A Year of Achievements,

A Future of Innovation

DAIICHI SANKYO CO., LTD.

Annual Report 2008

Daiichi-Sankyo

Contents

Forward-Looking Statements

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgements derived from the information available to the Company at the time of publication. Certain risks and uncertainties could cause the Company's actual results to differ from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business; competitive pressures; related laws and regulations; product development programs; and foreign currency fluctuations.

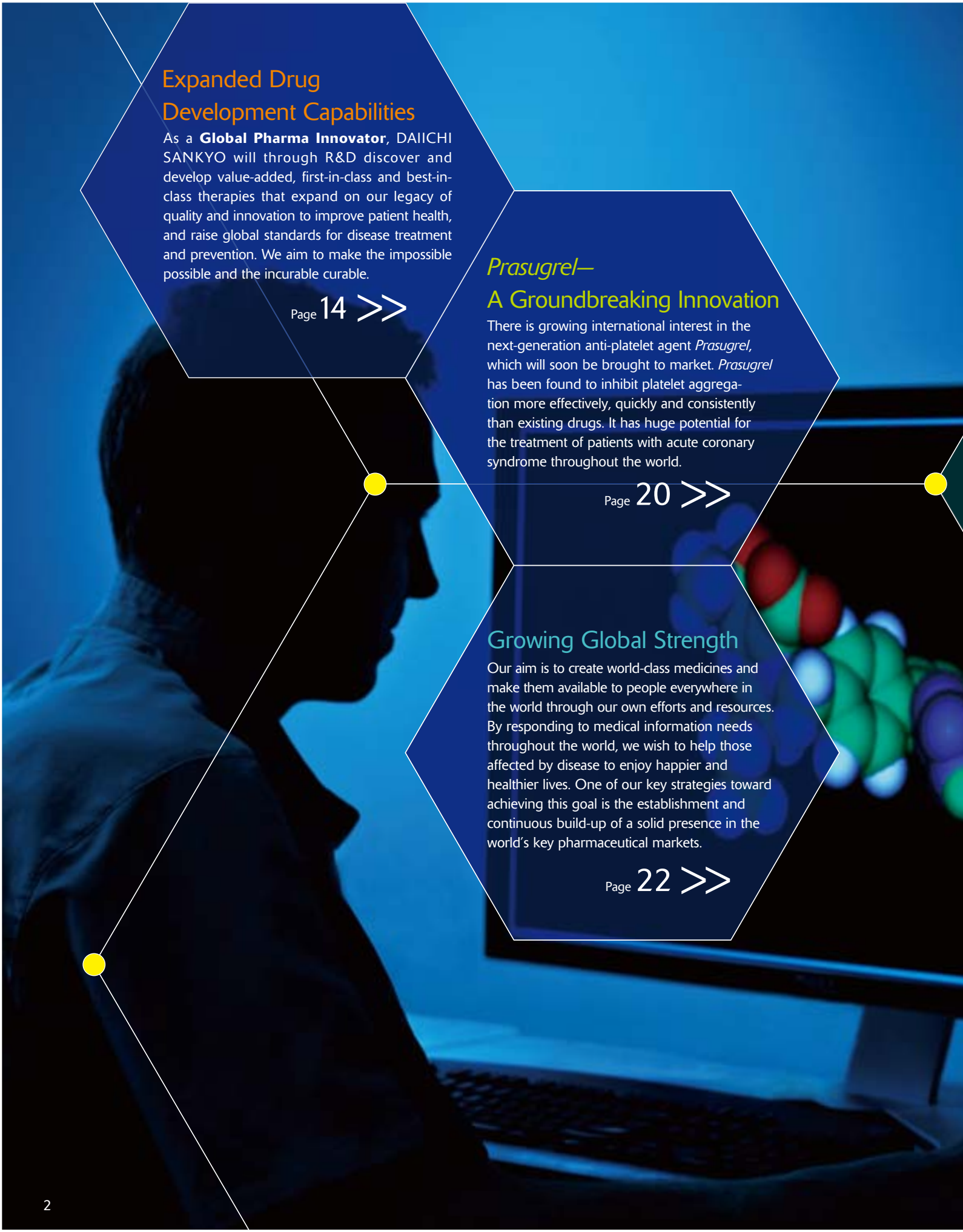
A World-Class Pharmaceutical Innovator

Profile

DAIICHI SANKYO was established in 2005 after the merger of two leading century-old Japanese pharmaceutical companies. Leveraging this accumulated expertise in various therapeutic areas while continuously enhancing our R&D processes, we are dedicated to improving the health and quality of life for patients worldwide.

To realize our vision of becoming a **Global Pharma Innovator**, we work to further social, economic and humanistic values, always keeping customer trust and our focus on innovation foremost in mind.

At DAIICHI SANKYO, we do more than develop pharmaceuticals, **we create hope in patients' lives**.



Expanded Drug Development Capabilities

As a **Global Pharma Innovator**, DAIICHI SANKYO will through R&D discover and develop value-added, first-in-class and best-in-class therapies that expand on our legacy of quality and innovation to improve patient health, and raise global standards for disease treatment and prevention. We aim to make the impossible possible and the incurable curable.

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Prasugrel— A Groundbreaking Innovation

There is growing international interest in the next-generation anti-platelet agent *Prasugrel*, which will soon be brought to market. *Prasugrel* has been found to inhibit platelet aggregation more effectively, quickly and consistently than existing drugs. It has huge potential for the treatment of patients with acute coronary syndrome throughout the world.

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Growing Global Strength

Our aim is to create world-class medicines and make them available to people everywhere in the world through our own efforts and resources. By responding to medical information needs throughout the world, we wish to help those affected by disease to enjoy happier and healthier lives. One of our key strategies toward achieving this goal is the establishment and continuous build-up of a solid presence in the world's key pharmaceutical markets.

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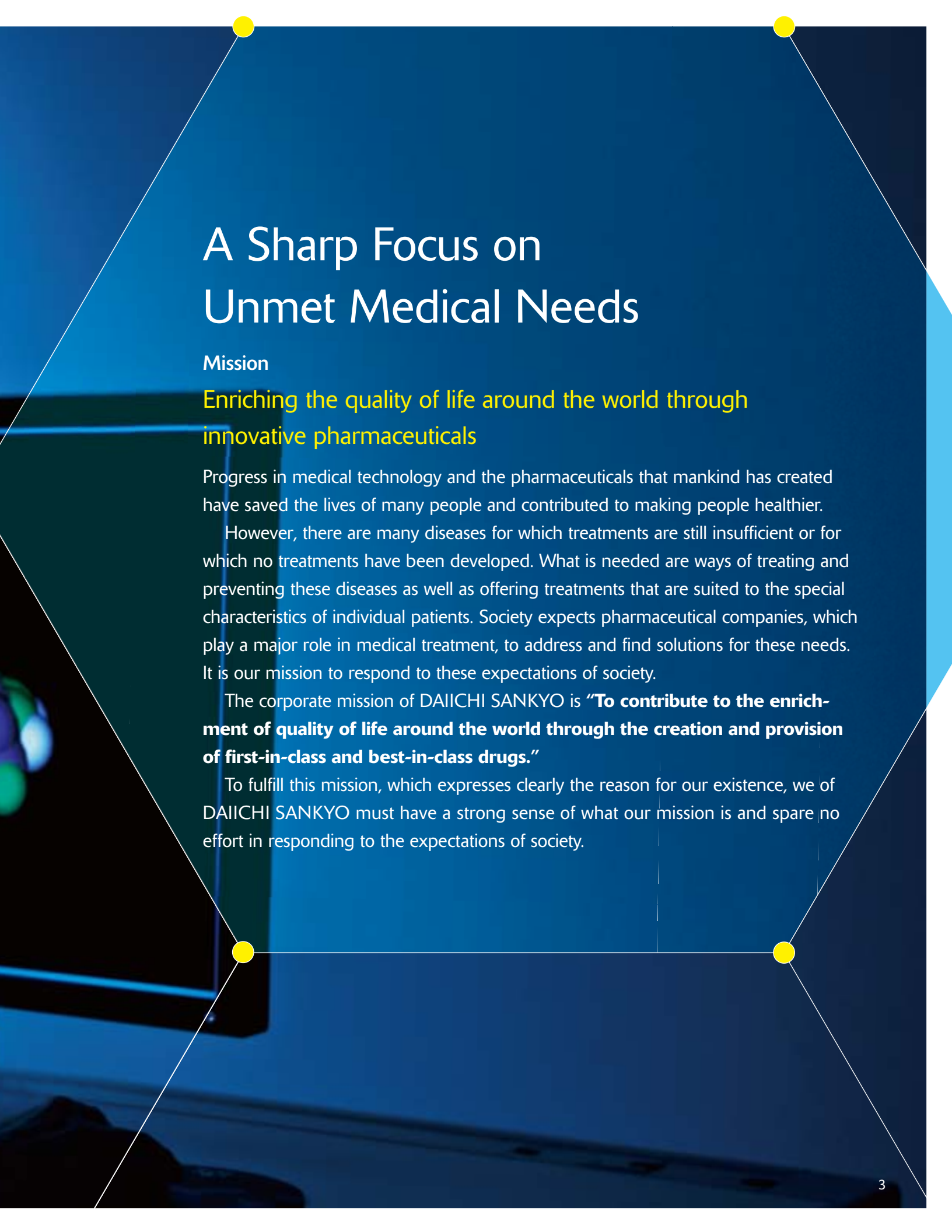


A Sharp Focus on Unmet Medical Needs

Mission

Enriching the quality of life around the world through innovative pharmaceuticals

Progress in medical technology and the pharmaceuticals that mankind has created have saved the lives of many people and contributed to making people healthier.

However, there are many diseases for which treatments are still insufficient or for which no treatments have been developed. What is needed are ways of treating and preventing these diseases as well as offering treatments that are suited to the special characteristics of individual patients. Society expects pharmaceutical companies, which play a major role in medical treatment, to address and find solutions for these needs. It is our mission to respond to these expectations of society.

The corporate mission of DAIICHI SANKYO is **"To contribute to the enrichment of quality of life around the world through the creation and provision of first-in-class and best-in-class drugs."**

To fulfill this mission, which expresses clearly the reason for our existence, we of DAIICHI SANKYO must have a strong sense of what our mission is and spare no effort in responding to the expectations of society.

Consolidated Financial Highlights

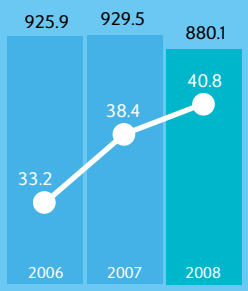
DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2006, 2007 and 2008 (Fiscal years 2005, 2006 and 2007)

	Millions of yen			Millions of U.S. dollars
For the year:	2006	2007	2008	2008**
Net sales	¥925,918	¥929,507	¥880,120	$8,801
Operating income	154,728	136,314	156,827	1,568
Net income	87,693	78,550	97,660	977
Overseas sales	307,265	356,701	358,639	3,586
Overseas sales to net sales (%)	33.2	38.4	40.8	40.8
R&D expenses	158,716	170,662	163,472	1,635
R&D expenses to net sales (%)	17.1	18.4	18.6	18.6
Capital expenditures	35,376	46,284	67,640	676
Depreciation	41,129	39,987	38,733	387
At year-end:				
Total assets	1,596,127	1,636,835	1,487,889	14,879
Net assets	1,249,139	1,272,148	1,244,513	12,445
Per share data (yen and U.S. dollars):				
Net income	¥119.49	¥107.75	¥135.35	$1.35
Cash dividends	25.00*	60.00	70.00	0.70

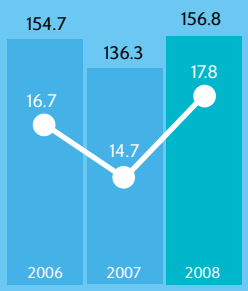
* The company paid ¥25 per share as an interim stock transfer payment in December 2005, instead of the interim dividend.

** The U.S. dollar amounts represent translations of Japanese yen, solely for convenience, at the rate of ¥100=US$1.00, the approximate exchange rate prevailing on March 31, 2008.

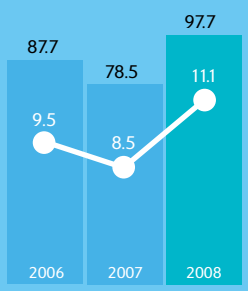
Net Sales / Overseas Sales to Net Sales



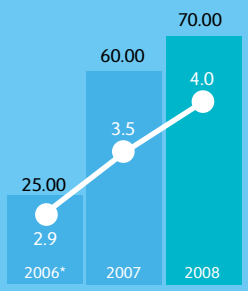
Operating Income / Operating Income Margin



Net Income / Net Income Margin



Cash Dividend / Dividend on Equity



Solid Achievements for Further Growth

Income Growth Strengthens Financial Position

Cost reductions and stronger marketing and distribution systems in key markets led operating income to increase by 15.0% to ¥156.8 billion, while ordinary income rose 11.2% to ¥169.0 billion. Net income rebounded from an extraordinary loss in the previous year, rising sharply by 24.3% to ¥97.7 billion.

Overseas Sales Ratio Clears FY2009 Target

The ratio of overseas sales to net sales rose to 40.8%, up from 38.4% in the previous year. With this achievement, DAIICHI SANKYO has cleared its fiscal 2009 target of an overseas sales ratio of 40% or more.

R&D Investment Strengthened

With business integration synergies offsetting the costs of aggressive R&D investment, we focused on reinforcing drug discovery capabilities and expanding our development pipeline. New drug applications for *Prasugrel*, a groundbreaking innovation, were filed in the U.S. and Europe as scheduled.

Solid Shareholder Returns Based on Mid-term Policy

One of the top priorities for DAIICHI SANKYO is to maximize shareholder returns through dividends and share buybacks. In fiscal 2007, the dividend was raised ¥10 to ¥70 per share. Together with share buybacks of 10 million shares, this brought the total payout ratio to 85%.

Setting the Stage for

A Future of Growth and Innovation

Fiscal 2007, the year to March 31, 2008, was truly a year of achievements for DAIICHI SANKYO. Guided by our first mid-term business management plan as a unified company, we laid the groundwork for sustainable growth.

Realizing integration synergies, we bolstered our sales organizations in Japan and overseas and expanded our capabilities for innovative R&D. Leveraging this strengthened and highly effective organization, we also reinforced our presence across our key markets—Japan, the U.S., Europe, and Asia and South and Central America.

With the fundamental elements of our growth platform now in place and tightly bonded, we intend to build DAIICHI SANKYO into a **Global Pharma Innovator** by 2015.

A Message from the Chairman and President

Left:
Kiyoshi Morita
Representative Director and Chairman

Right:
Takashi Shoda
Representative Director, President and CEO

A year has passed since we completed the integration of DAIICHI SANKYO. In that year, we have taken the first steps on the journey toward our vision for 2015, a future for DAIICHI SANKYO as a **Global Pharma Innovator**.

In fiscal 2007, we accelerated the expansion of our global business structure, especially in the U.S. market. We also spun off our non-pharmaceutical businesses, thereby concentrating our management resources into the pharmaceutical business. Our business results indicate that we made good initial progress toward the fulfillment of our vision. In addition to increased sales of our flagship products centering on *Olmesartan*, we also kept to our schedule for the submissions of new drug applications for *Prasugrel*. The cost synergies resulting from our full integration were also achieved, as anticipated in our initial planning.

As we recently announced, we have moved proactively to keep ahead of a rapidly changing business environment by adding Indian pharmaceutical company Ranbaxy Laboratories Limited to the DAIICHI SANKYO Group. Through this expansion into a fast-growing emerging market and the field of non-proprietary drugs, we pursue a **hybrid business model**, adding global reach with a broad product portfolio to our existing high-risk, high-return model.

In addition to innovation in science and technology, we also aim to be an innovator in business models. As a **Global Pharma Innovator**, we will achieve sustainable growth helping people everywhere to enjoy healthy, prosperous lives.

We look forward to the continuing support of our stakeholders.

Kiyoshi Morita
Representative Director and Chairman

Takashi Shoda
Representative Director, President and CEO

Interview with the President

Takashi Shoda
Representative Director, President and CEO

Q: How do you view the current global pharmaceutical market trends?

A: The business environment will continue to be challenging. As pharmaceuticals directly affect people's well-being, our industry is subject to extensive government intervention and regulation. In particular, governments worldwide are working to reduce healthcare expenditure through means including increased use of generic drugs.

