May 11, 2017

Consolidated Financial Results for Year Ended March 31, 2017 (Fiscal 2016) <under IFRS>

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

Scheduled date of Ordinary General Meeting of Shareholders: June 19, 2017
Scheduled date of dividend payments: From June 20, 2017
Scheduled date of Annual Securities Report filing: June 19, 2017
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, 2017

(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, 2017	955,124	−3.2	88,929	−31.8	87,788	−28.3	47,479	−40.9
Year ended March 31, 2016	986,446	7.3	130,412	75.2	122,388	53.1	80,399	−74.8

	Profit attributable to owners of the Company		Total comprehensive income		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Millions of yen	%	Yen	Yen
Year ended March 31, 2017	53,466	−35.0	32,332	29.5	79.63	79.44
Year ended March 31, 2016	82,282	−74.5	24,959	−93.2	119.37	119.11

	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, 2017	4.4	4.6	9.3
Year ended March 31, 2016	6.5	6.3	13.2

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

Year ended March 31, 2017: 162 million yen
Year ended March 31, 2016: −287 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, 2017	1,914,979	1,171,428	1,175,897	61.4	1,772.99
As of March 31, 2016	1,900,522	1,233,521	1,231,406	64.8	1,801.90

(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, 2017	136,234	−96,792	−15,022	246,050
Year ended March 31, 2016	174,281	−5,967	−122,930	222,159

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, 2016	–	40.00	–	30.00	70.00	47,837	58.6	3.8
Year ended March 31, 2017	–	35.00	–	35.00	70.00	46,591	87.9	3.9
Year ending March 31, 2018 (Forecast)	–	35.00	–	35.00	70.00		70.3	

Note: Breakdown of interim dividend for the year ended March 31, 2016: ordinary dividend ¥30, commemorative dividend ¥10

3. Forecasts of Consolidated Financial Results for Year Ending March 31, 2018

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

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of the Company		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	930,000	-2.6	100,000	12.4	100,000	13.9	66,000	23.4	99.51

*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 *"5. Consolidated Financial Statements, (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, 2017	709,011,343 shares
As of March 31, 2016	709,011,343 shares

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

As of March 31, 2017	45,783,623 shares
As of March 31, 2016	25,618,187 shares

3) Average number of shares during the period

Year ended March 31, 2017	671,422,557 shares
Year ended March 31, 2016	689,313,003shares

(Reference)

Non-Consolidated Financial Results

Non-Consolidated Financial Results for Year Ended March 31, 2017

(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, 2017	629,151	−2.2	18,483	−34.7	40,976	−12.2	10,479	−0.7
Year ended March 31, 2016	643,219	3.3	28,325	21.3	46,661	52.1	10,555	−96.0

	Basic net income per share	Diluted net income per share
	Yen	Yen
Year ended March 31, 2017	15.61	15.57
Year ended March 31, 2016	15.31	15.28

(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, 2017	1,463,461	888,519	60.6	1,336.57
As of March 31, 2016	1,416,088	985,391	69.4	1,439.08

Reference: Equity:

As of March 31, 2017: 886,452 million yen
As of March 31, 2016: 983,455 million yen

* This financial results report is not subject to audit procedures

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

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

Please see *" 1. Financial Results (3) Future Outlook"* on page 16 for matters related to the above forecasts.

Attached Material

Index

1. Results of Operations

(1) Operating Results for Year ended March 31, 2017

1) Overview

[Consolidated Financial Results]

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

	Year ended March 31, 2016	Year ended March 31, 2017	YoY change
Revenue	986,446	955,124	–31,321 –3.2%
Operating profit	130,412	88,929	–41,483 –31.8%
Profit before tax	122,388	87,788	–34,600 –28.3%
Profit attributable to owners of the Company	82,282	53,466	–28,816 –35.0%
Total comprehensive income	24,959	32,332	7,372 29.5%

<Revenue from global mainstay products>

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

Item name	Year ended March 31, 2016	Year ended March 31, 2017	YoY change
Olmesartan Antihypertensive agent	284,127	218,017	–66,110 –23.3%
Prasugrel Antiplatelet agent	32,201	41,609	9,407 29.2%
Edoxaban Anticoagulant	15,024	37,332	22,307 148.5%

<Selling, general and administrative expenses>

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

Item name	Year ended March 31, 2016	Year ended March 31, 2017	YoY change
Selling, general and administrative expenses	328,755	302,475	–26,279 –8.0%
Ratio of selling, general and administrative expenses to revenue	33.3%	31.7%	–1.7%

<Research and development expenses>

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

Item name	Year ended March 31, 2016	Year ended March 31, 2017	YoY change
Research and development expenses	208,656	214,347	5,691 2.7%
Ratio of research and development expenses to revenue	21.2%	22.4%	1.3%

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

(Yen)

	Year ended March 31, 2016	Year ended March 31, 2017
USD/Yen	120.14	108.42
EUR/Yen	132.57	118.84

a. Revenue

Group revenue in Year ended March 31, 2017 (fiscal 2016) decreased by ¥31.3 billion, or 3.2% year on year, to ¥955.1 billion.

Despite growth in sales of mainstay products in Japan, Europe, and Asia, negative effects on revenue stemming from a decrease in sales of Olmesartan and yen appreciation (¥41.6 billion) led to a decrease in revenue.

b. Operating Profit

Operating profit decreased by ¥41.5 billion, or 31.8% year on year, to ¥88.9 billion.

Gross profit decreased by ¥62.1 billion or 9.3% year on year, to ¥605.8 billion because there was a decrease in revenue, and because an impairment loss (¥20.6 billion) related to the property, plant and equipment and intangible assets for the vaccine business was recorded as cost of sales for fiscal 2016.

Selling, general and administrative expenses decreased by ¥26.3 billion, or 8.0% year on year, to ¥302.5 billion. The decrease is largely attributable to cost reductions achieved as a result of sales operations restructuring implemented up until the end of the previous fiscal year-end, and also due to effects of foreign exchange.

Research and development expenses increased by ¥5.7 billion, or 2.7% year on year, to ¥214.3 billion. The increase is attributable to progress made on research and development projects, despite the positive effects of foreign exchange.

By the way, the negative effects on operating profit stemming from yen appreciation were ¥ 3.5 billion in total.

c. Profit before Tax

Profit before tax decreased by ¥34.6 billion, or 28.3% year on year, to ¥87.8 billion.

The decrease in profit before tax was not as substantial as the decrease in operating profit because financial expenses related to the sale of Sun Pharma’s shares was included in the previous fiscal year.

d. Profit Attributable to Owners of the Company

Profit attributable to owners of the Company declined by ¥28.8 billion, or 35.0% year on year, to ¥53.5 billion.

e. Total comprehensive income

Total comprehensive income increased by ¥7.4 billion, or 29.5% year on year, to ¥32.3 billion.

Total comprehensive income increased largely due to the fact that loss on sale of Sun Pharma’s shares of ¥21.5 billion (after tax effect) was included in other comprehensive income in the previous fiscal year.

[Revenue by Geographic Area]

a. Japan

Revenue in Japan increased by 3.7% year on year to ¥595.9 billion.

[Prescription drugs]

Revenue from prescription drugs in Japan increased by 2.4% year on year to ¥511.1 billion. The increase is attributable to growth in sales of mainstay products such as *LIXIANA*, *TENELIA*, *Inavir*, *Efient*, *PRALIA*, *Memary*, *NEXIUM*, and *RANMARK*, despite adverse effects of the NHI price revision and the growth of prescriptions of generic drugs. 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 August 2016, the antiepileptic drug *VIMPAT* (generic name: Lacosamide) was launched for an adjunctive therapy in the treatment of partial-onset seizures in patients with epilepsy who have not obtained sufficient response to other antiepileptic drugs. Daiichi Sankyo is the exclusive seller, and promotions are running jointly with UCB Japan Co., Ltd. (hereafter referred to as "UCB Japan"). Also in August 2016, Daiichi Sankyo and UCB Japan filed an application to use *VIMPAT* in monotherapy for partial-onset seizures in patients with epilepsy.

Also, in February 2017, Daiichi Sankyo Espha Co., Ltd. obtained approval for manufacturing and marketing for multiple authorized generic products, including *Olmetec* OD tablets, *Micardis* tablets, *Micamlo* Combination tablets, *Micombi* Combination tablets, and *Crestor* tablets.

Furthermore, in March 2017, Daiichi Sankyo entered into a marketing alliance agreement with Mitsubishi Tanabe Pharma Corporation for MT-2412, a combination drug (*TENELIA* and *CANAGLU*) for the treatment of type 2 diabetes mellitus, and for which an application has already been filed by Mitsubishi Tanabe Pharma Corporation. Based on this agreement, Daiichi Sankyo will market MT-2412, while both companies will co-promote the drug.

[Royalty and exports]

Revenue from royalty and exports, which centered on Olmesartan, the antihypertensive agent and Levofloxacin, the synthetic antibacterial agent, decreased by 17.4% year on year to ¥15.4 billion.

