018 Results	YoY
Capital expenditure	26.9	38.3	11.5
Depreciation (Property, plant and equipment)	27.4	26.0	–1.4



Financial Results Forecasts for Fiscal 2019

Sales revenues are projected to increase 1.1% year on year to ¥940.0 billion, due to part of the contractual lump-sum payment from our strategic collaboration for *DS-8201* being incorporated into the recognized sales amount (¥10.0 billion) for year ending March 2020.

Operating profit is projected to increase 19.5% year on year to ¥100.0 billion due to continued cost reductions, as well as recording profit from selling the Takatsuki Plant (¥19.0 billion) and real estate (¥10.6 billion) among other factors, despite the fact that cost increases are expected as a result of investments centered on the oncology business.

Profit attributable to owners of the Company is expected to decrease 22.9% year on year to ¥72.0 billion, due to income taxes going back to the regular tax rate in the year ending March 2020 despite temporarily being set at a negative rate in the previous year following our strategic collaboration for *DS-8201* among other factors.

The impact following our strategic collaboration for *DS-8201* only includes the amount recognized for this fiscal year in terms of the contractual lump-sum payment attributed to deferred revenue.

Forecasts are based on an assumption of foreign exchange rates at ¥110 to the U.S. dollar and ¥130 to the euro.

Consolidated financial results forecast for fiscal 2019

(Billions of yen)

	FY2018 Results	FY2019 Results	YoY
Revenue	929.7	940.0	+10.3 (+1.1%)
Operating profit	83.7	100.0	+16.3 (+19.5%)
Profit before tax	85.8	100.0	+14.2
Profit attributable to owners of the Company	93.4	72.0	–21.4 (–22.9%)

Yen exchange rates for major currencies (Annual average rate)

	FY2018 Results	FY2019 Results
USD/JPY	110.91	110.00
EUR/JPY	128.40	130.00

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 evaluation of the investments essential for implementing the growth strategy and profit returns to shareholders.

Our shareholder return policy calls for a total return ratio* of 100% or more for the fiscal 2016 through fiscal 2022, and annual ordinary dividend payments of ¥70 per share or more. On the basis of this policy, Daiichi Sankyo intends to pay stable dividends while flexibly acquiring shares of its own stock.

Under this basic policy, Daiichi Sankyo achieved ordinary dividend payments of ¥70 per share in fiscal 2018. As a result, the total return ratio was 48.5% for one year and 114.8% cumulatively over three years.

The Company plans to issue annual dividends per share of ¥70 in fiscal 2019.

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

Shareholder returns policy during 5YBP (Target)

	FY2016 Results	FY2017 Results	FY2018 Results	FY2019 Plan	(5-Year Business Plan Target)
Annual dividend	¥70	¥70	¥70	¥70	¥70 or more
Purchase of treasury shares	¥50.0 billion	¥50.0 billion	–	Flexible	Flexible
Total return ratio	180.7%	159.1%	48.5%	–	100% or more
		114.8%			