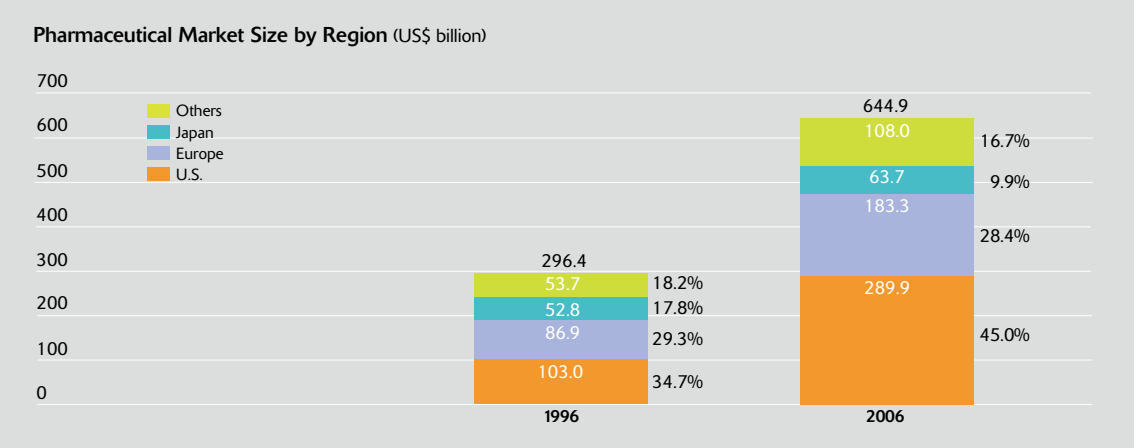
Another factor is drug pricing. In the U.S., prices are set by companies individually, but in Japan and most European countries, they are determined by governments. In Japan, NHI (National Health Insurance) drug prices are reduced every two years.

Having doubled in size over the past decade, the global pharmaceutical market was worth approximately $640 billion in 2006. This is mainly due to growth in the U.S., which accounts for over 40% of the world market. However, even the growth of this market is expected to slow down.

Japan is still the world's second biggest market, although our share has been halved over the past decade due to government efforts to curb healthcare expenditure. This contrasts with the rapid expansion of emerging economies, such as China, India, Brazil and Mexico, all of which have seen continuous double-digit growth in the size of their pharmaceutical markets over the last five years.

DAIICHI SANKYO aims to build Asia and South and Central America into a fourth regional segment, alongside Japan, North America and Europe, and we are currently strengthening our business infrastructure in these markets. In this context, our incorporation of Ranbaxy Laboratories Limited into the DAIICHI SANKYO Group will greatly enhance our global reach.

Looking at the history of pharmaceuticals, over the past decade, advances in life science have allowed the industry to discover and develop many new drugs. Products with annual sales exceeding ¥100 billion, so-called blockbusters, have helped patients with hypertension or hyperlipidemia to reduce the risk of myocardial infarction or stroke. However, patents on these products will expire over the next few years, and we also anticipate increasing challenges in creating new drugs. Industry achievements over the past few years include the introduction of bio-pharmaceutical products, such as antibody drugs and molecularly targeted drugs, which raise the effectiveness of therapies for cancer and rheumatoid conditions. In the future, we can expect to see the development and increased use of genomic diagnosis techniques and genetic therapies. There are also growing expectations toward regenerative medicine. DAIICHI SANKYO is determined to stand at the forefront in these fields, and to realize sustainable growth by capturing new business opportunities and creating new business models as a **Global Pharma Innovator**.



Source: IMS World Review

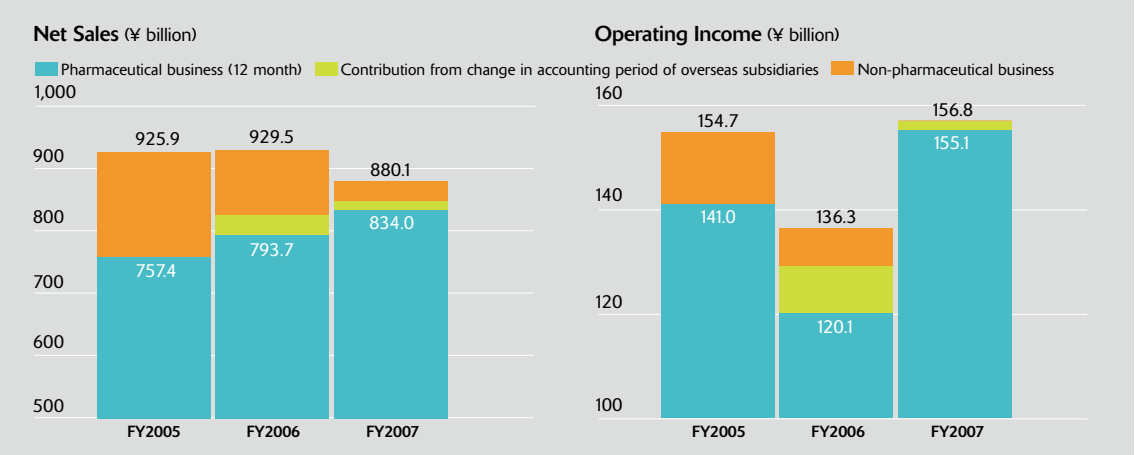
Q: Please tell us about DAIICHI SANKYO's business performance in fiscal 2007.

A: Since the merger that created DAIICHI SANKYO, we have been working to strengthen the new organization's domestic marketing and distribution systems, and expand our business infrastructure overseas.

Our net sales in fiscal 2007 amounted to ¥880.1 billion, a year-on-year decline of 5.3%, while operating income increased by ¥20.5 billion, or 15.0%, year on year to ¥156.8 billion. These results are partly attributable to the spin-off of non-pharmaceutical activities from the group and a change in fiscal year-end of overseas subsidiaries. In real terms, net sales from our pharmaceutical business increased by 5.1% year on year, thanks to a successful strengthening of marketing and distribution systems in our four key markets—this was especially apparent from sales of global products, such as the antihypertensive *Olmesartan*. Also in real terms, operating income rose by ¥35.0 billion, or 29.2%.

Our strategies for fiscal 2007 called for aggressive forward investment, including investment in R&D and the enhancement of overseas business infrastructure, especially in the U.S. and Europe. However, while focusing on investment, we also reduced total costs, primarily by realizing integration synergies.

In the previous year, extraordinary income amounted to ¥73.4 billion, including ¥59.3 billion from the sale of non-pharmaceutical operations. At the same time, extraordinary losses included loss on business integration of ¥82.4 billion and ¥3.6 billion loss relating to business restructuring. In fiscal 2007, the higher operating income was reflected in our net income, which rose 24.3% year on year to ¥97.6 billion.



Q: Fiscal 2007 was the first year of DAIICHI SANKYO's first mid-term business management plan. What is your assessment of the year's progress?

A: I am pleased to report that we largely reached our targets for the year, thereby taking a successful and solid first step toward our vision for 2015—establishing DAIICHI SANKYO as a **Global Pharma Innovator**.

Crucially, we completed the spin-off of non-pharmaceutical operations from the group. This means that we can now concentrate all management resources into our pharmaceutical business.

Another key achievement was a substantial reduction of total costs by around ¥50 billion. We did this by focusing on high-margin areas and by realizing integration synergies, including personnel downsizing, the integration of IT systems and the consolidation of business sites. We also prepared for future growth through enhancements to our business infrastructure, including the expansion of our sales and distribution infrastructure in overseas markets, especially in the U.S. and Europe. Particularly significant in this context were the efforts of DAIICHI SANKYO, INC. (DSI) to expand its sales force from 900 as of March 31, 2007 to 1,550 by March 31, 2008. With this expansion, DSI aims to launch new products and maximize the potential of existing products.

As for marketing and distribution, we expanded domestic and overseas sales of *Olmesartan*, our primary growth driver under the mid-term plan. We also obtained U.S. marketing approval for a new product, AZOR™, which combines antihypertensive *Amlodipine* with *Olmesartan*. Approval was also received for an additional indication for the antihyperlipidemic agent Welchol™, enabling this drug to be used for type 2 diabetes. In Europe, there was a substantial increase in sales territory of Evista®, which is used to treat postmenopausal osteoporosis. In the field of over-the-counter (OTC) drugs, DAIICHI SANKYO HEALTHCARE CO., LTD also launched new hit products including Transino®, which is used for amelioration of skin blemishes (specifically, melasma).

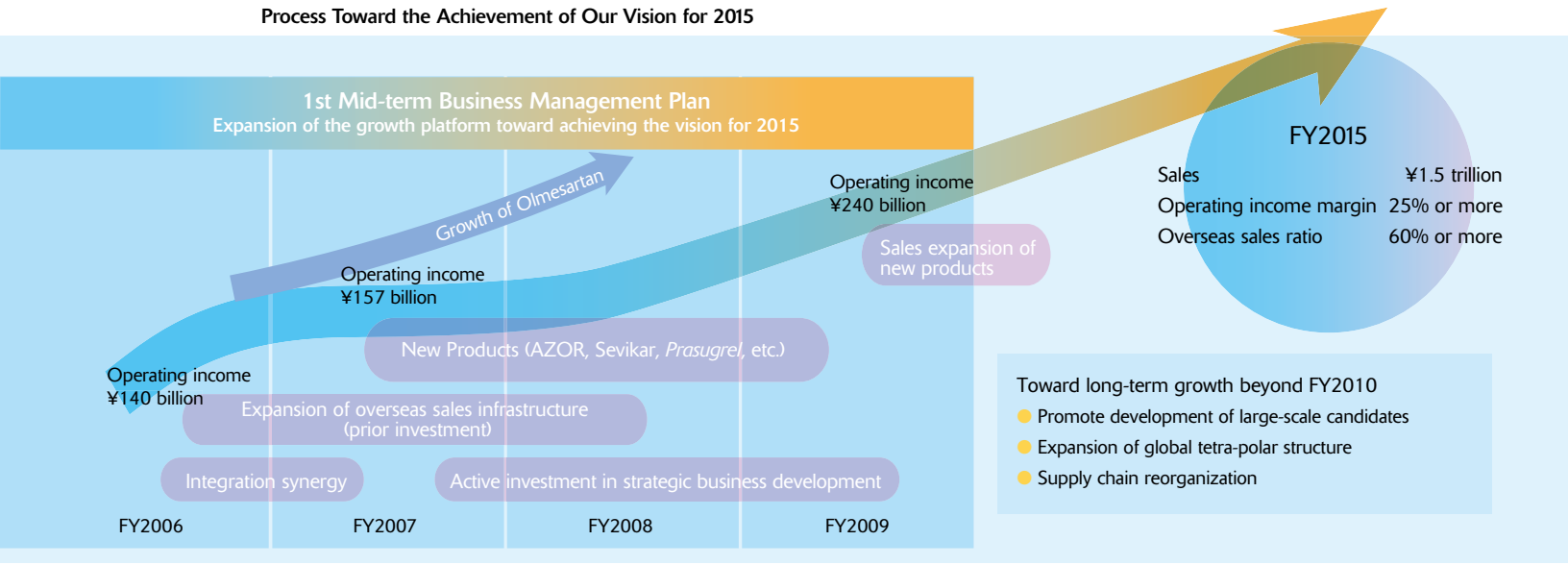
In R&D, we focused on reinforcing drug discovery capabilities and expanding our development pipeline. We filed a marketing authorization application in Europe for the fixed dose combination of *Amlodipine* and *Olmesartan*, which we plan to market as Sevikar™. We expect to receive approval in the fall of 2008. We also made good progress on the development of the anti-platelet agent *Prasugrel* (CS-747) and the oral factor Xa inhibitor (anticoagulant) DU-176b. These products have the potential to become growth drivers in the mid- to long-term future. Study results announced at the American Heart Association's (AHA) Scientific Sessions in November 2007 showed that *Prasugrel* was statistically superior to existing products. New drug applications have been filed in the U.S. and Europe based on the promising data. As part of our strategic business development activities, we also expanded our pipeline by introducing *Denosumab* (AMG 162), an anti-RANKL antibody from Amgen Inc., onto the Japanese market.

Overall, I must say I am very pleased with the progress made under fiscal 2007. It was a very successful start for DAIICHI SANKYO as a fully integrated company.

Key Highlights of FY2007

Apr.—Jun. 2007	Jul.—Sep. 2007	Oct.—Dec. 2007	Jan.—Mar. 2008
May AZOR data presented at the American Society of Hypertension (ASH)	**July** Collaboration and license agreement signed with Amgen for the development and commercialization of *Denosumab* in Japan **Sep.** AZOR receives FDA approval Application for approval of Sevikar in Europe Launches Transino	**Nov.** *Prasugrel* data presented at the AHA **Dec.** NDA of *Prasugrel* submitted to the FDA	**Jan.** Approval of an additional indication for Welchol **Feb.** Application for approval of *Prasugrel* in Europe **Mar.** Sales area expanded for Evista in Europe

Process Toward the Achievement of Our Vision for 2015



Q: What are your performance forecasts for fiscal 2008?

A: For fiscal 2008, we forecast net sales of ¥840 billion, operating income of ¥130 billion and net income of ¥80 billion. These figures represent year-on-year declines of 4.6%, 17.1% and 18.1% respectively.

These reductions are partly attributable to special factors. There will be an impact from the spin-off of non-pharmaceutical operations and the change in the fiscal year-end of European subsidiaries made in fiscal 2007—although it should be noted that forecasts based on the real situation excluding these factors point to a 0.7% increase in net sales. As the forecasts are based on exchange rates of ¥100 to the dollar and ¥155 to the euro, compared with the prevailing exchange rates in fiscal 2007, these rates will reduce net sales by ¥34 billion and operating income by ¥4 billion. These forecasts do not include the impact of our strategies involving Ranbaxy Laboratories.

Moreover, we anticipate some negative changes in our business environment, including a NHI drug price revision, government efforts to promote generic products and an appreciation of the yen. However, a more important reason for the above reductions is a substantial expansion of investment. Firstly, we will invest in our R&D pipeline to drive progress on new projects, including DU-176b and *Denosumab*. Secondly, we will increase forward investment in our overseas marketing and distribution infrastructure in preparation for major new product launches. We plan to increase our sales forces in the U.S. ahead of the launch of *Prasugrel*, which will be marketed as Effient™, and in Europe in preparation for the introduction of Sevikar™. We also plan aggressive marketing expenditure.

On May 20, we entered into an agreement to acquire U3 Pharma AG, a German biotechnology company. In order to achieve one of DAIICHI SANKYO's goals, to increase our presence in novel therapeutics in the oncology arena, acquisition of U3 Pharma is an ideal strategic fit for our oncology portfolio. This acquisition will not only give us access to several promising antibodies for the treatment of cancer, but will also strengthen our drug discovery research through collaboration with Max Planck Institute, one of Germany's leading research institutes.

As the second year of our mid-term business management plan, fiscal 2008 will be a preparatory period—a springboard, if you like—from which we aim to leap into major growth in fiscal 2009 and beyond. We are determined to maintain the momentum developed in fiscal 2007, and to accelerate our efforts to build the infrastructure we need to realize our vision for 2015.

Q: Please tell us about your policy on shareholder returns.

A: Maximizing shareholder returns is one of DAIICHI SANKYO's top management priorities. Our policy for the current mid-term is a 100% payout ratio, meaning that we aim to distribute an amount equivalent to all of the net income generated under the first mid-term plan through dividends and share buybacks. Setting a dividend-on-equity (DOE) ratio target of 5% or more for fiscal 2009, we will achieve a stable increase in dividends. Our Board of Directors has also adopted a flexible policy on share buybacks to improve capital efficiency.

In fiscal 2007, we repurchased 10 million shares, or 1.36% of the total number of shares issued. Combined with the ¥70 annual dividend, this increased our payout ratio to 85%. Though we forecast lower income in fiscal 2008, our policy calls for sustained dividend growth and we plan to increase the annual dividend by ¥10 to ¥80 per share. We also intend to implement share buybacks during fiscal 2008, with the aim of lifting our total payout ratio for fiscal 2007 and fiscal 2008 to over 100%.

Q: What is the rationale behind DAIICHI SANKYO's decision to acquire a majority stake in Ranbaxy Laboratories Limited?