[Healthcare (OTC) products]

Revenue from the healthcare (OTC) products business increased by 25.0% year on year to ¥66.7 billion. The increase is attributable to growth in sales including those of the *MINON* series line of skincare products handled by Daiichi Sankyo Healthcare Co., Ltd., and also due to contributions to results generated by Im Co., Ltd. upon having acquired all outstanding shares of the entity in order to build up a foundation for the mail order business in November 2015.

Also, in August 2016, the *Loxonin S* series line of external medicine products was launched.

<Primary revenue composition in Japan>

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

	Year ended March 31, 2016	Year ended March 31, 2017	YoY change
Prescription drugs	499.1	511.1	12.0 2.4%
Royalty and exports	18.7	15.4	–3.2 –17.4%
Healthcare (OTC) products	53.4	66.7	13.4 25.0%

<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, 2016	Year ended March 31, 2017	YoY change
NEXIUM Ulcer treatment	82.4	84.0	1.6 1.9%
Olmetec Antihypertensive agent	73.9	69.4	–4.4 –6.0%
Memary Alzheimer's disease treatment	42.4	46.9	4.4 10.4%
Loxonin Anti-inflammatory analgesic (of which *Loxonin Tape*)	48.1 (31.8)	37.4 (24.9)	–10.7 –22.3%
TENELIA Type 2 diabetes mellitus treatment	16.5	24.2	7.6 46.1%
LIXIANA Anticoagulant	13.0	25.0	12.0 92.6%
Rezaltas Antihypertensive agent	18.2	17.5	–0.6 –3.5%
PRALIA Treatment for osteoporosis	12.5	18.0	5.5 44.1%
RANMARK Treatment for bone complications caused by bone metastases from tumors	12.4	13.9	1.5 12.4%
Inavir Anti-influenza treatment	14.0	19.6	5.5 39.3%
Cravit Synthetic antibacterial agent	18.4	15.1	–3.3 –17.8%
Omnipaque Contrast medium	16.9	14.2	–2.7 –15.9%
Urief Treatment for dysuria	11.8	11.4	–0.4 –3.4%
Artist Treatment for hypertension, angina pectoris and chronic heart failure	15.1	10.6	–4.4 –29.3%
Mevalotin Antihyperlipidemic agent	13.4	10.4	–3.0 –22.2%
Efient Antiplatelet agent	4.9	10.4	5.5 112.7%

b. North America

Revenue in North America decreased by 17.1% year on year to ¥228.4 billion.

Revenue in local currency terms decreased by 8.1% to US$2,107 million.

At Daiichi Sankyo, Inc., although sales of *Effient*, *MOVANTIK*, *Welchol* and *SAVAYSA* increased, sales of Olmesartan and its combination drugs (Brand name in the U.S.: *Benicar/Benicar HCT*, *AZOR* and *TRIBENZOR*) declined.

Moreover, in October 2016, Daiichi Sankyo, Inc. signed a license agreement with Inspirion Delivery

Sciences LLC (Inspirion), which has given Daiichi Sankyo, Inc. an exclusive license in the U.S. to commercialize MorphaBond (morphine extended-release tablets), a FDA-approved abuse-deterrent opioid analgestic, and the other abuse-deterrent opioid analgestic, if approved by FDA. Daiichi Sankyo, Inc. will lead the commercialization of the co-promotion with Inspirion.

At Luitpold Pharmaceuticals, 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, 2016	Year ended March 31, 2017	YoY change
Benicar/*Benicar HCT** Antihypertensive agent	661	430	–232 –35.0%
AZOR Antihypertensive agent	164	103	–61 –37.4%
*TRIBENZO*R Antihypertensive agent	103	79	–24 –23.3%
Welchol Hypercholesterolemia treatment/ type 2 diabetes mellitus inhibitor	403	420	17 4.2%
Effient Antiplatelet agent (co-promotion revenue)	173	205	32 18.7%
SAVAYSA Anticoagulant	4	17	14 362.1%
MOVANTIK opioid-induced constipation treatment (co-promotion revenue)	17	38	22 129.2%

*Includes authorized generics for Olmesartan.

<Revenue of Luitpold Pharmaceuticals, Inc. mainstay products>

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

Product name	Year ended March 31, 2016	Year ended March 31, 2017	YoY change
Venofer Treatment for iron deficiency anemia	260	263	3 1.0%
Injectafer Treatment for iron deficiency anemia	155	221	66 42.5%

c. Europe

Revenue in Europe decreased by 4.9% year on year to ¥71.0 billion.

Revenue in local currency terms increased by 6.0% to EUR598 million.

Sales of *LIXIANA* and *Efient* increased, though sales of Olmesartan and its combination drugs (Brand name in Europe: *Olmetec/Olmetec Plus* and *Sevikar*) declined.

<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, 2016	Year ended March 31, 2017	YoY change
Olmetec/*Olmetec Plus* Antihypertensive agent	248	184	–64 –25.7%
Sevikar Antihypertensive agent	124	104	–20 –16.3%
Sevikar HCT Antihypertensive agent	73	75	3 4.0%
Efient Antiplatelet agent	41	67	26 65.0%
LIXIANA Anticoagulant	12	81	70 598.0%

d. Other regions

In other regions, revenue decreased by 3.4% year on year to ¥59.8 billion.

Although mainstay products like anticoagulant *LIXIANA* grew in South Korea, revenue decreased overall mainly as a result of foreign exchange's negative impact on revenues as a result of yen appreciation against across the board of other region currencies.

2) R&D Activities

Daiichi Sankyo 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, in April 2016 we established the Oncology R&D subunit which globally brings together our drug discovery and clinical development framework, in order to accelerate R&D initiatives in the field of oncology, our primary focused area. Moreover, we have brought onboard an experienced and accomplished leader for this new subunit.

Under the new framework, we have established antibody drug conjugates (ADC) and acute myeloid leukemia (AML) as two franchises in oncology, and are working on strategic research and development activities.

In addition to oncology, which we have established as a primary focused area, we have positioned pain, central nervous system diseases, heart and kidney diseases, and rare diseases as new horizon areas, and are working to accelerate the speed of research and increase productivity.

We are pursuing efforts geared to generating innovative medicine that transforms standards of care (SOC) by drawing on initiatives that involve partnering, open innovation and translational research in the research and the early-stage development phase.

At the late-stage of development, in addition to oncology and cardiovascular-metabolics we are developing drugs in pain field.

Furthermore, we have been persisting in our efforts with respect to life cycle management, particularly in the field of cardiovascular-metabolics which is an area in which we have strengths.

As an initiative to improve the productivity of our R&D, we are implementing a review of our global R&D system to reduce the operating expenses at R&D organizations and redistribute those to our development projects. As part of that initiative, in October 2016, we closed our European subsidiary, U3 Pharma GmbH. Furthermore, we made the decision to close Indian subsidiary Daiichi Sankyo India Pharma Private Limited and domestic subsidiary Asubio Pharma Co., Ltd.

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

[Daiichi Sankyo Priority Development Projects]

a. Prasugrel

Prasugrel has been in Japanese market since 2014 under the brand name *Efient* with indication for ischemic cardiac diseases in patients undergoing percutaneous coronary intervention (PCI).

The Phase III clinical trials (PRASTRO-I study, and PRASTRO-II study) in Japan involving patients with ischemic cerebrovascular disease were completed in October 2016. In the PRASTRO-I study conducted in patients with ischemic cerebrovascular disease aged less than 75 years old and weighing more than 50 kg, the primary endpoint was not achieved. However, in the PRASTRO-II study conducted in patients with ischemic cerebrovascular disease aged 75 years and older and/or weighing 50 kg or less, the intended purpose of the study was achieved.

Separately, in the U.S., the Phase III clinical trial was conducted to evaluate its efficacy for the treatment of pediatric patients with sickle cell disease and the trial results were submitted to the U.S. Food and Drug Administration (FDA). In June 2016, Daiichi Sankyo obtained a 180-day extension of market exclusivity.

b. Edoxaban

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)).

Overseas, as of March 31, 2017, Edoxaban is being successively launched in markets in the U.S., Switzerland, the U.K., Germany, Ireland, the Netherlands, South Korea, Taiwan, Italy, Spain, Belgium, Hong Kong, Australia, Portugal, Thailand and other countries; and it has received approval in Turkey. In addition, applications for approval are currently underway in Brazil, China and other countries.

Also, the results of the ENSURE-AF study in the U.S. and Europe of patients with non-valvular AF undergoing electrical cardioversion, which we carried out as a life cycle management initiative, were presented in August 2016 at the European Society of Cardiology Congress. Furthermore, we have initiated the following randomized controlled trials as well as clinical research aimed at generating real clinical evidence.