A: This is a mutually complementary **hybrid business model** that dramatically enhances our ability to pursue business development in emerging economies, and extends our reach to include both proprietary drugs and non-proprietary drugs.

Business models for R&D-based pharmaceutical companies are said to be high-risk, high-return, and we cannot cope with the changes in our business environment and the slowing growth in developed markets if we only rely on this single, conventional business model.

In my view, this hybrid model not only disperses risk, it also sets us firmly on the path toward sustainable growth by securing new growth opportunities.

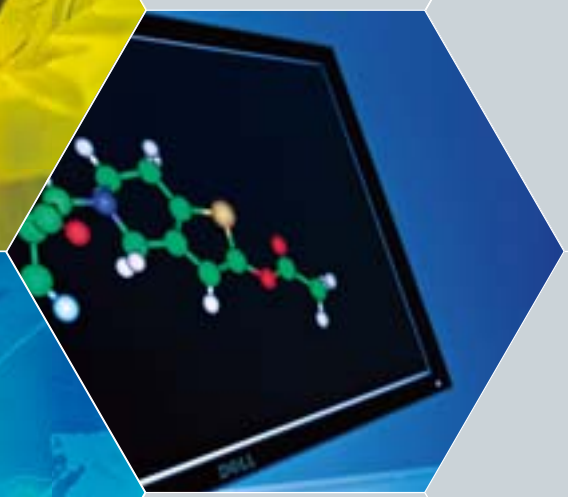
Hybrid Business Model

	Proprietary drugs	Non-proprietary drugs
Developed countries	Daiichi-Sankyo	RANBAXY
Emerging countries		

- Realization of sustainable growth through a complementary business combination
- Dramatic enhancement of global reach by establishing a presence in emerging economies
- Acceleration of innovative drug creation by optimizing value chain efficiency

Takashi Shoda
Representative Director, President and CEO

DAIICHI SANKYO is taking solid steps toward its goal of becoming a **Global Pharma Innovator**, a global pharmaceutical market player recognized for groundbreaking pharmaceutical innovation and a focus on unmet medical needs, by 2015. In this section, we explain our current progress toward this goal, and the strategies taking us there.



Expanded Drug Development Capabilities

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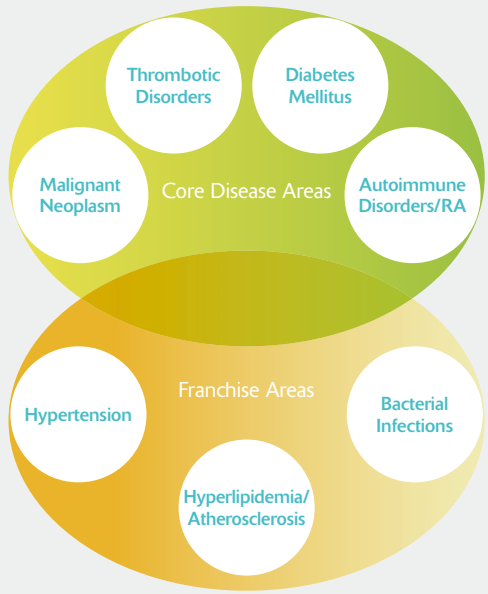
Prioritized Therapeutic Areas



Global R&D and Prioritized Therapeutic Areas

There are many diseases in the world for which there are no satisfactory methods of treatment. In some cases, no therapies have been established. DAIICHI SANKYO will prioritize these unmet needs in the allocation of its R&D resources. We will focus in particular on the four areas of malignant neoplasm, thrombotic disorders, diabetes mellitus and autoimmune disease/rheumatoid arthritis.

By applying advanced science and technology in these areas, we aim to create new products that combine revolutionary benefits with excellent safety. In the three areas of hypertension, bacterial infections and hyperlipidemia/atherosclerosis, we already have excellent pharmaceuticals that are providing high standards of satisfaction, including our global flagship products *Olmesartan*, *Levofloxacin* and *Pravastatin*. We have identified these areas as franchise areas and aim to create products with improved usefulness for patients by developing combination drugs, additional formulations and others.

DAIICHI SANKYO has built a structure to support rapid R&D activities in Japan, the U.S. and Europe. We have tailored our approach to take full advantage of the development environment in each of these regions, and are building collaborative systems with a view to making simultaneous approval applications in all three regions. We see this as the best way to put revolutionary new drugs in the hands of medical professionals throughout the world speedily and effectively. We will build a stronger, broader and more seamless R&D pipeline in terms of both quality and quantity.

R&D Milestones in Fiscal 2007

Our management priorities for R&D in fiscal 2007 were to reach key development project milestones on schedule, to make precise go/no-go decisions at each decision point, and to provide strategic investment to support the discovery of potential new drugs.

A key milestone was the filing of approval applications in the U.S. and Europe for the anti-platelet agent *Prasugrel* (CS-747), which will be marketed in the U.S. as Effient™ if approved. We also obtained approval for the antihypertensive CS-8663 in the U.S., where it is marketed as AZOR™, and filed approval applications in Europe, where it will be marketed as Sevikar™. Another important milestone was the approval in the U.S. for an additional indication for the antihyperlipidemic agent Welchol™, allowing it to be used in the treatment of Type 2 diabetes. Our application processes in Japan also proceeded on schedule, and we gained approval for several products, including the new quinolone Gracevit® and the percutaneous absorption-type anti-inflammatory analgesic Loxonin® Tape.

Among projects that are at the pre-application stage, we remained on schedule with major milestones, including Phase 2b trials for the oral factor Xa inhibitor (anticoagulant) DU-176b. The results were very encouraging.

From an R&D portfolio management perspective, we made decisions to discontinue some projects entirely, or to discontinue in-house development and seek a partner. The projects included the anti-platelet agent DZ-697b and the carbapenem antibiotic CS-023.

We also continued to acquire potential new drugs. In July 2007, we acquired exclusive rights to develop and commercialize *Denosumab* (AMG 162), an anti-RANKL antibody developed by Amgen Inc., within Japan.

As indicated by these outcomes, we achieved our initial R&D goals in fiscal 2007. It was an extremely successful year in which we laid the foundations for the future growth of DAIICHI SANKYO.

Accelerating the Development of New Technology

Rapid advances in drug development technology are transforming pharmaceuticals and the ways in which they are made, as well as gradually expanding the range of therapies that can be offered to patients. An area that has attracted growing interest in recent years is antibody pharmaceuticals, which utilize the human immune system.

One of DAIICHI SANKYO's mid- to long-term goals is to increase our presence in novel therapeutics in the oncology arena. In addition to our work on *Denosumab*, we are also conducting Phase 2 trials for CS-1008, an anti-DR5 antibody developed in-house using a substance discovered through joint research with the University of Alabama in the U.S. The anti-EGFR antibody *Nimotuzumab* (DE-766), which was licensed-in from the Canadian company CIMYM Biosciences Inc., is currently undergoing Phase 1 trials. We also have a number of promising compounds at the pre-clinical stage.

In April 2008, we further strengthened our R&D systems for antibodies by reorganizing related R&D operations and adding new organizational units in our laboratories and development departments. We also strengthened our R&D infrastructure by expanding our joint research activities with the German company MorphoSys AG, which has excellent phage display antibody library technologies, and by dynamically absorbing external resources, including the acquisition of all shares in the German biotechnology company U3 Pharma AG. The acquisition of U3 Pharma is especially significant, since it has given us access to several promising antibodies for the treatment of cancer, including some that are close to the clinical testing stage. We also aim to enhance our drug discovery research and expand our portfolio in this field through collaboration with the Max Planck Institute, one of Germany's leading research organizations.

Asubio Pharma Co., Ltd., a member of the DAIICHI SANKYO Group, is focusing on the creation of innovative pharmaceuticals through chemical synthesis and other new technologies, notably in the fields of biotechnology and peptide chemistry. Asubio Pharma's key projects include *Memantine* (SUN Y7017), a NMDA receptor antagonist for the treatment of dementia of Alzheimer type, *Ghrelin* (SUN11031), which alleviates cachexia and anorexia nervosa, and the chymase inhibitor SUN13834.

DAIICHI SANKYO will continue to meet the needs of patients through continual innovation beyond the boundaries of existing technology, and through dynamic application of best practices to its pharmaceutical R&D activities.

GEMRAD and Priority Development Projects

In October 2005, DAIICHI SANKYO established the Global Executive Meeting of Research And Development (GEMRAD) as its supreme decision-making organization for R&D. GEMRAD manages the progress of our global R&D activities across all organizations and regions, and makes key decisions including pipeline priorities and the allocation of R&D budgets. Its members include not only R&D executives, but also representatives of a wide range of other areas, such as marketing, licensing, portfolio management and intellectual property management. This breadth allows GEMRAD to make timely decisions based on comprehensive judgments and perspectives covering all stages from research to marketing.

DAIICHI SANKYO currently implements the following four priority projects; the anti-platelet agent *Prasugrel* (CS-747) (see pages 20-21), the oral factor Xa inhibitor (anticoagulant) DU-176b, the anti-RANKL antibody *Denosumab* (AMG 162) and the triple combo antihypertensive CS-8635, which combines ARB, CCB and a diuretic.

DU-176b

DU-176b is an oral anticoagulant that inhibits the blood coagulation factor Xa. While the anti-platelet agent *Prasugrel* is effective in the treatment of arterial clots such as myocardial infarction and stroke, DU-176b is expected to provide an effective treatment for venous thrombosis, which tends to occur when the flow of blood is slowed. It is seen as an effective prophylaxis in pulmonary embolism, commonly known as "traveler's thrombosis," and in cerebral embolism.

DU-176b has been found to have high oral absorbability and no food effects, and it will be possible to administer the drug as a once-daily dose. Compared with existing anticoagulants, such as Warfarin and Heparin, DU-176b has a greater separation of anti-thrombotic effect and bleeding risk. This means that dosage control will be relatively easy, facilitating the use of the drug.

The blood coagulation factor Xa plays an extremely important role in coagulation, and the race to develop an inhibitor for this substance has intensified over the years. However, DU-176b has excellent potential to emerge from this competition as the best-in-class drug. From the results of two Phase 2b trials, which compared DU-176b with an existing drug (Dalteparin) and a placebo to assess its effectiveness in the prevention of venous thromboembolism (VTE) after total hip replacement and total knee replacement surgery, DU-176b was found to provide dose-dependent inhibition of VTE incidence and low incidence of major bleeding, including at doses with very effective VTE inhibition. No hepatotoxicity signals were found in pre-clinical studies, including toxicogenomics and clinical studies.

We plan to commence Phase 3 trials in non-valvular atrial fibrillation by the end of 2008. We intend to accelerate the development of this project, which we see as having the potential to rank alongside *Prasugrel* and raise the profile of DAIICHI SANKYO.

John C. Alexander
Chairman of GEMRAD

Denosumab (AMG162)

Denosumab is a fully human monoclonal antibody that specifically targets the receptor activator of nuclear factor kappa B ligand (RANKL), a key mediator of the cells responsible for bone breakdown. This first-in-class drug works via a new mechanism and is being studied to treat and prevent a variety of bone loss conditions, including osteoporosis, bone metastases, treatment-induced bone loss, multiple myeloma and bone erosions in rheumatoid arthritis. In addition to its effectiveness and safety, it is also expected to contribute to improvements in administration compliance.

In July 2007, DAIICHI SANKYO acquired exclusive rights to develop and commercialize *Denosumab* in Japan for post-menopausal osteoporosis and oncology with the potential for additional indications. Currently, it is undergoing Phase 3 trials for osteoporosis in Japan and multinational Phase 3 trials for bone metastases.

CS-8635

CS-8635 is a triple combination antihypertensive consisting of AZOR™, which combines the calcium channel blocker (CCB) *Amlodipine* and DAIICHI SANKYO's own angiotensin II receptor blocker (ARB) *Olmesartan* with the diuretic *hydrochlorothiazide*.

In the U.S. and Europe, many patients are unable to achieve treatment targets in mono therapy and combination therapies are commonly used. It is estimated that 10-20% of patients use three drugs. For this reason, and also because diabetes sufferers require a stronger antihypertensive effect, this triple combination is expected to fill a previously unmet medical need. CS-8635 is currently undergoing Phase 3 trials in the U.S. DAIICHI SANKYO aims to file an approval application in 2009.

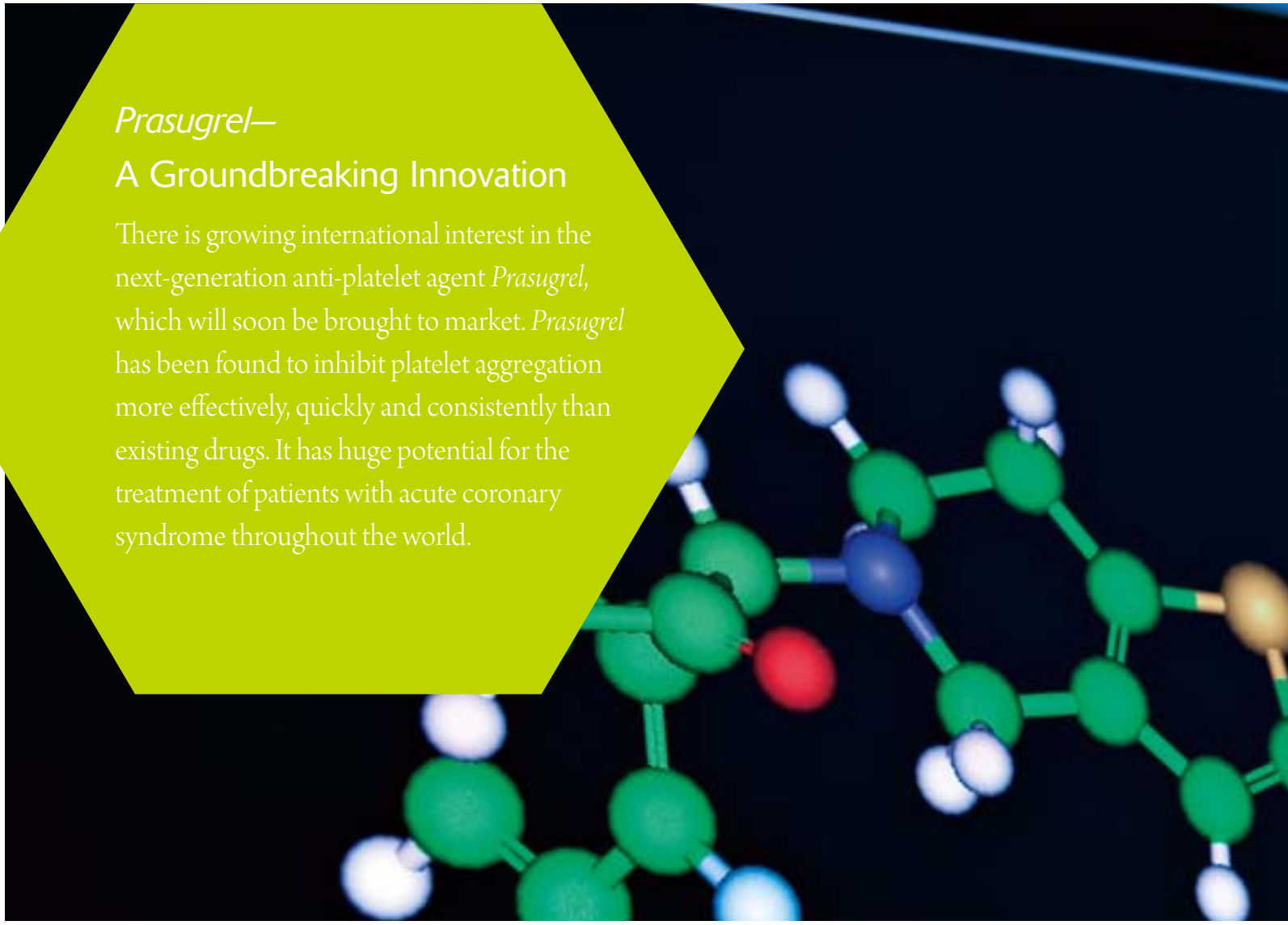
Development Pipeline

Development Code	Generic Name	Dosage Form	Class	Indication
Cardiovascular diseases				
CS-747	Prasugrel	Oral	Anti-platelet agent	Acute coronary syndrome
☆CS-8663	Olmesartan medoxomil, Amlodipine besilate	Oral	Angiotensin Ⅱ receptor antagonist, Calcium channel blocker	Hypertension
☆CS-8635	Olmesartan medoxomil, Amlodipin besilate, Hydrochlorothiazide	Oral	Angiotensin Ⅱ receptor antagonist, Calcium channel blocker, Diuretic	Hypertension
☆CS-866DM	Olmesartan medoxomil	Oral	Angiotensin Ⅱ receptor antagonist	Diabetic nephropathy
☆CS-866AZ	Olmesartan medoxomil, Azelnidipine	Oral	Angiotensin Ⅱ receptor antagonist, Calcium channel blocker	Hypertension
DU-176b	–	Oral	Factor Xa inhibitor	Non-valvular atrial fibrillation Venous thromboembolism
☆CS-866CMB	Olmesartan medoxomil, Hydrochlorothiazide	Oral	Angiotensin Ⅱ receptor antagonist, Diuretic	Hypertension
CS-8080	–	Oral	Anti-arteriosclerosis	–
DB-772d	–	Oral	Factor Xa inhibitor	–
Glucose metabolic disorders				
CS-011	Rivoglitazone	Oral	Glitazone agent that improves insulin resistance	Diabetes
AJD101	–	Oral	Activation of the insulin signaling pathway	Diabetes
Infectious diseases				
☆Levofloxacin High-dose	Levofloxacin	Oral	New quinolone	Bacterial Infections
☆Levofloxacin Injection	Levofloxacin	Injection	New quinolone	Bacterial Infections
CS-8958	–	Inhalant	Neuraminidase inhibitor	Influenza
Malignant neoplasm				
CS-1008	–	Injection	Anti-DR5 antibody	–
CS-7017	–	Oral	PPAR γ activator	–
DE-766	Nimotuzumab	Injection	Anti-EGFR antibody	–
U3-1287	–	Injection	Anti-HER3 antibody	–
Immunological allergic diseases				
CS-0777	–	Oral	Immunosuppresant	Multiple Sclerosis
SUN13834	–	–	Chymase inhibitor	Atopic dermatitis
Bone / Joint diseases				
AMG 162	Denosumab	Injection	Anti-RANKL antibody	Bone metastases of cancer Osteoporosis
☆CS-600G	Loxoprofen sodium	Gel	Anti-inflammatory and analgesic	–
Others				
☆DL-8234	Interferon-β	Injection	Interferon-β	Hepatitis C (with Ribavirin)
☆SUN 0588r	Sapropterin hydrochloride	Oral	–	Tetrahydrobiopterin responsive hyperphenylalaninemia
SUN Y7017	Memantine hydrochloride	Oral	NMDA receptor antagonist	Dementia of Alzheimer type
KMD-3213	Silodosin	Oral	Selective alpha 1A blocker	Treatment of dysuria associated with benign prostatic hyperplasia
SUN11031	Human ghrelin	Injection	–	Cachexia Anorexia nervosa
Sales tie-up, License activity etc.				
–	HGF DNA therapy	Injection	HGF DNA Vascular regeneration therapy	Peripheral arterial diseases (PAD) Coronary arterial diseases (CAD)
SUN 0588r	Sapropterin hydrochloride	Oral	–	Hyperphenylalaninemia
CS-023	–	Injection	Carbapenem type	Bacterial Infections
SUN N4057	–	Injection	Serotonin 1A receptor agonist	Acute ischemic stroke
CS-088	Olmesartan	Eyedrops	Angiotensin Ⅱ receptor antagonist	Glaucoma
DC-159a	–	Oral	New quinolone	Bacterial Infections
SUN N8075	–	–	Neuroprotectant	Acute ischemic stroke

☆Additional indications, new formulations etc.

(As of July 2008)

Origin	Region	Development	Stage			
			Phase 1	Phase 2	Phase 3	Application
Daiichi Sankyo, Ube Industries	U.S.	Co-development (Eli Lilly)				Dec. 2007
	EU	Co-development (Eli Lilly)				Feb. 2008
	Japan	In-house				
Daiichi Sankyo	EU	In-house				Sep. 2007
Daiichi Sankyo	U.S.	In-house				
Daiichi Sankyo	Japan	In-house				
Daiichi Sankyo	Japan	In-house				
Daiichi Sankyo	U.S./EU/ Japan	In-house				
Daiichi Sankyo	Japan	In-house				
Daiichi Sankyo	U.S./EU	In-house				
Daiichi Sankyo	U.S./EU	In-house				
Daiichi Sankyo	U.S./EU	In-house				
	Japan	In-house				
Ajinomoto	Japan	Co-development (Ajinomoto)				
	U.S./EU	In-house				
Daiichi Sankyo	Japan	In-house				Nov. 2007
Daiichi Sankyo	Japan	In-house				
Daiichi Sankyo	Japan	In-house				
	U.S./EU	Co-development (Biota)				
Daiichi Sankyo	U.S.	In-house				
Daiichi Sankyo	U.S.	In-house				
CIMYM BioSciences	Japan	In-house				
U3 Pharma	U.S.	Co-development (Amgen)				
Daiichi Sankyo	U.S./EU	In-house				
Asubio Pharma	U.S.	In-house				
Amgen	Japan	In-house (Multinational trials)				
Amgen	Japan	In-house				
Daiichi Sankyo	Japan	In-house				
Toray	Japan	Co-development (Toray)				Sep. 2007
Asubio Pharma	Japan	In-house				Approval on Jul. 2008
Merz	Japan	In-house			Moderately severe to severe	
					Mild to moderate	
Kissei	China	In-house				
Asubio Pharma	U.S. / EU	In-house				
Asubio Pharma	Japan	In-house				
AnGes MG (Sales agreement)	Japan	AnGes MG				PAD, Mar. 2008
	U.S./EU			PAD		
			CAD			
Asubio Pharma	EU	BioMarin				Nov. 2007
Daiichi Sankyo	Japan	License activity				
Asubio Pharma	U.S./EU	License activity				
Daiichi Sankyo	U.S./EU/Japan	Co-development (Santen)				
Daiichi Sankyo	U.S./EU	License activity				
Asubio Pharma	U.S./EU	Cecoura				



Prasugrel—
A Groundbreaking Innovation

There is growing international interest in the next-generation anti-platelet agent *Prasugrel*, which will soon be brought to market. *Prasugrel* has been found to inhibit platelet aggregation more effectively, quickly and consistently than existing drugs. It has huge potential for the treatment of patients with acute coronary syndrome throughout the world.

What is *Prasugrel*?

Prasugrel is an anti-platelet agent discovered by DAIICHI SANKYO and its Japanese research partner Ube Industries, Ltd. It is being co-commercialized by DAIICHI SANKYO and Eli Lilly and Company. Platelet aggregation can result in clogged arteries and may lead to heart attack or stroke. *Prasugrel* works by inhibiting platelet activation and subsequent aggregation by blocking the P2Y12 ADP receptor on the platelet surface.

As one of the world's leading causes of death, cardiovascular disease claims the lives of 16.7 million people every year. Acute heart attacks and unstable angina, called acute coronary syndrome (ACS), affect more than 1.4 million people in the U.S. annually, and over 800,000 and 100,000 in Europe and Japan, respectively. Despite currently available treatments, 320,000 people experience recurrent heart attacks each year in the U.S. *Prasugrel* is expected to reduce the risks for such ACS patients.

Characteristics and Indications

Initial clinical studies showed that *Prasugrel* is a powerful platelet aggregation inhibitor with rapid onset of action. With existing anti-platelet drugs, there are patients known as "poor responders," in whom the desired level of platelet inhibition cannot be achieved with standard dosage. The extremely low incidence of poor responders with *Prasugrel* indicates that variations in effectiveness between individual patients are likely to be minimal.

ACS treatments can be broadly divided into coronary artery bypass grafting (CABG), percutaneous coronary intervention (PCI) and medical management. *Prasugrel* is developed initially for patients with ACS undergoing PCI. Data showing significant clinical benefits directly compared with existing drugs were obtained through Phase 3 head-to-head TRITON clinical trials involving over 13,600 subjects at 707 facilities in 30 countries.

The History of *Prasugrel*

August 1989	DAIICHI SANKYO and Ube Industries commence joint development of a thromboembolism drug.
April 1992	*Prasugrel* is discovered.
November 1997	Phase 1 trials commence in the United Kingdom.
June 2001	Co-development agreement signed with Eli Lilly.
September 2004	Results of Phase 2 trials (JUMBO-TIMI 26) presented at the European Society of Cardiology (ESC).
November 2004	Phase 3 trials (TRITON-TIMI 38) begin.
November 2007	The TRITON results presented at the American Heart Association's (AHA) Scientific Sessions.
December 2007	New Drug Application filed with the U.S. Food and Drug Administration (FDA).
February 2008	Marketing Authorization Application filed with the European Medicines Agency (EMEA).
June 2008	New Phase 3 trial (TRILOGY ACS) started with the aim of adding further indications.

Publication of TRITON DATA

The TRITON results were presented at the American Heart Association's Scientific Sessions on November 4, 2007. *Prasugrel* showed a significant 19% reduction in relative risk for the composite endpoint of cardiovascular death, non-fatal heart attack or non-fatal stroke, compared with existing drugs. The drug also showed a statistically significant increase in non-CABG major bleeding, but a risk-benefit analysis indicated a significant improvement in the net clinical benefit. These results proved that *Prasugrel* is a powerful, fast-acting drug providing consistent effects, and that it in actual use would help to prevent critical cardiovascular events.

Based upon data from several trials including the landmark TRITON, DAIICHI SANKYO and Eli Lilly submitted new drug applications to the U.S. Food and Drug Administration (FDA) in December 2007, and to the European Medicines Agency in February 2008. The FDA is in the final stage of its review and the product will be marketed as Effient™ if approved.

Further Potential

Prasugrel is expected to be a major growth driver for DAIICHI SANKYO. The TRITON study also showed that treatment with *Prasugrel* resulted in a 52% reduction in stent thrombosis, and a 30% relative risk reduction in a subset of patients with diabetes on the composite endpoint of non-fatal heart attack, non-fatal stroke, or cardiovascular death, compared with existing drugs.

To maximize the potential of *Prasugrel*, in June 2008, DAIICHI SANKYO commenced Phase 3 TRILOGY ACS trials involving medically managed ACS patients.

Phase 2 trials are currently in progress in Japan. DAIICHI SANKYO will continue its efforts to bring the benefits of this next-generation anti-platelet agent to as many patients as possible, as quickly as possible.

Growing Global Strength

Our aim is to create world-class medicines and make them available to people everywhere in the world through our own efforts and resources. By responding to medical information needs throughout the world, we wish to help those affected by disease to enjoy happier and healthier lives. One of our key strategies toward achieving this goal is the establishment and continuous build-up of a solid presence in the world's key pharmaceutical markets.

Business Structure Based on Four Major Markets

DAIICHI SANKYO is active not only in Japan, the U.S. and Europe, but also in Asia and South and Central America (ASCA). Our sales target in fiscal 2009 is ¥960 billion, and we aim to earn 40% or more of that in overseas markets. Through continued and focused strengthening of our marketing infrastructure, we are moving toward the achievement of this goal, and toward the realization of our vision, to become a **Global Pharma Innovator**.

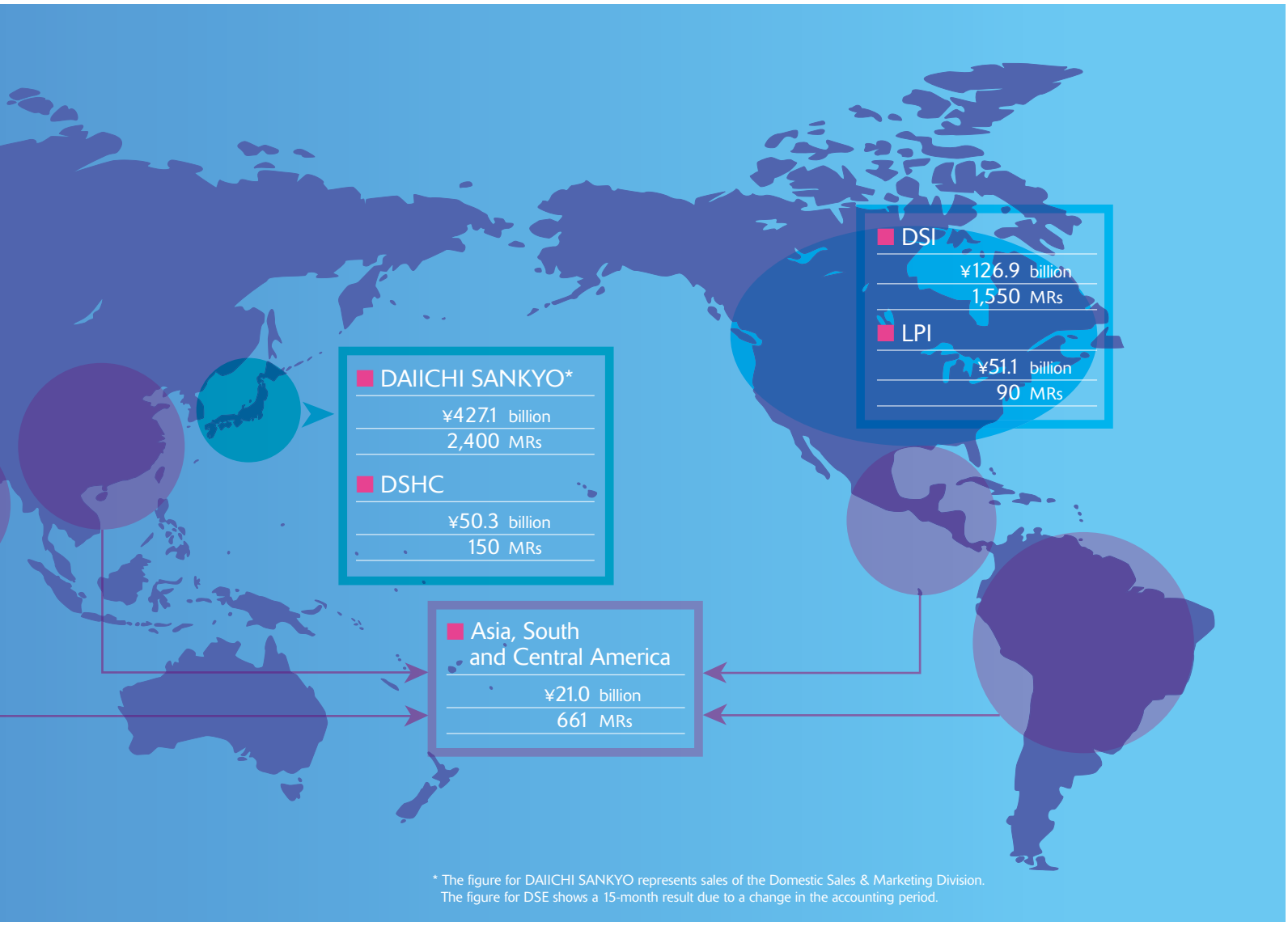
DAIICHI SANKYO's sales force in the Japanese market is recognized as being among the best in Japan. Together with DAIICHI SANKYO HEALTHCARE, which sells OTC and general healthcare products, we have over 2,500 medical representatives (MRs), who provide a timely and accurate response to a wide range of medical information needs.

In overseas markets, we have 1,640 MRs in the U.S., 830 in Europe and more than 650 in the ASCA markets, which are expected to expand rapidly in the future. In the U.S., we plan to double our MR force during fiscal 2008 compared with the level at the end of March 2007. This expansion is necessary to cope with the anticipated emergence of AZOR™ and Effient™ as major new products, as well as the addition of new indication for Welchol™.

Dramatically Extending Our Global Reach

DAIICHI SANKYO already has business operations in 21 countries. The addition of Ranbaxy Laboratories Limited will dramatically extend our global reach. With operations in 56 countries, including many where DAIICHI SANKYO has so far not operated, such as Mexico, Russia and East European countries, Ranbaxy will help us build a stronger presence in emerging markets.

In India, we will be one of the biggest pharmaceutical companies in terms of sales. We will also extend the marketing network into East Europe and Asia, while on the African continent we boast marketing infrastructure that eclipses even major global pharmaceutical



* The figure for DAIICHI SANKYO represents sales of the Domestic Sales & Marketing Division. The figure for DSE shows a 15-month result due to a change in the accounting period.