[Randomized Controlled Trials]

- ELDERCARE-AF study in Japan for patients aged 80 years and older who have non-valvular atrial fibrillation (AF) and are not eligible for current available oral anticoagulant therapy (Initiated in August 2016)
- ENTRUST-AF PCI study in Europe, South Korea, Taiwan and other countries targeting patients with non-valvular AF undergoing percutaneous coronary intervention (PCI) with stenting (Initiated in February 2017)
- ELIMINATE-AF study in Europe, Canada, and Asia targeting patients with non-valvular AF and who have undergone catheter ablation (Initiated in March 2017)

[Clinical Research Aimed at Generating Real Clinical Evidence]

- "ANAFIE (All Nippon AF in Elderly) Registry," company-initiated, large-scale registry in Japan targeting patients aged 75 years and older with non-valvular AF (Initiated October 2016)
- "Cancer-VTE Registry," company-initiated, large-scale clinical registry in Japan concerning venous thromboembolism (VTE) targeting cancer patients (Initiated March 2017)

c. Denosumab

Denosumab has been on the Japanese market under the brand name *RANMARK*, since 2012 with indications for the treatment of bone complications stemming from multiple myeloma or bone metastases from solid tumors, and since 2014 with indications for the treatment of giant cell tumors of bone (GCTB). In 2013, manufacturing and marketing approval was received for the treatment for osteoporosis in Japan, where it has been on the market under the brand name *PRALIA*.

A Phase III clinical trial involving patients with rheumatoid arthritis (RA) has been concluded in Japan, and an application for approval of additional indication was filed in September 2016. Denosumab is also undergoing global Phase III clinical trials for postoperative adjuvant breast cancer therapy.

d. Quizartinib

A Phase III clinical trial is underway in Europe, the U.S. and Asia to obtain approval for indication as a second-line treatment in patients with FLT3-ITD+ acute myeloid leukemia (AML).

In October 2016, a phase III clinical trial in Europe, the U.S. and Asia was also initiated to obtain approval for indication as a first-line treatment in patients with the same disease.

e. Pexidartinib

A Phase III clinical trial is underway in Europe and the U.S. in tenosynovial giant cell tumor (TGCT) patients. Pexidartinib was granted Breakthrough Therapy designation by the FDA for the treatment of TGCT in October 2015. In October 2016, following the recommendation of the ENLIVEN data monitoring committee (DMC) based on the review of two reported cases of non-fatal, serious liver toxicity, further enrollment into the study was suspended. After putting the safety measures recommended by the DMC, the study is being continued with total of 121 patients out of 126 patients originally planned.

In addition, Phase I/IIa trials are being conducted to evaluate its efficacy in cancer patients with advanced solid tumors as combination therapies with other drugs, such as anti-PD-1 antibodies.

f. Patritumab

In May 2016, the decision was made to discontinue the HER3-Lung study evaluating patritumab for use in combination with erlotinib in Europe and the U.S., in patients with locally advanced or metastatic non-small cell lung cancer (NSCLC), because the results of the study up to that point did not meet the pre-defined efficacy criteria.

A Phase II clinical trial evaluating patritumab in treating patients with relapsed or metastatic head and neck cancers, in combination with cetuximab and a platinum agent remains ongoing in Europe

g. Tivantinib

A Phase III clinical trial had been underway to obtain approval for indication as a second-line treatment of MET-overexpressing hepatocellular carcinoma (HCC) in the U.S. and Europe. However, the primary endpoint was not achieved. In March 2017, the discontinuation of the development of this agent in the U.S. and Europe where the Company owned rights was decided.

h. DS-8201

In October 2016, the results of the first part (dose escalation study) of the Phase I clinical trial of DS-8201 for the treatment of HER2-positive metastatic breast cancer for patients who progress after prior HER2-targeting therapies including T-DM1 were presented during a late-breaking poster discussion session at the European Society for Medical Oncology (ESMO) Congress.

Based on these results, in December 2016 Fast Track designation was granted by the FDA for the treatment of HER2-positive metastatic breast cancer.

The second part (does expansion study) of the ongoing Phase I clinical trial is underway in Japan and the U.S. to further evaluate the safety and efficacy of DS-8201 in four different arms of HER2-positive cancers.

i. DS-3032

Preliminary results from the dose escalation part of a Phase I clinical trial of DS-3032 monotherapy in the U.S. in patients with relapsed/refractory acute myeloid leukemia (AML) and high-risk myelodysplastic syndrome (MDS) were presented in December 2016 at the Meeting of the American Society of Hematology (ASH).

j. U3-1402

In December 2016, a Phase I/II clinical trial in Japan was initiated in patients with HER3-positive metastatic or unresectable breast cancer.

k. DS-1001

In January 2017, a Phase I clinical trial in Japan was initiated in patients with IDH1-mutant malignant brain tumors (gliomas).

l. Esaxerenone (CS-3150)

A phase III clinical trial was initiated in September 2016 for Esaxerenone, its non-steroidal, selective novel mineralcorticoid receptor antagonist, for patients with essential hypertension in Japan.

m. Mirogabalin

Phase III clinical trials are undergoing in Europe and the U.S. to evaluate the efficacy of mirogabalin in patients with fibromyalgia (FM). In Japan and Asia, Phase III clinical trials are undergoing to evaluate its efficacy on patients with diabetic peripheral neuropathic pain (DPNP) and patients with postherpetic neuralgia (PHN).

n. CL-108

U.S. subsidiary Daiichi Sankyo, Inc. received a complete response letter (CRL) dated January 31, 2017, from the FDA for in-licensed CL-108, a combination drug for the treatment of pain and opioid-induced nauseas and vomiting, which Charleston Laboratories, Inc. had applied for FDA approval. The CRL stated that the present application contents did not meet approval and provided guidance on information needed to resolve matters identified. Daiichi Sankyo, Inc. is working to address the points raised in this action.

o. Nasal spray live attenuated influenza vaccines

In June 2016, an application was filed in Japan for manufacturing and marketing approval for a live attenuated influenza vaccine administered as a nasal spray (U.S. trade name FluMist Quadrivalent), which was in-licensed from MedImmune LLC of the U.S. in September 2015.

[Major R&D Alliances and Open Innovations]

a. In-license of Heartcel, an immune-modulatory progenitor cell therapeutic agent for ischemic heart failure from Celixir Ltd.

In May 2016, Daiichi Sankyo signed a license agreement with UK-based Celixir Ltd. (former company name Cell Therapy Ltd.), which has granted Daiichi Sankyo an exclusive license in Japan to develop and market Heartcel, an immune-modulatory progenitor (iMP) cell therapeutic agent for ischemic heart failure currently in development.

b. In-license of biosimilars from Amgen Inc

In July 2016, Daiichi Sankyo executed an exclusive agreement to commercialize nine biosimilars which are currently in development by U.S. Amgen Inc. (Amgen) in Japan. The deal includes several biosimilars in late stage development, including adalimumab, bevacizumab and trastuzumab. Amgen will remain responsible for the development and manufacturing of the biosimilars. Daiichi Sankyo will file for marketing approval and be responsible for distribution and commercialization in Japan, while Amgen will have a limited rights to co-promote the products.

c. Conclusion of strategic partnership agreement for R&D pipeline of cellular cancer therapy with Kite Pharma, Inc.

Daiichi Sankyo entered into a strategic partnership with the U.S.-based Kite Pharma, Inc. (hereafter, Kite) for the exclusive rights of development, manufacturing and commercialization in Japan of Kite's cellular cancer therapy axicabtagene ciloleucel (KTE-C19, a cell therapy drug using genetically modified autologous T lymphocytes). The agreement also includes optional licensing rights for Kite's other product candidates that will progress into the clinical development stage over the next three years.

d. Conclusion of joint research agreement on establishing biomarker database on healthy adults

Daiichi Sankyo, Astellas Pharma Inc. and Takeda Pharmaceutical Company Limited entered into a joint research agreement to comprehensively acquire and analyze fundamental biomarker data on healthy adult volunteers in May 2016. Through this joint research, it will become possible to establish a base of comprehensive biomarker data— something that is difficult for individual pharmaceutical companies to do— as well as lead to more effective drug discovery by using a translational research approach.

e. Conclusion of immuno-oncology cross-licensing agreement and bi-specific antibody collaboration with Zymeworks Inc.

In September 2016, Daiichi Sankyo concluded a bi-specific antibody cross-licensing and collaboration agreement with Canada-based Zymeworks Inc. to accelerate the R&D of proprietary cancer immuno-oncology products.

f. Conclusion of strategic immuno-oncology research collaboration and option agreement with AgonOx, Inc.

In October 2016, Daiichi Sankyo concluded a strategic immuno-oncology research collaboration and option agreement with AgonOx, Inc (AgonOx). Daiichi Sankyo and AgonOx will collaborate on preclinical development of specified immuno-oncology program. Following preclinical assessment, Daiichi Sankyo has an exclusive option to research, develop, manufacture and commercialize the program worldwide.

g. Conclusion of lung cancer research collaboration agreement with Dana-Farber Cancer Institute, Inc.

In October 2016, Daiichi Sankyo concluded a preclinical lung cancer research collaboration agreement with Dana-Farber Cancer Institute, Inc (Dana-Farber Cancer Institute). Daiichi Sankyo will partner with Dana-Farber Cancer Institute on the development of a translational pharmacology package by using Daiichi Sankyo's assets of lung cancer drug candidates and unique animal testing models that were established at Dana-Farber Cancer Institute.

h. Conclusion of cancer R&D collaboration agreement with DarwinHealth, Inc.

In December 2016, Daiichi Sankyo concluded a R&D collaboration agreement in oncology with DarwinHealth, Inc (DarwinHealth). DarwinHealth's new technology for predicting biomarkers and effective types of cancer for various drugs will be used to help prioritize investigational compounds in the Daiichi Sankyo Cancer Enterprise pipeline for clinical development.

i. Conclusion of memorandum of understanding on the creation of a method for analyzing circulating tumor cells

In December 2016, Daiichi Sankyo, Sysmex Corporation, and Astellas Pharma Inc. signed a memorandum of understanding to create a method for analyzing circulating tumor cells (CTC). Based on this memorandum, the parties will collaborate on creating a novel CTC analysis method, which will be used not only for R&D on liquid-biopsy-based diagnostics and drugs, but also for driving the establishment of standardized CTC analysis in a clinical setting.

j. Conclusion of R&D collaboration agreement with Heptares Therapeutics Limited to discover and develop novel, small-molecules for the treatment of pain

In March 2017, Daiichi Sankyo entered with Heptares Therapeutics Limited (Heptares) in the U.K., into a drug discovery and licensing agreement focused on a single G protein-coupled receptor (GPCR) that plays a crucial role in relieving pain.

Heptares will utilize its crystalization technology for GPCRs to obtain hit compounds and to generate lead candidates. Daiichi Sankyo will also participate in lead generation and in vivo study to evaluate safety and efficacy.

k. Initiation of open innovation research on capillary stem cells (CapSCs)

Daiichi Sankyo and National University Corporation Asahikawa Medical University (Asahikawa Medical University) initiated open innovation research to develop the new capillary stem cells (CapSCs) discovered by Jun-ichi Kawabe, a professor of the Department of Cardiovascular Regeneration and Innovation, Asahikawa Medical University in April 2016. In the research, besides the therapeutic effects of CapSCs on various diseases, their practical use as a source for cell therapy will be investigated.

To carry out the research, OiDE CapiSEA, Inc. has been established, and all funds necessary for joint research and other such initiatives are provided by OiDE Fund Investment Limited Partnership (the "OiDE Fund"), which is jointly established by Daiichi Sankyo and Mitsubishi UFJ Capital Co., Ltd. in September 2013.

l. Initiation of open innovation research on new cancer immunotherapy

In March 2017, Daiichi Sankyo and The National Institutes of Biomedical Innovation, Health and Nutrition launched open innovation research on new cancer immunotherapy. This research will develop the seeds for new drug discovery in oncology.

To carry out the research, OiDE Adjubilee, Inc. has been established, and all funds necessary for joint research and other such initiatives are provided by the OiDE Fund.

[Enhancing the Biologics Development Platform]

In April 2017, the Biologics Division was newly established with the integration of the biologics R&D and production technology development functions.

By building a seamless, coordinated platform covering the discovery of biologics, supply of investigational product manufacturing, and preparation for commercial production, we will establish a manufacturing and technology development base for modalities (all compounds excluding small molecules) which are increasing in both type and quantity, and accelerate the development of biologics, including antibody drug conjugate DS-8201.

3) Production and Logistics

Daiichi Sankyo Group is working on initiatives aimed at optimizing its global production platform.

In Japan, as a part of the rebuilding of the active pharmaceutical ingredient (API) production platform, production at Daiichi Sankyo Chemical Pharma Co., Ltd.'s Hiratsuka Plant was stopped at the end of March 2017. Meanwhile, the Company decided to make a large capital investment in order to bolster the supply platform for biologics, and antibody drug conjugate (ADC) products, including DS-8201.

In the U.S., Daiichi Sankyo, Inc.'s Bethlehem Plant was sold to Sharp Packaging Services, which undertakes the packaging consignment business of UDG Healthcare, plc, with the aim of optimizing the production platform following Olmesartan's patent cliff.

In China, in January 2017, Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.'s Beijing Factory began production on a new manufacturing line for injectable drugs, and Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd.'s Shanghai Factory is constructing a new building for pharmaceutical processing, as the Group gradually increases its production capacity in conjunction with growth in the China business.

4) Corporate Social Responsibility (CSR) Activities

The Daiichi Sankyo Group Corporate Conduct Charter commits Daiichi Sankyo Group to working as a whole to carry out CSR activities based on medium- and long-term business activities and corporate social responsibility. Daiichi Sankyo Group aims to achieve sustained growth in corporate value by following through on this commitment.

Daiichi Sankyo has defined its six domains for CSR activities as promoting compliance management, mutual growth of employees and the Company, enhancement of communication with stakeholders, promoting environmental management, improving access to healthcare, and social contribution activities. The Group aims to enhance its activities in each of these domains on an ongoing basis.

Furthermore, Daiichi Sankyo also 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, 2017

1) Assets, Liabilities and Capital Position

Total assets as of the fiscal year-end are ¥1,915.0 billion, an increase of ¥14.5 billion from the previous fiscal year-end, mainly because of an increase in other financial assets. Total liabilities as of the fiscal

year-end are ¥743.6 billion, an increase of ¥76.6 billion from the previous fiscal year-end, mainly due to issuance of corporate bonds. Total equity as of the fiscal year-end is ¥1,171.4 billion, a decrease of ¥62.1 billion from the previous fiscal year-end, mainly due to acquisition of treasury shares and dividends which more than offset the profit for the year. The ratio of equity attributable to owners of the Company to total assets decreased by 3.4% from the previous year-end to 61.4%.

2) Status of Cash Flows

Cash and cash equivalents increased by ¥23.9 billion during the year ended March 31, 2017 to ¥246.1 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 ¥136.2 billion (previous year: 174.3 billion). Besides profit before tax (¥87.8 billion) and non-cash items such as depreciation and amortization (¥47.4 billion) and impairment loss (¥26.5 billion), this reflected cash outflows from the payments of income taxes.

Cash Flows from Investing Activities

Net cash flows used in investing activities totaled ¥96.8 billion (previous year: ¥6.0 billion), which reflected capital spending on facilities, among other factors.

Cash Flows from Financing Activities

Net cash flows used in financing activities totaled ¥15.0 billion (previous year: ¥122.9 billion), which reflected proceeds from issuance of bonds and spending on acquisition of treasury shares, dividend payments and repayments of borrowings among other factors.

(Reference) Cash flow-related indicators

Principal Cash Flow Indicators

	Year ended March 31, 2016	Year ended March 31, 2017
Ratio of equity attributable to owners of the Company to total assets (%)	64.8	61.4
Ratio of equity attributable to owners of the Company to total assets (at market value) (%)	90.0	86.8
Interest-bearing debt to cash flow ratio (years)	0.96	1.69
Interest coverage ratio (times)	152.5	111.2

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

Daiichi Sankyo Group

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

	Year ended March 31, 2017	Year ended March 31, 2018	Amount change	Percentage change
Revenue	955,124	930,000	–25,124	–2.6
Operating profit	88,929	100,000	11,070	12.4
Profit before tax	87,788	100,000	12,211	13.9
Profit attributable to owners of the Company	53,466	66,000	12,533	23.4

Revenue is forecast to decrease by 2.6% from fiscal 2016 to ¥930.0 billion. This is due to the effect of expiration of Olmesartan's patent period becoming serious despite the Company working toward rapid growth of Edoxaban both in Japan and overseas, sustainable growth of mainstay products in Japan, and expansion of *Injectafer*, a product of Luitpold Pharmaceuticals in the U.S.

Operating profit is forecast to increase by 12.4% from fiscal 2016 to ¥100.0 billion due to the transient special factors of decline included in the previous fiscal year and as a result of the positive outcome of enhancing profit generation and ongoing cost reductions that followed the optimization of the business operational structure implemented by fiscal 2016.

Profit attributable to owners of the Company is expected to be ¥66.0 billion, which is a 23.4% increase year on year.

Forecasts are based on assumption of foreign exchange rates at ¥110 against U.S. dollar and ¥120 against euro.

(4) Basic Policy on Profit Distribution and Dividends for the Years Ended March 2017 and Ending March 2018

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, under this policy, to increase shareholder returns and enhance capital efficiency, Daiichi Sankyo acquired approximately 20,250 thousand of its own shares for approximately ¥50.0 billion from June 21 to October 24, 2016.

Daiichi Sankyo paid an interim dividend of ¥35 per share to shareholders on December 1, 2016. The year-end dividend for the fiscal year ended March 31, 2017 is forecast at ¥35 per share, and, accordingly, the annual dividend for the fiscal year ended March 31, 2017 is forecast at ¥70 per share.

Daiichi Sankyo intends to pay a dividend of ¥70 per share for the fiscal year ending March 2018.