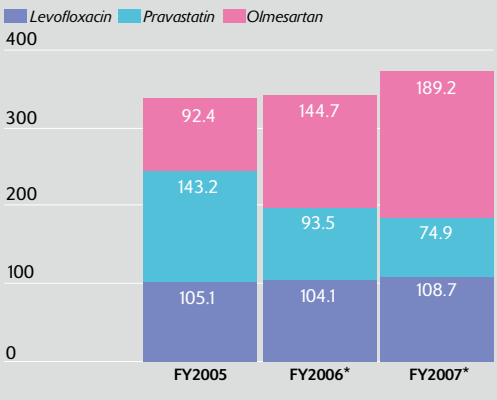
manufacturers. This transaction will allow DAIICHI SANKYO to supply patients anywhere in the world with the pharmaceuticals they need. It also represents a major step forward in our evolution into a **Global Pharma Innovator**.

Sales of Global Strategic Products

The flagship products currently marketed globally are the synthetic antibacterial agent *Levofloxacin* (marketed in Japan as Cravit®), the antihyperlipidemic agent *Pravastatin* (marketed in Japan as Mevalotin®), and the antihypertensive *Olmesartan*, which is marketed as Olmetec® in Japan and Europe and as Benicar® in the U.S.

Together, these three products account for over 40% of DAIICHI SANKYO's total sales. While *Levofloxacin* continues to underpin earnings, sales of *Pravastatin* are in decline following the expiration of patents. However, sales of *Olmesartan* are expanding at a pace that substantially exceeds this decline, further lifting the profile of DAIICHI SANKYO.

Global Sales Trends of Strategic Products (¥ billion)



* In FY2006 and FY2007, there were 15-month accounting periods for U.S. and European subsidiaries, respectively. However, to facilitate comparison, the graph has been adjusted to show 12-month results.

Sales and Marketing (Japan)

Trends in the Japanese Market

Awareness of the value of innovative pharmaceutical products has risen in Japan with the growing prevalence of lifestyle diseases and the growth of the aged population. While this situation is reflected in the quantitative growth of the Japanese pharmaceutical market, however, this growth remains slow in value terms due to government measures to curb health expenditure. These include revisions of drug prices under the National Health Insurance (NHI) scheme, the increased use of the diagnosis procedure combination (DPC) reimbursement system and the promotion of generic drug use. This situation is reflected in the declining status of the Japanese market, which in 1996 accounted for around 20% of the world pharmaceutical market. This share has fallen gradually over the past 10 years and is now below 10%.

In fiscal 2008, the government stepped up its efforts to reduce drug expenditure through measures that include NHI drug price cuts, a prescription format change designed to encourage the use of generic drugs, and the introduction of the DPC reimbursement system at more institutions. In this challenging business environment, our success as a pharmaceutical innovator will depend more than ever on our ability to bring a continuing stream of new, groundbreaking drugs to market and ensure that they reach their full potential.

MR Crosswise and DASH

DAIICHI SANKYO was formed through the merger of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd., both of which had worked closely with medical professionals and built trustful relationships by providing high-quality information in a wide range of fields, including cardiovascular disease, infectious disease, bone and joint disease, urinary tract disease and oncology, as well as contrast imaging. Following the completion of the merger in April 2007, DAIICHI SANKYO established the new MR Crosswise system, a structure that will enable our medical representative (MR) team to achieve the highest standard of performance in the industry.

Under the MR Crosswise structure, some MRs will specialize in particular therapeutic areas, while others will take responsibility for the comprehensive requirements of specific medical institutions. Collaboration between the two types of MRs will ensure that medical professionals are effectively supplied with information in the various fields.

The MR Crosswise structure is the first of its type in Japan. It will work by organically integrating our MR force, which is among the biggest in Japan, to create an organization capable of providing medical professionals with high-quality information in a timely manner. We are confident that it will allow us to meet the increasingly diverse needs of medical institutions in both qualitative and quantitative terms. The results of monitoring surveys indicate that medical professionals visited by our MRs under this new structure are very pleased with the services provided.

Another unique initiative by DAIICHI SANKYO is the DAiichi Sankyo High Performance (DASH) Program, the purpose of which is to help MRs to acquire knowledge and skills that more closely reflect actual field situations by organizing our top MRs as training staff. The DASH Program consists of multiple training courses and the knowledge and skills gained through these extremely practical courses cover all aspects of MR activities, including activity planning.

Sales of Key Products (¥ billion)

Product Name	Indication/Effect	FY2004	FY2005	FY2006	FY2007
Olmetec	Antihypertensive	9.0	25.6	42.2	55.2
Cravit	Synthetic antibacterial agent	47.1	50.2	46.7	47.4
Mevalotin	Antihyperlipidemic agent	82.5	75.2	67.8	61.6
Calblock	Antihypertensive	3.0	6.4	8.8	10.2
Artist	Antihypertensive	15.6	18.2	19.3	21.1
Kremezin	Treatment for chronic renal failure	13.6	13.0	12.2	12.4
Loxonin	Anti-inflammatory analgesic	28.6	29.0	30.9	33.6
Urief	Treatment for dysuria	—	—	2.3	5.4
Omnipaque	Contrast agent	34.1	34.7	31.5	31.2

The DASH Program is managed mainly by the Field Support Group (FIT) and the Cardiovascular Sales Support Group (CAT). FIT and CAT staff meet regularly at corporate headquarters to share success stories from throughout Japan and develop training content. This work is reflected in their activities as DASH instructors. When preparing individual programs, FIT staff tailor content according to the situation in each sales office and CAT staff according to branch-level situations. This approach ensures that MR support is closely linked to actual conditions in the field.

Growth in Sales of Priority Products, Especially Olmetec®

DAIICHI SANKYO has selected 20 of its flagship products as priority targets for intensive activities under the MR Crosswise structure. We are also working to make effective use of the synergies provided by this structure in our information distribution activities. In fiscal 2007, these efforts enabled the Domestic Sales & Marketing Division to increase its net sales by 1.6% year on year to ¥427.1 billion.

One of our flagship products is the antihypertensive Olmetec® (brand name of *Olmesartan* in Japan). This product is classed as an angiotensin II receptor blocker (ARB), which is the fastest growing category in the Japanese market. Current guidelines for the treatment of high blood pressure call for the control of blood pressure through rigorous antihypertensive therapy. Olmetec® provides one of the best antihypertensive performance levels of any ARB, and it is prescribed by many physicians because of its ability to protect various organs. In fiscal 2007 sales amounted to ¥55.2 billion, a year-on-year increase of 30.7% that was higher than the growth rate for the ARB market.

Sales of the calcium channel blocker Calblock® and the beta-blocker Artist®, which treat hypertension using different mechanisms from Olmetec®, showed year-on-year growth of 16.3% and 9.6% respectively. In both cases, the increases were substantially larger than the growth rates of the categories they belong to. This is especially true of Artist®, as the only beta-blocker that is effective against chronic heart failure.

Cravit® (brand name of *Levofloxacin* in Japan) is a leading product in the market for synthetic antibacterial agents. Despite negative factors, including a shrinking market and the introduction of competing products, Cravit® continued to show positive sales growth with a year-on-year increase of 1.4% to ¥47.4 billion.

Sales of the anti-inflammatory analgesic agent Loxonin® are still rising 20 years after its launch. This performance reflects its excellent balance of safety with anti-inflammatory and analgesic performance. The introduction of a new dosage form, Loxonin® Pap, contributed to a significant increase in the sales growth rate for Loxonin® brand products, with a 8.7% year-on-year increase to ¥33.6 billion.

Sales of the antihyperlipidemic agent Mevalotin® (brand name of *Pravastatin* in Japan) were adversely affected by escalating competition and increased sales of generic products. These factors were reflected in a 9.1% year-on-year decline to ¥61.6 billion. Though market conditions for Mevalotin® have become increasingly challenging, a sub-analysis conducted as part of Mega Study in Japan has shown that this product reduces the risk of myocardial infarction and other cardiovascular disease in post-menopausal women in the same way as in male subjects. This finding was published in the American journal Circulation, which is one of the most authoritative medical publications. As a pioneering manufacturer of statins, DAIICHI SANKYO will continue to target sales growth in this area by developing new evidence, and also by supplying information about Livalo®, which combines excellent effectiveness with high safety.

Sales and Marketing (U.S., DSI)

Accelerating into a New Growth Phase

While the U.S. remains the largest pharmaceutical market in the world, the expiration of patents on many major products is reflected in increased use of generic products and growing downward pressure on prices. As a result, the annual growth rate of the U.S. market in 2007 was slower than the rate of growth in the world market as a whole.

DAIICHI SANKYO, INC. (DSI) met the challenges of this environment and was able to achieve net sales of ¥126.9 billion in fiscal 2007, despite the competition from generic versions of the antibiotic eardrop medication Floxin Otic®. This represents a healthy year-on-year increase of 14.4%, after adjusting for the fact that the results in the previous year were based on a 15-month period due to a change in the accounting period. Growth in sales of high-added-value products, especially the antihypertensive *Olmesartan* (marketed as Benicar®) contributed in increased sales. The results also benefited from the launch of a new product and the addition of a new indication for an existing product.

Particularly significant is the rapid growth of Benicar® and Benicar HCT®, a combination product consisting of Benicar® and a diuretic. Although Benicar® was the seventh angiotensin II receptor blocker (ARB) to enter the market, sales are expanding so rapidly that it is now the third most prescribed ARB and is soon expected to move into second place in terms of its share of new prescriptions. As of March 31, 2008, Benicar HCT® was ranked second in terms of its share of new prescriptions.

AZOR™ Goes on Sale

In September 2007, DSI obtained U.S. Food and Drug Administration (FDA) approval to commence sales of the antihypertensive AZOR™. This drug combines one of the most prescribed calcium channel blockers (CCB) *Amlodipine*, with DSI's own *Olmesartan*, which is rapidly gaining a reputation as one of the most effective ARBs, in a single convenient tablet that patients take just once a day.

Sales representatives gathered for the AZOR launch meeting

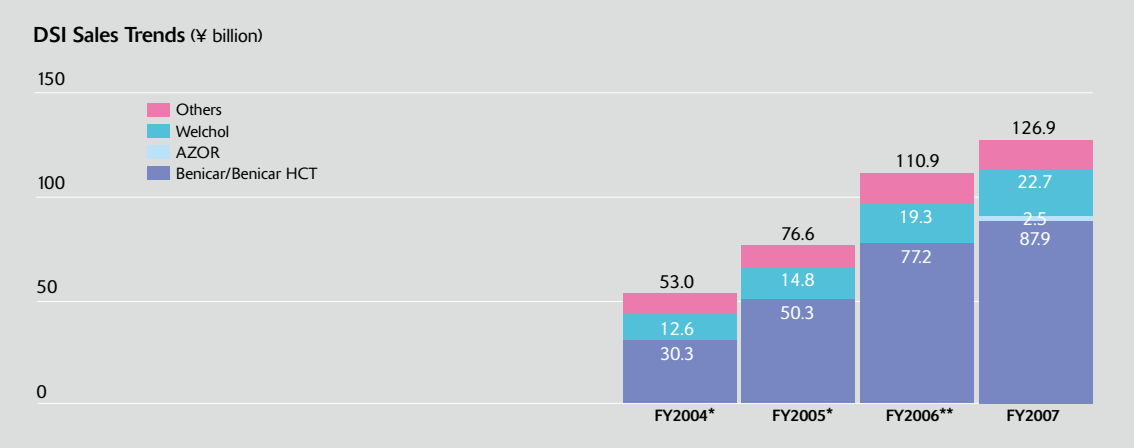

Joseph P. Pieroni
President and CEO, DAIICHI SANKYO, INC.

Current estimates indicate that over 70 million Americans are affected by high blood pressure. In many cases, blood pressure (BP) cannot be controlled using just one medication, and physicians are increasingly switching to combination regimes to help patients reach BP goals. AZOR™ provides safe and effective BP reduction across several patient types including people of African and Hispanic/Latino descent, people with diabetes and people with obesity.

According to data presented at the American Society of Hypertension's Scientific Meeting held in May 2007, in the overall study population, AZOR™ produced significantly greater mean reductions in BP in patients with hypertension from baseline compared to *Amlodipine* or *Olmesartan* alone, and that there was also a reduction in the incidence of edema, one of the side effects associated with high-dosage *Amlodipine* treatment. DSI is determined to maximize the market share of AZOR™ as quickly as possible and has increased its sales force from 900 to 1,350 in readiness for the launch of the new product.

Additional Indication for Welchol™—Two Goals, One Therapy

In January 2008, DSI obtained FDA approval for an additional indication for the antihyperlipidemic agent Welchol™. As a result, this drug is also indicated to improve glycemic control in adults with type 2 diabetes in combination with metformin, sulfonylurea, or insulin. Welchol™ is not absorbed into the bloodstream and has a well established safety profile. Sales have risen steadily since its launch in 2000. As an adjunct to diet and exercise for reducing elevated low-density lipoprotein cholesterol (LDL-C) in patients with primary



* The amounts for FY2004 and FY2005 are simple totals of the figures of the U.S. subsidiaries of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd.

** DSI's results for FY2006 are based on sales for 15 months (¥130.4 billion) because of a change in the accounting period. To facilitate comparison, the graph has been adjusted to show a 12-month period result.

hyperlipidemia, Welchol™ can be used as monotherapy or in combination with statins to lower LDL-C.

Welchol™ is the first and only therapy approved to treat both type 2 diabetes and/or primary hyperlipidemia. It is estimated that there are over 20 million people in the U.S. who have diabetes, with more than 90% of those also having type 2 diabetes. A significant percentage of type 2 diabetes patients are also affected by high LDL-C. Treatment goals for cholesterol and diabetes have become increasingly aggressive over the years. Data from two national trials indicate that nearly one-half of all patients with both high cholesterol and diabetes in the U.S. fail to reach the established American Diabetes Association treatment goals for either cholesterol or blood glucose management.

Welchol™ has been added to the American College of Endocrinology (ACE)/American Association of Clinical Endocrinologists (AACE) "Road Maps to Achieve Glycemic Control in Patients With Type 2 Diabetes Mellitus." The road maps recommend Welchol™ in combination with other antidiabetic agents in both treated and treatment naive patients with baseline A1C levels between 6.5% and 8.5%.

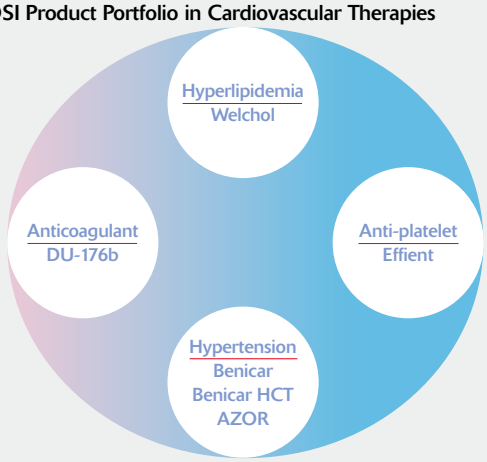
The markets for cholesterol and diabetes therapies are expanding. DSI aims to double sales of Welchol™ by aggressively promoting this product as a treatment that helps reduce these two significant cardiovascular risk factors.

Spotlight on *Prasugrel*–DSI Emerging as a Top-tier Cardiovascular Leader

DSI plans to launch a collaborative promotion for the anti-platelet agent *Prasugrel*, which will be marketed as Effient™ if approved, in a direct competition with Plavix®, which is one of the world's top-selling products and a standard drug for use in conventional anti-platelet therapy. Effient™ was found to provide a statistically significant 19% reduction in relative risk for the primary composite endpoint of cardiovascular death, non-fatal heart attack or non-fatal stroke in the treatment of patients with acute coronary syndrome undergoing percutaneous coronary intervention. In December 2007, DAIICHI SANKYO and its partner, Eli Lilly and Company, submitted a new drug application for *Prasugrel* to the FDA. In preparation of the launch of Effient™, which is expected to become a major addition to DSI, the company is increasing its sales force to 1,870 sales representatives and expanding its presence in the U.S. pharmaceutical market.

DSI has high-added-value products on the market and in the development pipeline in the area of cardiovascular disease. It continues to advance toward its goal of becoming a leader in cardiovascular therapies in the U.S.

DSI Product Portfolio in Cardiovascular Therapies



Sales and Marketing (U.S., LPI)

Current Situation and Outlook

Luitpold Pharmaceuticals, Inc. (LPI) supplies high-quality pharmaceutical products and related information. It consists of four divisions: American Regent Inc., Luitpold Animal Health™, the Osteo-health® Company and Contract Manufacturing. In fiscal 2007, net sales amounted to ¥51.1 billion. In real terms, after adjusting for the fact that the results in the previous year were based on a 15-month period due to a change in the accounting period, this is equivalent to year-on-year sales growth of 4.1%. The main contributor to this healthy increase was the anemia drug Venofer®, which is LPI's flagship product.

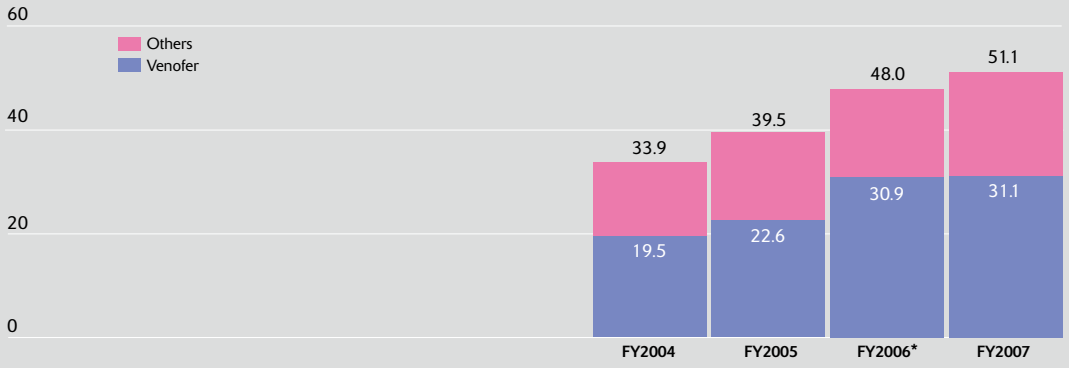
Venofer® was first launched in November 2000. Its market share has expanded rapidly since then, and today it is the most frequently used product for the treatment of iron deficiency anemia in dialysis patients.

LPI is also eager to move into the field of obstetrics and gynecology with a new product, Injectafer™. In March 2008, LPI received a so-called non-approvable letter for this product from the U.S. Food and Drug Administration (FDA). However, LPI is actively continuing with the development of Injectafer™, including tests currently in progress, with the aim of producing additional safety data. It will also focus on the maintenance and expansion of sales of existing products.

Mary Jane Helenek
President & CEO Luitpold Pharmaceuticals, Inc.

In 2008, LPI signed an exclusive U.S. manufacturing and distribution sublicense agreement for Venofer® with the German company Fresenius Medical Care, which is the world's largest provider of dialysis-related products and services. LPI entered into this agreement as a way of strengthening its financial stability by securing reliable, long-term sales of Venofer®, which accounts for over half of its total sales. Fresenius has the biggest share of the U.S. dialysis market, and the alliance is expected to bring further growth in LPI's sales in that market. It will also allow LPI to expand the scope of its Venofer® marketing by focusing on non-dialysis areas, including sales to hospitals.

LPI Sales Trends (¥ billion)



* LPI's results for fiscal 2006 are based on sales for 15 months (¥61.0 billion) because of a change in the accounting period. To facilitate comparison, the graph has been adjusted to show a 12-month period result.

Sales and Marketing (Europe, DSE)

Rapid Growth in Sales of *Olmesartan*

As a region, Europe is the world's second biggest market for pharmaceutical products. It is also a highly challenging market environment, due to governments' intensifying efforts to control health expenditure. Despite this, DAIICHI SANKYO EUROPE GmbH (DSE) increased its net sales by 51.0% year on year to ¥78.0 billion in fiscal 2007, thanks to rapid growth of the antihypertensive *Olmesartan* (marketed as Olmetec® and Olmetec Plus®). This total includes ¥14.1 billion resulting from a change in the accounting period. In real terms, the annual increase was 23.6%.

Sales of *Olmesartan* showed a substantial year-on-year increase of 57.3%. DSE sees these products as major growth drivers and will continue to target accelerated growth through close cooperation with its partners. Another product that promises to contribute to increased sales is Sevikar™ (CS-8663). Starting in the fall of 2008, DSE expects to obtain approval in several European countries for this product, which combines *Olmesartan* with the calcium channel blocker *Amlodipine*.

Evista® Sales Territory Expanded– Early Achievement of Mid-term Target

In March 2008, DSE reached an agreement with Eli Lilly and Company concerning the expansion of its European sales territory for Evista®, which is used in the treatment of postmenopausal osteoporosis. DSE acquired a license to sell Evista® in eight countries in 2006, and sales in fiscal 2007 amounted to ¥5.2 billion. The new agreement covers the remaining countries in Europe (except Greece), which is expected to lead to a substantial increase in sales.

DSE has set a sales target of at least ¥70 billion for fiscal 2009. With the contribution from the new licensing agreement, it is now possible that this target will be achieved ahead of schedule.

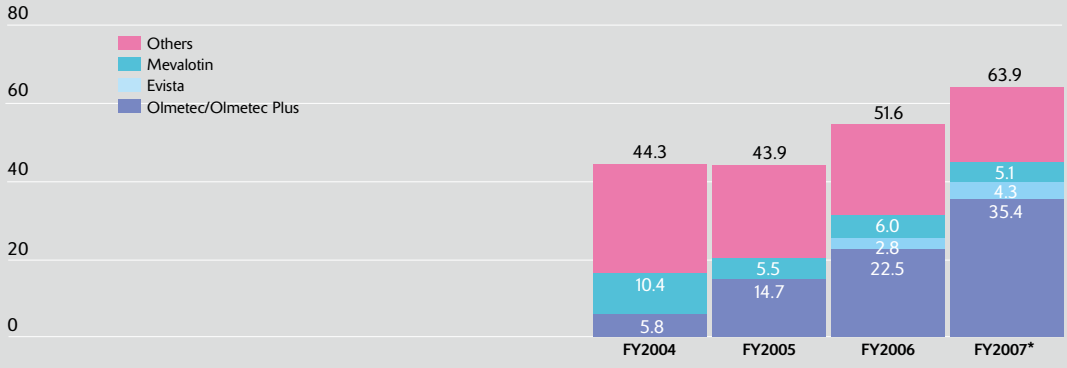
Reinhard Bauer
Managing Director and CEO, DAIICHI SANKYO EUROPE GmbH

Sales Infrastructure Expansion—Preparing for Launch of New Products

In addition to its subsidiaries in 10 European countries, in April 2008, DSE established a new sales subsidiary in Turkey. Turkey is the sixth biggest pharmaceutical market in the territory covered by DSE, and rapid growth is expected to continue in the years ahead.

DAIICHI SANKYO filed approval applications with the European authorities for Sevikar™ in September 2007 and for the anti-platelet agent *Prasugrel* in February 2008. Both are expected to become major products, and DSE is currently considering the expansion of its network of sales offices in preparation for their launch. The company is also expanding its sales forces at existing offices. In the mid- to long-term perspective, DSE aims to increase its sales to ¥155 billion (€1 billion), and expand its presence in the European market. It will also target efficiency improvements to maximize its income ratios.

DSE Sales Trends (¥ billion)



* DSE's results for fiscal 2007 are based on sales for 15 months (¥78.0 billion) because of a change in the accounting period. To facilitate comparison, the graph has been adjusted to show a 12-month period result.

Sales and Marketing (Asia, South and Central America)

Net Sales of FY2007/Number of MRs

Company Name	Establishment	Net Sales	Number of MRs (as of March 31, 2008*)
Daiichi Pharmaceutical (Beijing) Co., Ltd.	1998	4.1 billion	143
Shanghai Sankyo Pharmaceuticals Co., Ltd.	1999	2.3 billion	196
DAIICHI SANKYO KOREA CO., LTD.	1990	3.4 billion	51
DAIICHI SANKYO TAIWAN LTD.	1964	3.7 billion	65
DAIICHI SANKYO (THAILAND) LTD.	1994	0.8 billion	18
DAIICHI SANKYO HONG KONG LTD.	1988	—	—
DAIICHI SANKYO BRASIL FARMACÉUTICA LTDA.	1962	4.4 billion	118
DAIICHI SANKYO VENEZUELA, S.A.	1973	2.4 billion	70

* For overseas subsidiaries with different fiscal year-ends, figures as of December 2007 are shown.

Asia and South and Central America—DAIICHI SANKYO's Fourth Major Market

Besides Japan, the U.S. and Europe, we are also building business infrastructure in Asia and South and Central America (ASCA), which we believe has the growth potential to become a fourth major market for us in the future. While the world pharmaceutical market is expected to grow by around 6% annually over the next five years, a growth rate of around 10% is predicted for the ASCA markets.

DAIICHI SANKYO has subsidiaries in China (Beijing and Shanghai), South Korea, Taiwan, Thailand, Hong Kong, Brazil and Venezuela, and our sales are expanding in these markets, led by the antihypertensive *Olmesartan* and the synthetic antibacterial agent *Levofloxacin*. In fiscal 2007, the addition of two subsidiaries in Latin America to the consolidation contributed to a dramatic increase in sales in these markets, which nearly doubled year on year to ¥21.0 billion. In fiscal 2009, we aim to achieve total ASCA sales of ¥27.0 billion.

We have two companies in China, Daiichi Pharmaceutical (Beijing) Co., Ltd. (DPP) and Shanghai Sankyo Pharmaceuticals Co., Ltd. (SSP). Both companies have development, manufacturing and sales and marketing capabilities. DPP is involved primarily with synthetic antibacterial agents, such as *Levofloxacin*, while the business operations of SSP are based mainly on the antihyperlipidemic agent *Pravastatin* and the cough-suppressant Asmeton. Since 2007, the two companies have collaborated on marketing operations in China.

DAIICHI SANKYO KOREA CO., LTD. is expanding its sales of *Levofloxacin* while also building a new business base in the field of cardiovascular disease. Specifically, it has been involved in the co-promotion of *Pravastatin* and *Olmesartan* since 2007 and 2008 respectively, which were previously sold by local companies.

DAIICHI SANKYO TAIWAN LTD. is working to increase its sales of global products, including *Olmesartan*, *Levofloxacin* and *Pravastatin*. In 2007, it also commenced sales of a combination product consisting of *Olmesartan* and a diuretic.

In addition to domestic sales of *Levofloxacin* and other products, DAIICHI SANKYO (THAILAND) LTD. has also started to export products to Vietnam. DAIICHI SANKYO HONG KONG LTD. gathers scientific information and provides marketing support in Southeast Asian countries.

DAIICHI SANKYO BRASIL FARMACÉUTICA LTDA. and DAIICHI SANKYO VENEZUELA S.A. are expanding their sales in the cardiovascular disease area, especially *Olmesartan*. They are also preparing for the launch of CS-8663, which combines *Olmesartan* with the calcium channel blocker *Amlodipine*.

OTC Business

Focused on Providing Total Healthcare

DAIICHI SANKYO regards the OTC business as a core segment encompassing not only OTC (over-the-counter) pharmaceuticals, but also peripheral product categories such as functional foods and functional skincare products. We have named this comprehensive product strategy Total Healthcare.

Created through a merger in April 2007, DAIICHI SANKYO HEALTHCARE CO., LTD. (DSHC) is capable of applying the powerful R&D and marketing of a major pharmaceutical company. We are applying all of those resources to the continuing creation of consumer-focused products and services that will provide a high standard of customer satisfaction. At the same time, we are working to consolidate our income base by building a low-cost structure.

Fiscal 2007 was our first year under the new corporate structure. We launched 16 new products, including Transino®, which is used to alleviate skin blemishes caused by melasma, and the Patecs Felbinac® series of anti-inflammatory analgesics for external use. Sales increased by 4.9% over the previous year's result to ¥50.3 billion. With sales in excess of ¥50 billion and a growth rate faster than the market growth rate, it was a very pleasing start for the newly merged DSHC.

Transino® was especially successful. Based on *tranexamic acid*, it went on sale in September 2007 as the first medication approved in Japan as effective against skin discoloration caused by melasma. Sales reached ¥2.6 billion over the next six months, confirming the status of Transino® as a major hit product and creating a new market within the OTC market, in which products with sales of ¥1 billion annually are classed as hits. We are promoting Transino® aggressively, primarily through TV commercials featuring hair and makeup artist Ms. Michiko Fujiwara. The product has received extensive television, newspaper and magazine coverage, and has emerged as a market leader in terms of public interest as well as sales.

Moriya Ideguchi
Representive Director, President
DAIICHI SANKYO HEALTHCARE CO., LTD.

DSHC will continue to strengthen its line-up with a range of new products, including switch-OTC products. We will also expand our presence in other areas, including the markets for functional foods and functional skincare products. In fiscal 2009, we aim to achieve sales of ¥58.0 billion and an operating income margin of 10% or more.

What is Melasma?

Melasma is a condition that causes skin blemishes in areas around the cheekbones and commonly occurs in women in their thirties and forties. The blemishes tend to be symmetrically distributed in terms of size and shape on the left and right sides of the face. Regarded as difficult to cure, the condition can also appear on the forehead and around the mouth. The results of a survey of 1,000 people conducted by DSHC in 2006 showed that melasma was the suspected cause in one in three cases of skin blemishes affecting women within a one-year period. The onset of melasma is believed to be linked in some way to hormonal conditions in women. Stress is also thought to be involved. Laser treatment reportedly causes the condition to worsen.

Treatment with *tranexamic acid*, which is the main ingredient of Transino®, is effective against melasma. Transino® is the only OTC drug approved in Japan as being effective against skin blemishes caused by melasma. Further information on melasma and Transino® can be found on the websites to the right (information only available in Japanese).

For information about melasma:
www.kanpan.info

For information about Transino®:
www.transino.jp

Corporate Governance

As part of an industry that directly affects people's lives, we do our utmost to ensure that our business activities as a Global Pharma Innovator adhere to social expectations, global and domestic rules and regulations and high ethical standards.

Basic Policy of Corporate Governance and Operational Management Organization

In addition to creating a management structure that can respond speedily and flexibly to changes in the business environment and ensuring legal compliance and transparency in management, DAIICHI SANKYO have strengthened oversight of management and conduct of operations. Our key aim is to maintain an environment responsive to the trust of our stakeholders, especially our shareholders.

In concrete terms, the board members' term of office is set at one year to clarify management responsibility and to create an optimal system that can respond swiftly to changes in the business environment. In addition, four of our ten Directors are appointed from outside the Group to strengthen oversight of all aspects of corporate administration and to ensure management transparency.

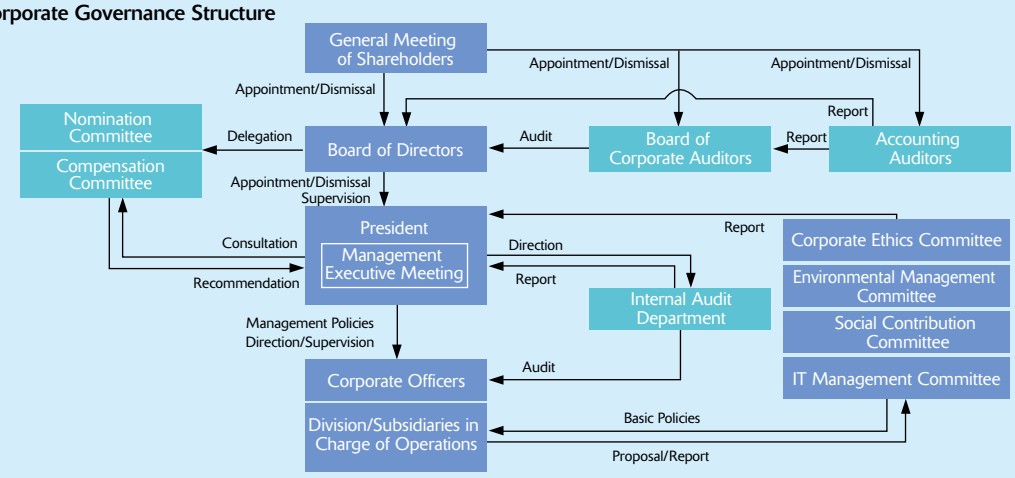
The Board of Directors meets once a month, in principle, to resolve important business execution matters and supervise the execution of duties by Directors. In addition, we strive to improve the speed and appropriateness of management decisions by holding a meeting of the Management Executive Meeting once a week, in principle, and holding discussions on business execution.