(5) Prospective Challenges

1) 2025 Vision

Daiichi Sankyo Group has established its 2025 Vision of being a "Global Pharma Innovator with Competitive Advantage in Oncology."

In the concrete, Daiichi Sankyo Group aspires to be a company:

- To have specialty area*[1] business centered on oncology business as the core business
- To have enriched regional value products*[2] aligned with regional market
- To have innovative products and pipeline changing SOC*[3]
- To realize shareholders' value through highly efficient management

*1 Specialty area: Drugs mainly prescribed at hospitals and/or by specialty practitioners

*2 Regional value products: Products aligned with regional market

*3 SOC (Standards of care): Universally applied best treatment practice in today's medical science

2) 5-Year Business Plan

The fourth medium-term plan for the period covering fiscal 2016 through fiscal 2020 is designated as the 5-Year Business Plan to realize the transformation towards the 2025 Vision. Under this plan, we will take action on two challenges, "Grow beyond FY2017 LOE*[1]" and "Establish a foundation of sustainable growth" thereafter.

*1 LOE : loss of exclusivity

a. Challenge 1: Grow Beyond FY2017 LOE

We will look to overcome the patent cliff for mainstay products such as antihypertensive agent Olmesartan, and are targeting revenue of ¥930.0 billion and operating profit of ¥100.0 billion in fiscal 2017.

In order to achieve the revenue target, we will accelerate the growth of the anticoagulant Edoxaban, a global mainstay product, and other mainstay products for the Japanese market, and increasing the growth of Luitpold Pharmaceuticals business in the U.S.

Also, in addition to bolstering profit-generating capacity through the structural reforms carried out till fiscal 2016, we will pursue further cost reductions and streamlining of assets as we aim to achieve operating profit of ¥100.0 billion.

b. Challenge 2: Establish a Foundation of Sustainable Growth

We will establish foundations for ensuring sustainable growth and aim to achieve revenue of ¥1,100.0 billion, operating profit of ¥165.0 billion, and ROE of 8% or above in fiscal 2020. Moreover, as of fiscal 2020, we aim to hold three to five late-stage products that can be commercialized within five years and are expected to achieve respective peak revenues exceeding ¥100.0 billion.

In order to establish foundations for ensuring sustainable growth, we have established six strategic targets which we will work to achieve.

i. Strategic Targets

1. Grow Edoxaban

With Edoxaban, we will forge ahead with efforts that involve consistently deploying our market launch strategy globally, continually promoting the appeal of the product's established attributes, and generating new evidence with the aim of enhancing its product strengths. We will accelerate growth of Edoxaban and develop it into a mainstay product that generates more than ¥120.0 billion in revenues in fiscal 2020. To such ends, in Japan we will draw on its product strengths and our high-quality marketing capabilities in order to make it a top-selling product, and in Europe we will bring about full-scale launch of the product across Europe by taking advance of collaborative initiatives with an alliance partner.

[Key Efforts in Fiscal 2016]
- Revenue growth in Japan, Germany and South Korea, and market share expansion in novel oral anticoagulant market
- Expansion of countries in Europe and Asia in which products are approved or brought to market
- Acceleration of new evidence generation

2. Grow as No. 1 Company in Japan

We aim to grow into Japan's leading pharmaceutical company as the No. 1 company. We will leverage the strengths of our innovative pharmaceuticals business, while precisely addressing various social needs 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.

[Key Efforts in Fiscal 2016]
- Revenue growth in 6 mainstay products (NEXIUM, Memary, PRALIA, RANMARK, Efient and TENELIA)
- MRs ranked No. 1
- Expanded product portfolio by launching VIMPAT and its filing for additional indication, introducing 9 biosimilars, etc.
- Strengthened authorized generic business by obtaining approval for manufacture and marketing of Olmesartan and other companies' products
- Grew the revenue market share in the prescription drug market

3. Expand U.S. Businesses

Daiichi Sankyo Inc. (DSI) will pursue expansion of the pain franchise business encompassing the products *MOVANTIK*, CL-108 and Mirogabalin, with the aim of revenue of more than ¥100.0 billion in fiscal 2020.

With Luitpold Pharmaceuticals, we aim to achieve revenue of ¥150.0 billion in fiscal 2020 by facilitating growth of its business through increased sales of the *Injectafer* iron franchise and the generic injectable franchise.

[Key Efforts in Fiscal 2016]
- Strengthened pain franchise business by introducing two abuse-deterrent formulation opioids (Daiichi Sankyo, Inc.)
- Accelerated the growth of Injectafer and growth in revenue share in the iron injectable market (Luitpold Pharmaceuticals)

4. Establish Oncology Business

We will develop our oncology business to the point where such operations generate revenue of more than ¥40.0 billion in fiscal 2020, and ¥300.0 billion in fiscal 2025. Efforts to that end will involve getting oncology business off the ground by bringing late-stage products to market, steadily developing

products in the early stage of the pipeline, enriching the product-line and the pipeline by acquiring external assets, and creating a new organization to accelerate oncology R&D initiatives.

[Key Efforts in Fiscal 2016]
- Integrated the oncology R&D platform and brought onboard an experienced and accomplished individual to lead development
- Established the two franchises, in which we will prioritize resource allocation (antibody drug conjugates (ADC) and acute myeloid leukemia (AML))
- Expanded the pipeline utilizing Daiichi Sankyo's proprietary ADC technology (Gained promising clinical study data for DS-8201 and expanded clinical candidates applying this technology)
- Strengthened the biopharmaceuticals development platform and invested a large-scale capital

5. Continuously Generate Innovative Medicine Changing SOC

With the aim of transforming operations of the research organization to a bioventure model, we will make oncology the Primary Focused area with respect to target disease, while categorizing pain treatments, central nervous system disease, heart and kidney disease, and rare disease in the New Horizon area, while also generating innovative medicine changing standards of care (SOC) by drawing on initiatives that involve partnering, open innovation and translational research. In addition, we will forge ahead in bringing about clinical applications for nucleic acid, cell therapies and other advanced technologies.

[Key Results in Fiscal 2016]
- Introduced innovative technologies such as Heartcel, an immune-modulatory progenitor cell therapeutic agent for ischemic heart failure, and cellular cancer therapy axicabtagene ciloleucel KTE-C19
- Advanced joint R&D and open innovation (lung cancer treatment drugs, immuno-oncology drugs, bispecific antibodies, biomarkers, novel small-molecule drugs aimed at treating pain and capillary stem cells, etc.)

6. Enhance Profit Generation Capabilities

In addition to initiatives taken up through fiscal 2015 to enhance our capacity for generating profits, for the duration of the business plan we will also forge ahead with efforts that involve optimizing our manufacturing systems on a global level and strengthening procurement functions. At the same time, we will enhance our ability to generate profits by drastically cutting costs and streamlining operations across the entire Daiichi Sankyo Group, while also conducting reviews with respect to cost of sales, selling, general and administrative expenses, and research and development expenses.

[Key Efforts in Fiscal 2016]
- Optimization of the global production platform (termination of production at Daiichi Sankyo Chemical Pharma Co., Ltd.'s Hiratsuka Plant and sale of Bethlehem Plant in the U.S.)
- Restructuring of European marketing platform, centered on France
- Global R&D platform restructuring (closed German subsidiary U3 Pharma GmbH, decision to close Indian subsidiary Daiichi Sankyo India Pharma Private Limited and domestic subsidiary Asubio Pharma Co., Ltd.)
- Cost reductions for procurement of raw materials, etc., as well as capital investment and overall expenditures

ii. Cash Generation and Allocation in Investment for Future Growth

During the 5-Year Business Plan, we will prioritize growth investments while enhancing shareholder returns.
As of March 31, 2016, cash-on-hand totaled roughly ¥700.0 billion. Our activities over the five years of the plan will befunded by this cash as well as the approximately ¥2,200.0 billion to be generated in the

form of free cash flow before R&Dexpenses (Profit before R&D, depreciation and amortization), and cash recovered through asset downsizing. As for specific allocations, we plan to conduct growth investments of ¥900.0 billion in R&D expenses and ¥500.0 billion in business development investments. The remainder of the funds will be used for shareholder returns, capital expenditure and working capital.

[Key Efforts in Fiscal 2016]
- Secure long term stable funding by issuing super-long unsecured straight bonds
- Reduction of cross-shareholdings

iii. Shareholder Return Policy

We will seek a total return ratio[*4] 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.

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

[Key Results in Fiscal 2016]
- Payment of ordinary dividend of ¥70 per share (paid a ¥35 per share interim dividend and plan to pay ¥35 per share year-end dividend)
- Acquisition of own shares (approximately ¥50.0 billion, approximately 20,250 thousand shares)

(6) Business risks

The following section provides an overview of the principal risks that could negatively affect the business results and financial condition ("business results, etc.") of the Group. Any forward-looking statements or projections contained in this overview represent the best judgment of management based on information available at the end of the fiscal year under review. Actual results may differ from the forecasts due to a range of factors.