Furthermore, DAIICHI SANKYO employs a Corporate Officer System, under which the Board of Directors appoints Corporate Officers responsible for the conduct of corporate affairs for a one-year term of office. The Corporate Officers are in charge of specific aspects of corporate administration under the control and supervision of the President. Those appointed as Corporate Officers have a high level of expertise in their relevant business fields.

With regard to audits, the Company has adopted a corporate auditor system, under which the Board of Corporate Auditors, comprising four Corporate Auditors, including two Outside Corporate Auditors, audits the legality and soundness of the management.

To contribute to sound and sustainable management, each Corporate Auditor attends important meetings, including meetings of the Board of Directors and the Management Executive Meeting, gives opinions at such meetings in accordance with the Corporate Auditor Audit Standards, verifies the details of reports received from Directors, employees and others, and

Corporate Governance Structure



investigates the state of the business and property of the company. The Internal Audit Department implements internal audits on the compliance system, risk management system, internal control system and others in accordance with the audit plan.

To make our management more transparent, we have voluntarily established a nomination committee and a compensation committee, delegated by the Board of Directors, to discuss matters such as personnel affairs and remuneration of Directors and Corporate Officers. Outside Directors are in majority in both committees.

Basic Internal Control Policies and Development of the Internal Control System

In April 2008, DAIICHI SANKYO reaffirmed its policy about internal control in the Board of Directors to secure that execution of the duties of the Directors were in compliance with laws and regulations and the company's Articles of Incorporation.

We have developed our internal control system in accordance with the following 11 basic internal control policies:

1 Systems for Ensuring Compliance with Laws and Regulations and the Company's Articles of Incorporation in the Execution of Duties by Directors

2 Systems Regarding the Retention and Management of Information Relating to the Execution of Duties by Directors

3 Rules and Other Systems for Risk Management

4 Systems for Ensuring the Efficient Execution of Duties by Directors

5 Systems for Ensuring Compliance with Laws and Regulations and the Company's Articles of Incorporation in the Execution of Duties by Employees

6 Systems for Ensuring the Proper Operation of the Group, Consisting of the Company and Its Subsidiaries

7 Systems Regarding Employees Assisting Duties of Corporate Auditors, when Corporate Auditors Ask to Appoint Such Employees

8 Matters Regarding the Independence of the Employees Specified in the Preceding Paragraph (7) from Directors

9 Systems of Reporting to Corporate Auditors by Directors and Employees and Other Systems Regarding Reporting to Corporate Auditors

10 Other Systems for Ensuring the Effective Audit by Corporate Auditors

11 Basic Ideas about and Systems for Eliminating Antisocial Forces

For further details, please see the Corporate Governance Report on our website:
http://www.daiichisankyo.com/corporate/governance/index.html

Action plan of Internal Reporting System (J-SOX) for Financial Report

In accordance with the new Financial Instruments and Exchange Law (known as "J-SOX" for its similarities with the U.S. Sarbanes-Oxley Act), DAIICHI SANKYO began to assess and verify the integrity of its internal controls and auditing systems for financial reporting in April 2007. In fiscal 2007, the team handling this process worked closely with accounting auditors in a top-priority full-time project to adjust the company's internal controls to the requirements of the new law.

In April 2008, DAIICHI SANKYO created J-SOX Group in its Internal Audit Department, which began to eliminate deficiencies by evaluating internal control documentation, as well as the maintenance and workings of company-wide internal controls and the related IT systems. We will continue to work determinedly to ensure that the company's financial reporting is on a par with global standards, as befitting a **Global Pharma Innovator.**

Board of Directors

Back row (from left):

Outside Director	Outside Director	Director	Director	Outside Director	Outside Director
Jotaro Yabe	Kunio Nihira	Hitoshi Matsuda Corporate Business Management	Tsutomu Une Corporate Strategy	Yoshifumi Nishikawa	Takashi Okimoto

Front row (from left):

Director	Chairman	President and CEO	Director
Akio Ozaki Human Resources / CSR	Kiyoshi Morita	Takashi Shoda	Ryuzo Takada Sales & Marketing

Corporate Auditor	Teruo Takayanagi	Outside Corporate Auditor	Kaoru Shimada
Corporate Auditor	Hikaru Nagata	Outside Corporate Auditor	Koukei Higuchi

Executive Officer
Yoshihiko Suzuki
Head of Sales & Marketing Division (Japan)

Executive Officer
Toru Kuroda
Head of Supply Chain Division

Executive Officer
Akira Nagano
Head of Quality and Safety Management Division

Executive Officer
Kazuhiko Tanzawa
President, Daiichi Sankyo Research Institute

Executive Officer
Takeshi Ogita
Head of Pharmaceutical Technology Division and General Manager, Global Project Management Department

Executive Officer
Kazunori Hirokawa
Head of R&D Division

Corporate Officers

Hiroshi Sugiyama
General Manager, Clinical Development Department I

Chiyomi Takahashi
General Manager, Pharmacovigilance Department

Masatoshi Sakamoto
China Business

Satoru Sugano
General Manager, Wholesaler Department

Toshio Takahashi
Corporate Communications

Kyohei Nonose
Human Resources

Yoshikazu Takano
General Manager, Secretariat Department

Shinsei Tamai
General Manager, Promotion Management Department

Manabu Sakai
General Manager, Corporate Business Management Department

Ryouichi Kibushi
General Manager, Marketing Department

George Nakayama
General Manager, EU/US Business Management Department

Yuki Sato
General Manager, Supply Chain Planning Department

Shuji Handa
General Manager, Corporate Strategy Department

Hideyuki Haruyama
General Manager, R&D Planning Department

Corporate Social Responsibility (CSR)

Supplying consistently outstanding pharmaceuticals, and thereby helping people throughout the world to enjoy fulfilling lives, is the most important way in which we contribute to society. However, in our view, CSR is also about prospering with and remaining essential to society.

CSR Policies

In April 2007, we established the CSR Department as part of the unified organization. The department oversees Group compliance, risk management, environmental management and social contribution initiatives, and formulates related plans, provides support and monitors progress in keeping with the policies below. We will also reinforce our CSR programs by forming a Corporate Ethics Committee, an Environmental Management Committee and a Social Contribution Committee.

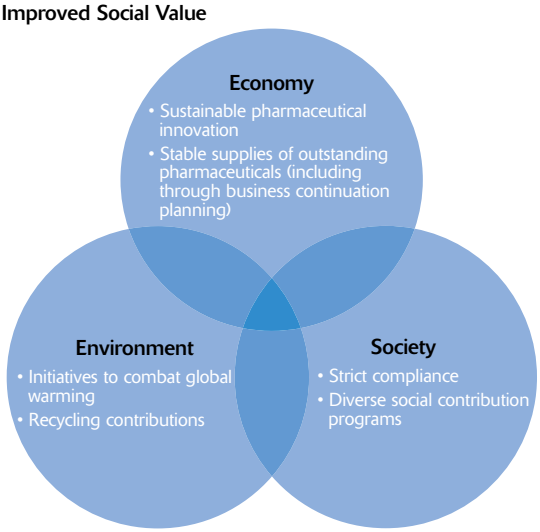
Group CSR Policies

CSR is a key management focus for the DAIICHI SANKYO Group, and our initiatives in this area aim to balance our social, economic and human corporate values. We will push forward with economic, social and environmental aspects to attain high standards and thereby contribute to a sustainable society. The Group will thus maintain social trust and achieve ongoing progress.

Mid-term CSR Plan

We will undertake the following economic, social and environmental initiatives to complete the foundation for the fulfillment of our CSR policies by fiscal 2009. These balanced efforts will enable the Group to improve its value to society.

Improved Social Value

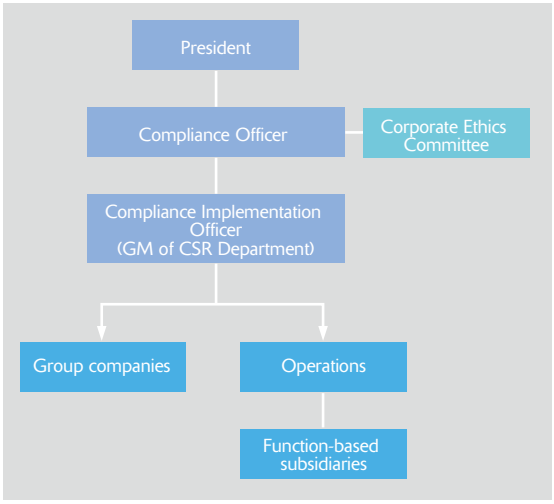


Compliance

DAIICHI SANKYO's compliance officer is the President, or a person whom he or she appoints to oversee our compliance program. The compliance officer chairs the Corporate Ethics Committee, which approves annual program plans, scrutinizes implementation reports, and formulates policies to prevent compliance violations from recurring. The general manager of CSR oversees programs, and produces annual program plans and implementation reports while providing compliance education.

Business unit heads run compliance programs, and report to compliance managers.

The CSR Department holds compliance liaison meetings with group companies in Japan to share information and explore new initiatives.



Risk Management

DAIICHI SANKYO updated its Risk Management Rules and Crisis Management Rules in April 2007 following the completion of the integration.

Our risk management is an ongoing effort to prevent significant problems from arising by identifying and managing factors that could present risks to the Group's operations. Crisis management is about managing the impacts of recent or impending accidents and other disasters, by having appropriate procedures in place and taking the right decisions swiftly and effectively.

Risk Management Policy

Risk management is a top management priority as we pursue sustainable progress under our corporate mission. We are equipped to capably address the underlying risks of our business activities and minimize the human, social and corporate impacts of crises.

Environmental Management

As we move toward becoming a **Global Pharma Innovator**, we maintain a strong commitment to expanding and improving our efforts to safeguard the environment. Accordingly, we have established an environmental management system, under which the senior executive officer for CSR acts as chief executive officer for environmental management. The general manager of CSR is the environmental management officer. We have also set up an Environmental Management Committee to advise the chief executive officer for environmental management.

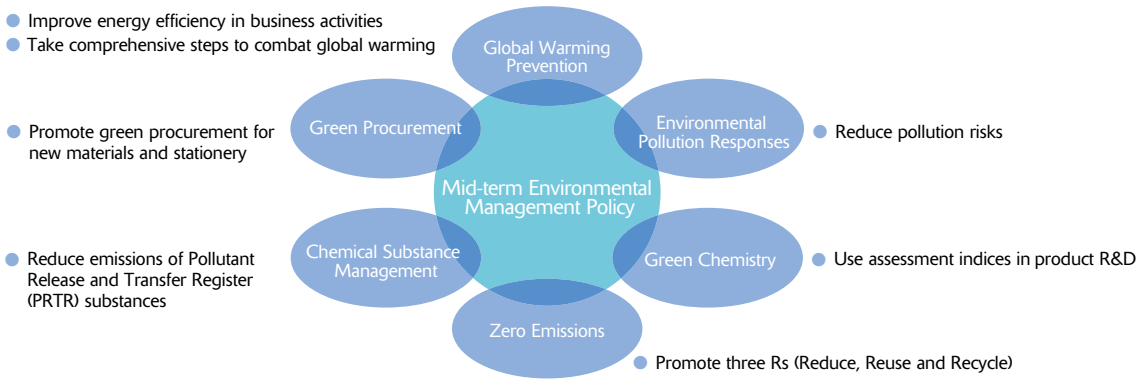
The Group's business activities range from R&D to manufacturing, marketing and related services. We operate companies in many locations and, for that reason, maintain two different environmental management classifications. One is site-based, covering each factory, research center and branch. The other is organizational, including affiliates. This means that our environmental management reflects the nature of our business operations and their specific locations around Japan. There is an environmental management officer for each classification. We establish environmental policy and management practices in keeping with these classifications.

Basic Environmental Management Policy

Safeguarding the environment is the bedrock of all Group operational management. We pursue environmental management that contributes to a sustainable society and enhances our good corporate citizenship.

Mid-term Environmental Management Policy

We are implementing a variety of initiatives to reach the goals of this policy:



Social Contributions

DAIICHI SANKYO regards social contribution as a key aspect of CSR, in keeping with the commitment to good corporate citizenship stated in the Group's Charter of Corporate Behavior. The charter, which establishes fundamental guidelines for our social contribution activities, states our aim of contributing to society through pharmaceuticals, and that our contributions encompass creating a healthy society, developing medicine and pharmacology, engaging in social welfare, contributing to communities and safeguarding the environment. The charter also requires us to assist with disaster restoration, to foster healthy and sound young people and promote culture and art. In addition to engaging in those areas, we encourage volunteer activities among employees.

We have also established a Social Contribution Committee, headed by the President or an appointee of the President. This committee reviews overall social contributions, confirms the social compatibility of specific initiatives and ensures transparency.

For more details on our CSR activities, please see the CSR Report on our website:
URL: http://www.daiichisankyo.com/corporate/report/index.html

Welfare and Children's Healthy Development
- Children's Soccer Project
- Junior Lifesaving classes

Civic Action
- Local anti-crime patrols (at Osaka Factory)
- Local cleanup campaigns
- Local dialog meetings

The Environment
- The Nature Conservation Society of Japan
- World Wildlife Fund for Nature

Culture, the Arts and Sports
- Shiki Theater Company
- Japan National Lifesaving Championships

Medicine and Pharmacology
- Public seminars
- Japan Research Foundation for Clinical Pharmacology
- Sankyo Foundation of Life Science

International Contributions
- Medical and pharmacological scholarship system in China
- Donations for overseas disaster victims


Children's soccer project


Junior lifesaving classes

Shiki Theater Company's production of Wicked

Financial Section

Contents

Consolidated Financial Summary

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006 (Fiscal years 2007, 2006 and 2005)

	Millions of yen 2008	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note1) 2008
Operating Results:				
Net sales	¥ 880,120	¥ 929,507	¥ 925,918	$ 8,801,200
Cost of sales	234,571	265,201	290,736	2,345,710
Selling, general and administrative expenses	325,250	357,330	321,738	3,252,500
Research and development expenses	163,472	170,662	158,716	1,634,720
Interest expenses	128	252	313	1,280
Income before income taxes and minority interests	166,856	126,913	136,892	1,668,560
Net income	97,660	78,550	87,693	976,600
Net income per share of common stock (yen and U.S. dollars)	135.35	107.75	119.49	1.35
Dividends paid per share (yen and U.S. dollars)	70.00	60.00	25.00	0.70
Financial Position:				
Total current assets	926,524	1,015,841	958,483	9,265,240
Net property, plant and equipment	221,266	248,857	289,713	2,212,660
Total assets	1,487,889	1,636,835	1,596,127	14,878,890
Total current liabilities	194,514	281,510	236,833	1,945,140
Total long-term liabilities	48,862	83,177	110,155	488,620
Total net assets	1,244,513	1,272,148	1,249,139	12,445,130
Financial Indicators (% and persons):				
Pre-tax profit margin (Ratio of net income before income taxes and minority interests to net sales)	19.0	13.7	14.8	19.0
Net profit margin (Ratio of net income to net sales)	11.1	8.5	9.5	11.1
Return on shareholders' equity (Ratio of net income to average shareholders' equity)	7.8	6.3	7.3	7.8
Net assets to total assets	83.6	77.5	77.5	83.6
Dividends to net assets	4.0	3.5	2.9	4.0
Research and development expenses as a percentage of net sales	18.6	18.4	17.1	18.6
Number of employees	15,349	15,358	18,434	15,349

The State of the DAIICHI SANKYO Group

DAIICHI SANKYO Group ("the Group") consists of 52 companies, including DAIICHI SANKYO CO., LTD. and its 45 subsidiaries and six affiliates. The Group's principal activity is the manufacture and sales of pharmaceuticals and related products.

Overview of Business Results

Challenging conditions prevailed in the global pharmaceutical market during the fiscal year ended March 31, 2008 (fiscal 2007), despite expansion in emerging markets and the growth of the bio-pharmaceutical sector. Growth stagnated in the U.S. market, while off-patent blockbuster drugs experienced sales erosion from generic products. Regulatory approval standards were generally stricter.

Under these business conditions, the Group recorded consolidated net sales of ¥880.1 billion for the period under review, a year-on-year decline of 5.3%. Following the completion of business integration, the Group focused efforts on reinforcing its sales capabilities in the domestic market based on a new integrated set-up while also expanding and upgrading overseas operating bases. The fall in revenue was in part due to various exceptional factors, including efforts to make non-pharmaceutical businesses independent of the Group as part of the business integration process and changes to the accounting period of certain overseas subsidiaries. The Group continued to make progress in terms of developing in-house sales capabilities to boost sales across four key regional markets by leveraging global products. After excluding exceptional factors, sales generated by the pharmaceutical business grew in real year-on-year terms.