1) Risks Related to Dependence on Specific Products

In fiscal 2016, sales of Olmesartan account for 22.8% of consolidated revenue. A decrease in revenue resulting from the earlier end time of the exclusive sales period or other factors with respect to Olmesartan may adversely affect Daiichi Sankyo's business results.

2) Litigation-related Risks

The Group could face litigation of various forms concerning its business activities, including without limitation lawsuits related to drug side effects, product liability, labor disputes or antitrust issues. Any such litigation may have an adverse effect on the Group's business results, etc.

Multiple lawsuits have been filed against Daiichi Sankyo Company, Limited, Daiichi Sankyo Inc. ("DSI"), Daiichi Sankyo U.S. Holdings, Inc. as well as Forest Laboratories, LLC (head office: New York, U.S.A.) and the subsidiaries and affiliates thereof in U.S. federal and state courts by claimants alleging to have experienced sprue-like enteropathy (primary symptoms of sprue-like enteropathy 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).

While 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 Restrain Healthcare Expenditures

Prescription drugs in Japan are subject to medical regulations and a variety of laws, regulations and ordinances. Any regulatory changes or associated trends related to the medical treatment system and national health insurance – most notably NHI price revisions – may have a negative impact on the

Group's business results, etc. Similarly, sales of prescription drugs in overseas markets are also subject to various legal and regulatory constraints; the Group's performance in these markets may 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 promotion of 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 compliance structure is reinforced through compliance training and other measures.

4) Risks Related to Corporate Acquisitions and Other Such Initiatives

The Daiichi Sankyo Group engages in corporate acquisitions, capital alliances and other such initiatives as part of its efforts to develop R&D, etc. When acquiring a corporation or taking other such action, the Group's efforts involve conducting due diligence and determining the potential effects and risks 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 without limitation 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. Accordingly, such circumstances may adversely affect the Group's business results, etc.

Daiichi Sankyo announced in April 2014 that it had concluded an agreement with Sun Pharma under which the latter would acquire 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).

Under the agreement 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 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 7 years from the closing date. In April 2015, Daiichi Sankyo sold all of the acquired Sun Pharma shares, but the aforementioned agreement still 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 good 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 concerning R&D-related alliances with third parties, or the cancellation thereof, may also adversely affect the business results, etc.

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 vaccine for 40 million people within six months by the end of March 2014. However, the company is not able to establish sufficient capacity to attain this goal due to declines in yield experienced in the viral antigen purification process. The Group is aiming to build the supply chain and complete the project, through improving yields by such measures as revamping production processes and strictly managing the process control.

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 business results, etc. 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 may have an adverse effect on the business results, etc.

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

The Daiichi Sankyo Group's business results, etc. may 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 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, may also adversely affect the business results, etc. 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 U.S. and other developed countries where it is possible to file for approval of generic pharmaceutical products even before patent expiration, and 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 litigation. Conversely, 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 an adverse effect on the Group's business, etc. 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

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

10) Operational Risks Related to Occurrence of Disasters

Any damage to Group's 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 wars, acts of terrorism, fire or other manmade 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, etc.

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 uses efforts to ensure that the management of these substances is conducted properly at all times, any judgment that Group's operations pose a risk of serious environmental impact due to soil contamination, air pollution or water pollution may adversely affect the Group's business results, etc.

12) Financial Market and Currency 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 currency 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 exchange movements may therefore have a material impact on its business results, etc.

13) Other Risks

Other risks that could have a negative impact on the Group's business results, etc. include 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 directors, members of the Audit & Supervisory Board, officers or employees; a deterioration in the funding procurement environment due to a financial crisis; and a decline in credibility resulting from the spread of counterfeit drugs labeled as Daiichi Sankyo Group products.

2. Systems and policies

(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

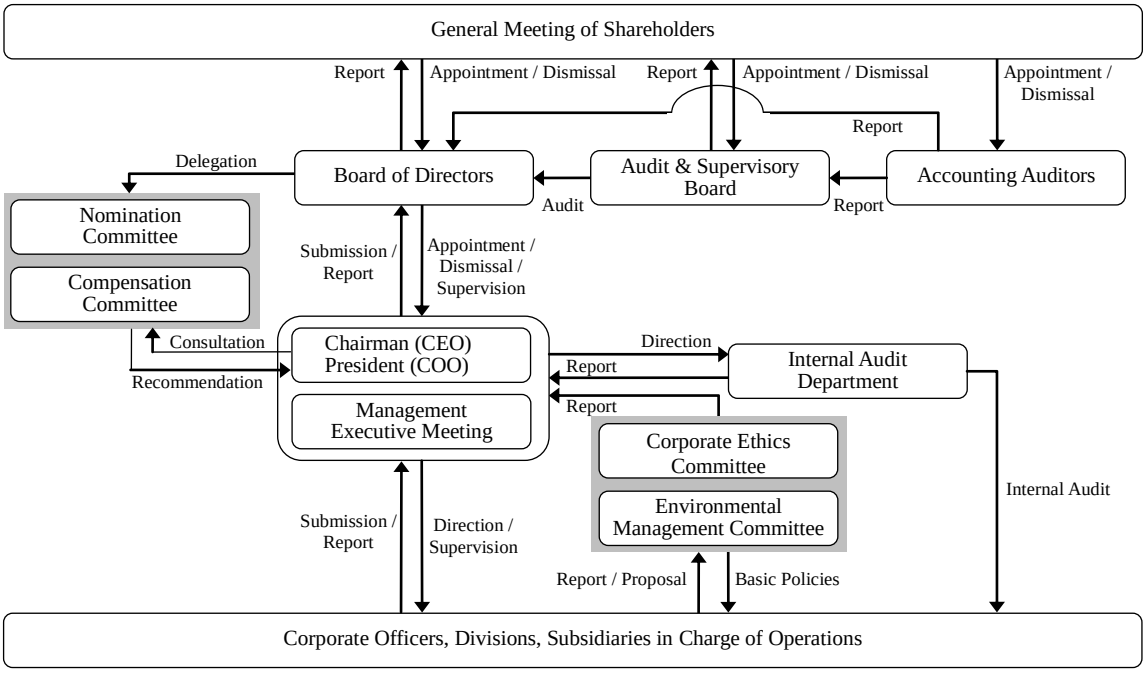
a. To clarify Members' of the Board management responsibility and reinforce their oversight of management and the conduct of operations, their terms of office are set at one year, and four out of our ten Members of the Board are Members of the Board (Outside).

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).

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 four members, including two 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.



(Note) As of April 1, 2017.

2) Policies and Procedures for Appointment and Nomination of Candidates for Members of the Board and Members of the Audit & Supervisory Board

- 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 Daiichi Sankyo 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 business execution.
- 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 relating to 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.

3) 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 is designed to provide remuneration that contributes to maximize corporate value. Specifically, in addition to a basic remuneration, performance based bonuses serving as short-term incentive and share remuneration-type stock options serving as long-term incentive are adopted.
- 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.
- Share remuneration-type stock options serving as long-term incentives provide a scheme whereby stock options may not be exercised during the period in office of a Member of the Board and the value of current management efforts being reflected in future share price rises can be received.
- 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.
- In order to ensure that Members of the Board (Outside) and Members of the Audit & Supervisory Board adequately perform their role, which is supervision of management, short-term and long-term incentives are not provided and only basic remuneration is granted.

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 share remuneration-type stock options 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 calculation and granting of share remuneration-type stock options 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

Daiichi Sankyo and its consolidated subsidiaries ("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. State of the Group

The Daiichi Sankyo Group consists of Daiichi Sankyo Company, Limited, its 56 subsidiaries and its 2 associates, a total of 59 companies. The Group's principal business is the manufacture and sale of pharmaceuticals, and related operations.

Major consolidated subsidiaries and associates as of March 31, 2017 are as follows:

Subsidiaries and Associates

(as of March 31, 2017; "the Company" in the table refers to Daiichi Sankyo Company, Limited.)

Name	Location	Capital (Millions of yen, except as noted)	% of voting rights held [indirect holdings]	Relationship
Consolidated subsidiaries				
Daiichi Sankyo Espha Co., Ltd.	Chuo-ku, Tokyo, Japan	450	100.0	Products supplied to the Company Office, etc. space leased from the Company Capital for in-license products borrowed from Company
Daiichi Sankyo Healthcare Co., Ltd.	Chuo-ku, Tokyo, Japan	100	100.0	Products supplied by the Company Office, etc. space leased from the Company
Daiichi Sankyo Propharma Co., Ltd.	Chuo-ku, Tokyo, Japan	100	100.0	Concurrent directors Products supplied to the Company Office space and factory land leased from the Company Facility capital borrowed from the Company
Daiichi Sankyo Chemical Pharma Co., Ltd.	Chuo-ku, Tokyo, Japan	50	100.0	Concurrent directors Products supplied to the Company Factory land leased from the Company Facility capital borrowed from the Company
Asubio Pharma Co., Ltd.	Kobe, Hyogo, Japan	50	100.0	Concurrent directors R&D function subcontracted by the Company
Daiichi Sankyo RD Novare Co., Ltd.	Edogawa-ku, Tokyo, Japan	50	100.0	Concurrent directors R&D function subcontracted by the Company Office space leased from the Company
Daiichi Sankyo Business Associe Co., Ltd.	Chuo-ku, Tokyo, Japan	50	100.0	Concurrent directors Back-office operations subcontracted by the Company Office space and rental property leased from the Company Office space rented out to the Company
Kitasato Daiichi Sankyo Vaccine Co., Ltd.	Kitamoto, Saitama, Japan	100	80.0	Concurrent directors Products supplied to the Company R&D function subcontracted by the Company Office space, etc. leased from the Company Facility capital borrowed from the Company
Japan Vaccine Distribution Co., Ltd.	Chiyoda-ku, Tokyo, Japan	10	50.0	Concurrent directors Products supplied to the Company
Daiichi Sankyo U.S. Holdings, Inc.	New Jersey, United States	3.0 U.S. dollars	100.0	Concurrent directors
Daiichi Sankyo, Inc.	New Jersey, United States	170 thousand U.S. dollars	100.0 [100.0]	Concurrent directors Products supplied by the Company Promotional and R&D functions subcontracted by the Company
Plexxikon Inc.	California, United States	1.0 U.S. dollar	100.0 [100.0]	Concurrent directors R&D function subcontracted by the Company
Luitpold Pharmaceuticals, Inc.	New York, United States	200 thousand U.S. dollars	100.0 [100.0]	
Ambit Biosciences Corporation	California, United States	1.0 U.S. dollar	100.0	Concurrent directors
Daiichi Sankyo Europe GmbH	Munich, Germany	16 million euros	100.0	Concurrent directors Products supplied by the Company Manufacturing subcontract work received from the Company Promotional and R&D functions subcontracted by the Company
Daiichi Sankyo France SAS	Ryu El Malmaison, France	12,482 thousand euros	100.0 [100.0]	
Daiichi Sankyo Deutschland GmbH	Munich, Germany	51 thousand euros	100.0 [100.0]	

Name	Location	Capital (Millions of yen, except as noted)	% of voting rights held [indirect holdings]	Relationship
Daiichi Sankyo Italia S.p.A.	Rome, Italy	120 thousand euros	100.0 [100.0]	
Daiichi Sankyo España, S.A.	Madrid, Spain	120 thousand euros	100.0 [100.0]	
Daiichi Sankyo UK Ltd.	Buckinghamshire, United Kingdom	19.5 million GB pounds	100.0 [100.0]	
Daiichi Sankyo (China) Holdings Co., Ltd.	Shanghai, China	146,800 thousand U.S. dollars	100.0	Concurrent directors Products supplied by the Company R&D function subcontracted by the Company
Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.	Beijing, China	83,800 thousand U.S. dollars	100.0 [100.0]	Concurrent directors Products supplied by the Company
Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd.	Shanghai, China	53,000 thousand U.S. dollars	100.0 [100.0]	Concurrent directors Products supplied by the Company
Daiichi Sankyo Taiwan Ltd.	Taipei, Taiwan	345 million TW dollars	100.0	Concurrent directors Products supplied by the Company
Daiichi Sankyo Korea Co., Ltd.	Seoul, Korea	3,000 million won	100.0	Concurrent directors Products supplied by the Company
Daiichi Sankyo Brasil Farmacéutica LTDA.	Sao Paulo, Brazil	39 million BRL	100.0	Concurrent directors Products supplied by the Company Operating capital borrowed from the Company
Other 30 companies				
Associated companies accounted for by the equity method				
Japan Vaccine Co., Ltd.	Chiyoda-ku, Tokyo, Japan	100	50.0	Concurrent directors Products supplied by the Company
Hitachi Pharma Evolutions, Ltd.	Chiyoda-ku, Tokyo, Japan	250	49.0	Concurrent directors Back-office operations subcontracted by the Company Office space leased from the Company

(Notes)

1. Among the above subsidiaries and associates, Daiichi Sankyo Propharma Co., Ltd., Japan Vaccine Distribution Co., Ltd., Daiichi Sankyo, Inc., Daiichi Sankyo (China) Holdings Co., Ltd., Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd. and Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd. fall under the category of specified subsidiaries.
2. Figures in parentheses in the percentage of voting rights held column refer to the percentage of ownership held indirectly through other subsidiaries.

5. Consolidated Financial Statements with Primary Notes

(1) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
ASSETS		
Current assets		
Cash and cash equivalents	222,159	246,050
Trade and other receivables	248,762	231,867
Other financial assets	493,768	552,896
Inventories	144,273	153,138
Other current assets	15,233	10,461
Subtotal	1,124,196	1,194,414
Assets held for sale	1,071	3,374
Total current assets	1,125,268	1,197,788
Non-current assets		
Property, plant and equipment	250,168	217,772
Goodwill	78,691	78,446
Intangible assets	210,395	217,044
Investments accounted for using the equity method	1,207	1,424
Other financial assets	168,189	140,856
Deferred tax assets	55,726	53,502
Other non-current assets	10,875	8,143
Total non-current assets	775,254	717,190
Total assets	1,900,522	1,914,979

(Millions of yen)

	As of March 31, 2016	As of March 31, 2017
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	241,831	219,759
Bonds and borrowings	20,000	–
Other financial liabilities	819	535
Income taxes payable	53,936	57,955
Provisions	28,335	41,223
Other current liabilities	34,770	6,285
Subtotal	379,694	325,758
Liabilities directly associated with assets held for sale	–	1,058
Total current liabilities	379,694	326,817
Non-current liabilities		
Bonds and borrowings	181,000	280,543
Other financial liabilities	9,148	9,069
Post-employment benefit liabilities	14,028	11,381
Provisions	12,287	16,350
Deferred tax liabilities	33,679	32,294
Other non-current liabilities	37,161	67,093
Total non-current liabilities	287,306	416,733
Total liabilities	667,000	743,550
Equity		
Equity attributable to owners of the Company		
Share capital	50,000	50,000
Capital surplus	103,927	103,750
Treasury shares	(64,155)	(113,952)
Other components of equity	146,717	124,489
Retained earnings	994,916	1,011,610
Total equity attributable to owners of the Company	1,231,406	1,175,897
Non-controlling interests		
Non-controlling interests	2,115	(4,469)
Total equity	1,233,521	1,171,428
Total liabilities and equity	1,900,522	1,914,979

(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, 2016	Year ended March 31, 2017
Revenue	986,446	955,124
Cost of sales	318,622	349,373
Gross profit	667,823	605,751
Selling, general and administrative expenses	328,755	302,475
Research and development expenses	208,656	214,347
Operating profit	130,412	88,929
Financial income	5,292	6,406
Financial expenses	13,028	7,710
Share of profit (loss) of investments accounted for using the equity method	(287)	162
Profit before tax	122,388	87,788
Income taxes	41,988	40,309
Profit for the year	80,399	47,479
Profit attributable to:		
Owners of the Company	82,282	53,466
Non-controlling interests	(1,883)	(5,987)
Profit for the year	80,399	47,479
Earnings per share		
Basic earnings per share (Yen)	119.37	79.63
Diluted earnings per share (Yen)	119.11	79.44

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Profit for the year	80,399	47,479
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(18,942)	(9,366)
Remeasurements of defined benefit plans	(5,397)	1,840
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of foreign operations	(31,088)	(7,626)
Share of other comprehensive income of investments accounted for using the equity method	(11)	6
Other comprehensive income (loss) for the year	(55,439)	(15,146)
Total comprehensive income for the year	24,959	32,332
Total comprehensive income attributable to:		
Owners of the Company	26,961	38,309
Non-controlling interests	(2,001)	(5,976)
Total comprehensive income for the year	24,959	32,332

(3) Consolidated Statement of Changes in Equity

(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	Cash flow hedges	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2015	50,000	105,267	(14,198)	1,760	106,202	(4,347)	65,419
Profit for the year	–	–	–	–	–	–	–
Other comprehensive income for the year	–	–	–	–	(31,001)	–	(18,942)
Total comprehensive income for the year	–	–	–	–	(31,001)	–	(18,942)
Purchase of treasury shares	–	(201)	(50,037)	–	–	–	–
Cancellation of treasury shares	–	–	80	(45)	–	–	–
Share-based payments	–	–	–	220	–	–	–
Dividends	–	–	–	–	–	–	–
Acquisition of non-controlling interests	–	(1,138)	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	(6)	4,347	23,109
Others	–	–	–	–	–	–	–
Total transactions with owners of the Company	–	(1,339)	(49,957)	175	(6)	4,347	23,109
Balance as of March 31, 2016	50,000	103,927	(64,155)	1,935	75,195	–	69,586
Profit for the year	–	–	–	–	–	–	–
Other comprehensive income for the year	–	–	–	–	(7,626)	–	(9,366)
Total comprehensive income for the year	–	–	–	–	(7,626)	–	(9,366)
Purchase of treasury shares	–	(69)	(50,026)	–	–	–	–
Cancellation of treasury shares	–	–	230	(133)	–	–	–
Share-based payments	–	–	–	264	–	–	–
Dividends	–	–	–	–	–	–	–
Acquisition of non-controlling interests	–	(107)	–	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	–	–	–	(5,366)
Others	–	–	–	–	–	–	–
Total transactions with owners of the Company	–	(177)	(49,796)	131	–	–	(5,366)
Balance as of March 31, 2017	50,000	103,750	(113,952)	2,067	67,568	–	54,853

(Millions of yen)

	Equity attributable to owners of the Company					
	Other components of equity		Retained earnings	Total equity attributable to owners of the Company	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Total other components of equity				
Balance as of April 1, 2015	–	169,034	993,953	1,304,057	2,984	1,307,041
Profit for the year	–	–	82,282	82,282	(1,883)	80,399
Other comprehensive income for the year	(5,378)	(55,321)	–	(55,321)	(118)	(55,439)
Total comprehensive income for the year	(5,378)	(55,321)	82,282	26,961	(2,001)	24,959
Purchase of treasury shares	–	–	–	(50,239)	–	(50,239)
Cancellation of treasury shares	–	(45)	(34)	0	–	0
Share-based payments	–	220	–	220	–	220
Dividends	–	–	(48,456)	(48,456)	–	(48,456)
Acquisition of non-controlling interests	–	–	–	(1,138)	1,138	–
Transfer from other components of equity to retained earnings	5,378	32,828	(32,828)	–	–	–
Others	–	–	–	–	(5)	(5)
Total transactions with owners of the Company	5,378	33,004	(81,320)	(99,613)	1,133	(98,479)
Balance as of March 31, 2016	–	146,717	994,916	1,231,406	2,115	1,233,521
Profit for the year	–	–	53,466	53,466	(5,987)	47,479
Other comprehensive income for the year	1,835	(15,157)	–	(15,157)	10	(15,146)
Total comprehensive income for the year	1,835	(15,157)	53,466	38,309	(5,976)	32,332
Purchase of treasury shares	–	–	–	(50,095)	–	(50,095)
Cancellation of treasury shares	–	(133)	(95)	1	–	1
Share-based payments	–	264	–	264	–	264
Dividends	–	–	(43,879)	(43,879)	–	(43,879)
Acquisition of non-controlling interests	–	–	–	(107)	(600)	(708)
Transfer from other components of equity to retained earnings	(1,835)	(7,202)	7,202	–	–	–
Others	–	–	–	–	(7)	(7)
Total transactions with owners of the Company	(1,835)	(7,071)	(36,772)	(93,817)	(608)	(94,425)
Balance as of March 31, 2017	–	124,489	1,011,610	1,175,897	(4,469)	1,171,428

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Cash flows from operating activities		
Profit before tax	122,388	87,788
Depreciation and amortization	44,306	47,373
Impairment loss	4,730	26,459
Financial income	(5,292)	(6,406)
Financial expenses	13,028	7,710
Share of (profit) loss of investments accounted for using the equity method	287	(162)
(Gain) loss on sale and disposal of non-current assets	(7,739)	449
(Increase) decrease in trade and other receivables	(15,121)	15,148
(Increase) decrease in inventories	972	(10,951)
Increase (decrease) in trade and other payables	33,083	(16,979)
Others, net	18,875	13,398
Subtotal	209,519	163,828
Interest and dividends received	3,603	4,289
Interest paid	(1,397)	(1,511)
Income taxes paid	(37,443)	(30,371)
Net cash flows from operating activities	174,281	136,234
Cash flows from investing activities		
Payments into time deposits	(674,891)	(492,441)
Proceeds from maturities of time deposits	419,899	404,416
Acquisition of securities	(303,023)	(180,376)
Proceeds from sale of securities	618,423	219,049
Settlement of forward foreign exchange contract for sale of securities	(7,024)	–
Acquisitions of property, plant and equipment	(27,136)	(24,766)
Proceeds from sale of property, plant and equipment	5,546	2,403
Acquisition of intangible assets	(42,261)	(28,196)
Acquisition of subsidiary	(11,771)	–
Proceeds from sale of subsidiary	7,004	–
Payments for loans receivable	(1,616)	(71)
Proceeds from collection of loans receivable	1,913	1,472
Other, net	8,971	1,719
Net cash flows used in investing activities	(5,967)	(96,792)

(Millions of yen)

	Year ended March 31, 2016	Year ended March 31, 2017
Cash flows from financing activities		
Proceeds from bonds and borrowings	0	100,000
Repayments of bonds and borrowings	(22,976)	(20,000)
Purchase of treasury shares	(50,239)	(50,095)
Proceeds from sale of treasury shares	0	1
Dividends paid	(48,468)	(43,889)
Others, net	(1,247)	(1,038)
Net cash flows used in financing activities	(122,930)	(15,022)
Net increase (decrease) in cash and cash equivalents	45,383	24,419
Cash and cash equivalents at the beginning of the year	189,372	222,159
Effect of exchange rate changes on cash and cash equivalents	(12,596)	(527)
Cash and cash equivalents at the end of the year	222,159	246,050

(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. In the year ended March 31, 2017, the Group adopted the following accounting standards in accordance with their effective date. These new and amended accounting standards did not have a material impact on the consolidated financial statements.

IFRS		Overview
IFRS 11	Joint Arrangements	Clarification of accounting for acquisition of interests in joint operations
IFRS 14	Regulatory Deferral Accounts	Establish accounting for regulatory deferral accounts
IAS 1	Presentation of Financial Statements	Clarification of rules for presentation and disclosure based on materiality
IAS 27	Separate Financial Statements	Amendments to accounting for subsidiaries and associates in separate financial statements
IAS 16	Property, Plant and Equipment	Clarification of acceptable methods of depreciation and amortization
IAS 38	Intangible Assets	
IAS 16	Property, Plant and Equipment	Rules for accounting for biological assets
IAS 41	Agriculture	
IFRS 10	Consolidated Financial Statements	Clarification of exemption from consolidation and equity method accounting for investing entities
IFRS 12	Disclosure of Interests in Other Entities	
IAS 28	Investments in Associates and Joint Ventures	

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)

Item name	Year ended March 31, 2016		Year ended March 31, 2017		Increase / (decrease)	
	Amount	Ratio (%)	Amount	Ratio (%)	Amount	Ratio (%)
Prescription drugs	930,323	94.3	885,573	92.7	(44,750)	–4.8
Healthcare (OTC) products	53,365	5.4	66,882	7.0	13,516	25.3
Others	2,756	0.3	2,668	0.3	(87)	–3.2
Total	986,446	100.0	955,124	100.0	(31,321)	–3.2

(3) Information by geographical area

As of and for the year ended March 31, 2016

(Millions of yen)

	Japan	North America	Europe	Other regions	Consolidated
Revenue from external customers (Note 1)	555,770	279,748	78,472	72,455	986,446
Non-current assets (Note 2)	322,849	189,236	18,248	8,920	539,256

As of and for the year ended March 31, 2017

(Millions of yen)

	Japan	North America	Europe	Other regions	Consolidated
Revenue from external customers (Note 1)	579,883	235,316	71,021	68,903	955,124
Non-current assets (Note 2)	297,805	188,120	18,877	8,459	513,263

(Notes)

1. Revenue from external customers is classified according to the geographical location of customers.
2. 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

(Millions of yen)

Name of customer	Year ended March 31, 2016	Year ended March 31, 2017
Alfresa Holdings Corporation and its group companies	182,593	190,637
McKesson Corporation	164,957	109,800
Cardinal Health, Inc.	121,245	85,464

Earnings per Share

(1) Basis for calculation of basic earnings per share

	Year ended March 31, 2016	Year ended March 31, 2017
a. Profit Attributable to owners of the Company		
Profit attributable to owners of the Company (Millions of yen)	82,282	53,466
Profit not attributable to owners of the Company (Millions of yen)	–	–
Profit used to calculate basic earnings per share (Millions of yen)	82,282	53,466
b. Weighted-average Number of Ordinary Shares		
Weighted-average number of ordinary shares (basic) (1,000 shares)	689,313	671,422
c. Basic Earnings per Share		
Basic earnings per share (Yen)	119.37	79.63

(2) Diluted Earnings per Share

	Year ended March 31, 2016	Year ended March 31, 2017
a. Diluted Profit Attributable to owners of the Company		
Profit used to calculate basic earnings per share (Millions of yen)	82,282	53,466
Adjustment to profit (Millions of yen)	–	–
Profit used to calculate diluted earnings per share (Millions of yen)	82,282	53,466
b. Weighted-average Number of Diluted Ordinary Shares		
Weighted-average number of ordinary shares (basic) (1,000 shares)	689,313	671,422
Potential effect of issue of stock acquisition rights (1,000 shares)	1,506	1,610
Weighted-average number of ordinary shares (diluted) (1,000 shares)	690,819	673,033
c. Diluted Earnings per Share		
Diluted earnings per share (Yen)	119.11	79.44

Subsequent Events

Not applicable.