Business integration-derived cost synergies helped to offset the costs of aggressive investment in the form of higher R&D expenditure and ongoing development of overseas operating bases. Operating income increased 15.0% to ¥156.8 billion, while ordinary income rose 11.2% to ¥169.0 billion.

Net income for the fiscal year ended March 31, 2008 significantly increased by 24.3% to ¥97.6 billion (in the previous year, the Group recorded extraordinary losses of ¥98.6 billion, mainly due to costs related to business integration and reorganization, along with offsetting extraordinary gains of ¥73.4 billion, mainly due to profits from the sale of non-pharmaceutical businesses).

Sales

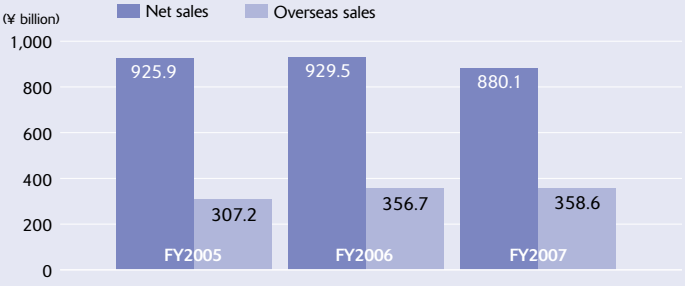
Net sales declined by ¥49.3 billion, or 5.3%, year on year to ¥880.1 billion. It should be noted, however, that in real terms, after adjusting for exceptional factors such as the spin-off of non-pharmaceutical businesses from the consolidation and changes in the accounting periods of certain overseas subsidiaries, sales increased by 5.1% to ¥40.1 billion. Bulk exports of the antihyperlipidemic agent Pravastatin were substantially lower following the expiration of patent protection in major markets, and sales of the contrast agent Omnipaque® also declined. However, there was a dramatic increase in the sales of the antihypertensive drug Olmesartan in both domestic and overseas markets. Sales of the synthetic antibacterial agent Levofloxacin also increased, as did sales of Urief®, an agent used in the treatment of dysuria, and the anti-inflammatory analgesics of the Loxonin® brand.

Sales of Key Products (¥ billion)

Product name	FY2006	FY2007	change (yoy)	Reference value*
GLOBAL				
Olmesartan (antihypertensive)	160.3	195.6	35.3	44.5
Levofloxacin (synthetic antibacterial agent)	104.1	108.7	4.6	
Pravastatin (antihyperlipidemic agent)	93.5	76.5	(17.1)	(18.7)
Japan				
Calblock (antihypertensive)	8.8	10.2	1.4	
Artist (antihypertensive)	19.3	21.1	1.8	
Kremezin (treatment for chronic renal failure)	12.2	12.4	0.2	
Loxonin (anti-inflammatory analgesic)	30.9	33.6	2.7	
Omnipaque (contrast agent)	31.5	31.2	(0.4)	
Urief (treatment for dysuria)	2.3	5.4	3.2	
U.S.				
Venofer (treatment for iron deficiency anemia)	37.7	31.1	(6.6)	0.3
Welchol (antihyperlipidemic agent/ treatment for diabetes)	23.2	22.7	(0.5)	3.4

*Fiscal 2006 for U.S. subsidiaries DSI and LPI spanned 15 months (January 2006–March 2007). For European subsidiary DSE, fiscal 2007 spanned 15 months (January 2007–March 2008). To facilitate comparison, the table shows 12-month results.

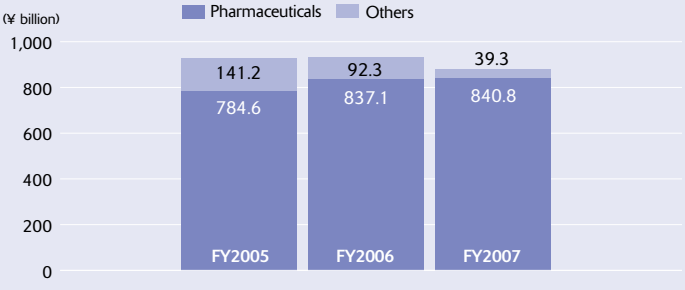
Consolidated Net Sales and Overseas Sales



Sales by Segment

The Group's business operations are divided between the primary Pharmaceuticals segment and other segments. In the Pharmaceuticals segment, which consists of the prescription drug business and the healthcare (OTC) business, the Group manufactures and sells prescription drugs, OTC drugs and quasidrugs (a Japanese classification for regulated, non-prescription drugs). Other segments consist of the manufacturing and sales of agrochemicals and chemicals, and also real estate-related activities. In the fiscal year ended March 31, 2008, the Pharmaceuticals segment contributed 90% or more of total net sales; for this reason, segment information had been omitted in this report.

Net Sales by Business Segment



Sales by Geographical Segment

■ Japan

Net sales in Japan declined by ¥69.7 billion, or 10.4%, year on year to ¥598.1 billion. The Group posted sales of prescription drugs of ¥437.3 billion, a year-on-year increase of 0.9%. Although the Group recorded sales growth in excess of that of corresponding market segments with a number of drugs, including the antihypertensive agents Olmetec®, Artist® and Calblock®, the synthetic antibacterial agent Cravit®, Urief ® (an agent for treatment of dysuria) and the anti-inflammatory analgesics of the Loxonin® brand, this was offset by declines in sales of the antihyperlipidemic agent Mevalotin® and the contrast agent Omnipaque® as a result of increased competition and other factors. Royalty income and exports to overseas licensees generated sales of ¥75.5 billion, down 10.4% year on year.

Although royalty income and exports of Levofloxacin, a synthetic antibacterial agent, continued to grow, reflecting a brisk expansion in numbers of prescriptions in local markets, lower exports of bulk Pravastatin, an antihyperlipidemic agent (now off-patent in major markets), adversely affected overall sales in the Pharmaceuticals segment. In the healthcare (OTC) business, the introduction in September 2007 of Transino®, the first OTC drug with proven clinical efficacy in the amelioration of skin blemishes (specifically, melasma), made a steady contribution to sales growth.

The Group launched the Felbinac series to augment the Patecs brand of external anti-inflammatory analgesics. Net sales of healthcare products in the year ended March 31, 2008 totaled ¥50.3 billion, an increase of 4.9% year on year.

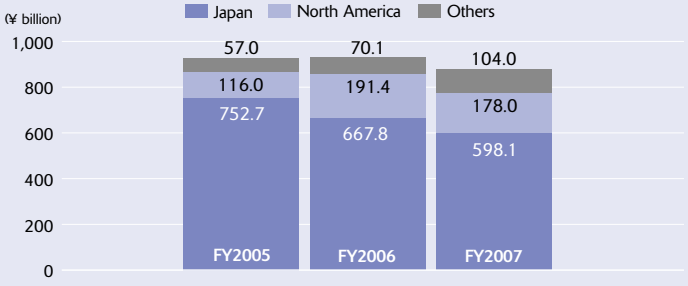
In the year under review, the Group spun off non-pharmaceutical businesses to focus resources on the pharmaceutical business. As a result, net sales from these operations declined significantly year on year, falling 65.8% to ¥34.9 billion.

■ North America

Net sales in North America declined by ¥13.5 billion, or 7.1%, year on year to ¥177.9 billion.

This mainly reflected the change in the accounting period of certain U.S. subsidiaries that occurred in the prior year. In real terms, the Group posted positive sales growth of ¥18.0 billion due strong sales of various products, including antihypertensive agents Benicar® and the recently launched AZOR™, the antihyperlipidemic agent Welchol™ (which during the fiscal year obtained an additional indication for the treatment of Type 2 diabetes) and the anemia treatment Venofer®.

Net Sales by Region



■ Other Regions

Net sales in other regions increased by ¥33.8 billion, or 48.2%, year on year to ¥104.0 billion. Higher sales of Olmetec® drove growth at Group subsidiaries in Europe, with regional sales increasing 46.1% in year on year to ¥77.9 billion. Sales in Europe also rose due to a change in the accounting period (with the fiscal year-end changing from December to March) of certain subsidiaries.

Strong sales of Olmesartan and Levofloxacin also drove business growth in markets across Asia and Latin America. Aggregate sales in these regions increased 55.0% to ¥26.0 billion over the previous year. During the year under review, two subsidiaries in Latin America were included in the consolidation.

Gross Profit on Sales

In the fiscal year ended March 31, 2008, consolidated gross profit on sales declined by ¥18.7 billion, or 2.8%, year on year to ¥645.5 billion. In real terms, however, after adjusting for exceptional factors such as the spin-off of non-pharmaceutical businesses from the consolidation and a change in the accounting period of certain overseas subsidiaries, gross profit on sales rose by ¥12.7 billion, or 6.7%.

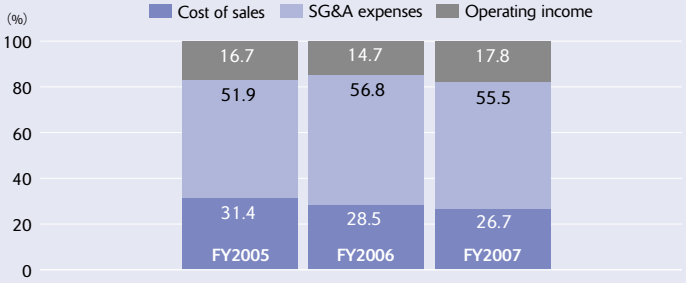
In addition, business integration-derived cost synergies and continuous cost cutting measures contributed to a reduction in the cost of sales, which fell by ¥30.6 billion, or 11.5%, year on year to ¥234.5 billion.

Operating Income

In the year under review, operating income increased by ¥20.5 billion, or 15.0%, year on year to ¥156.8 billion.

Selling, general and administrative expenses fell by ¥39.2 billion, or 7.4%, year on year to ¥488.7 billion, due to the spin-off of non-pharmaceutical activities from the consolidation, workforce resizing in the pharmaceutical business and a change of accounting method related to a revision of retirement benefits and pension policies.

Ratios of Costs, Expenses and Operating Income to Net Sales



Other Income, Net

Other income, net improved by ¥19.4 billion year on year. The main factors were a ¥72.4 billion decline in loss on business integration (in the previous fiscal year, loss on business integration amounted to ¥82.4 billion), a ¥2.3 billion increase in gain on sale of property, plant and equipment and loss on impairment of long lived assets, which at the previous fiscal year-end amounted to ¥4.9 billion.

Other factors include a lower gain on sale of investments of affiliates (declining by ¥50.6 billion from ¥59.3 billion in the previous fiscal year) and lower gain on sale of investment securities (declining by ¥7.9 billion from ¥8.2 billion in the previous fiscal year). Also, derivative gain declined by ¥3.3 billion from the previous fiscal year's amount of ¥2.6 billion.

Net Income before Income Taxes and Minority Interests

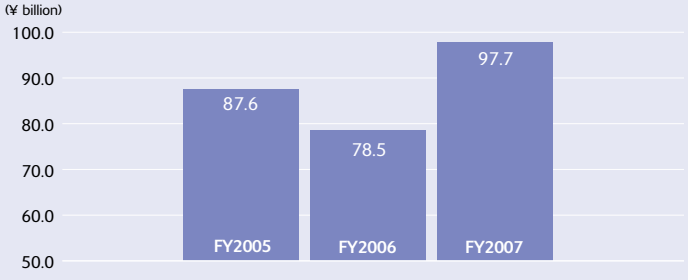
Net income before income taxes and minority interests amounted to ¥166.8 billion. This is ¥39.9 billion, or 31.5%, higher than the results for the previous fiscal year.

Net Income

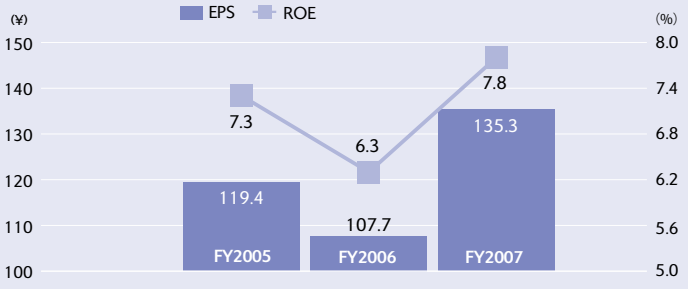
Net income for the fiscal year ended March 31, 2008 amounted to ¥97.6 billion, an increase of ¥19.1 billion, or 24.3% year on year. Income taxes totaled ¥69.0 billion. This is equivalent to 41.4% of net income before income taxes and minority interests, compared with 37.9% in the previous fiscal year.

Net income per share (EPS) increased by ¥27.6 from the previous year's level to ¥135.3. Return on equity (ROE) increased by 1.5 percentage points to 7.8%.

Net Income



EPS and ROE



Dividends

The Company regards the distribution of profits generated by the Group businesses as one its key management priorities. Profit distribution is determined partly with regard to the level of return deemed commensurate with underlying business performance and capital efficiency, and partly upon consideration of other factors, such as the need to build up retained earnings to fund future business development and strategies for growth.

The Company's policy is to allocate a sum equivalent to net income entirely to dividend payments and share buybacks during the three-year period covering fiscal 2007 to 2009. While steadily raising the level of dividends, the Company will also maintain a flexible stance toward share buybacks.

The Company has decided to pay dividends from retained earnings twice per fiscal year, at the end of the interim period and at the end of the fiscal year. By the Company's articles of association, the interim dividend is decided by resolution of the Board of Directors with September 30 as the basic payment date, while the year-end dividend is decided at the General Shareholders' Meeting.

Undistributed retained earnings will be used primarily to fund investments targeting future growth, including moves to strengthen R&D, boost corporate collaboration, and reinforce the Group's overseas business base.

Under these policies, the Company raised the dividend per share by ¥10 to ¥70 (interim dividend is ¥35 per share) and bought back 10 million shares.

R&D Activities

The Group has focused its R&D investments on four designated therapeutic areas (thrombotic disorders, malignant neoplasm, diabetes mellitus and autoimmune disease/rheumatoid arthritis) where medical demand is higher. The Group is investing selectively in these areas with the aim of generating a world-class development pipeline, and a continuous stream of new drugs that combine innovative clinical efficacy with outstanding safety profiles.

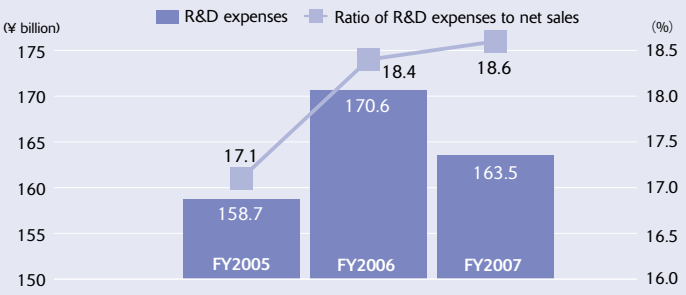
The Group is also working to extend product lifecycles by developing combination drugs or additional formulations in the three fields of hypertension, bacterial infections and hyperlipidemia, where it has already established a solid franchise.

Having submitted applications for regulatory approval, the Group continues to make preparations for the early introduction of the antiplatelet agent Prasugrel in Europe and the U.S. Late Phase II clinical trials for DU-176b, an oral factor-Xa inhibitor that is another top-priority R&D project, are making steady progress worldwide, and Phase III trials are expected to begin by the end of 2008. Elsewhere, the Group has secured exclusive development and sales rights in Japan for Denosumab, an anti-RANKL antibody, from U.S. biotechnology company Amgen Inc. Phase III clinical trials for osteoporosis, and multinational Phase III clinical trials that include Japan are in progress to study the drug's effects on bone metastases of cancer.

During the year under review, the Group decided to terminate clinical development of the antiplatelet agent DZ-697b, as well as in-house development of DC-159a, a new quinolone antibacterial, and CS-023, a carbapenem-type antibacterial agent. These decisions were all based on R&D portfolio management considerations.

The Group's R&D investments in the Pharmaceuticals segment totaled ¥162.5 billion in the fiscal year ended March 31, 2008, a decline of 2.3% year on year.

R&D Expenses and Ratio of R&D Expenses to Net Sales



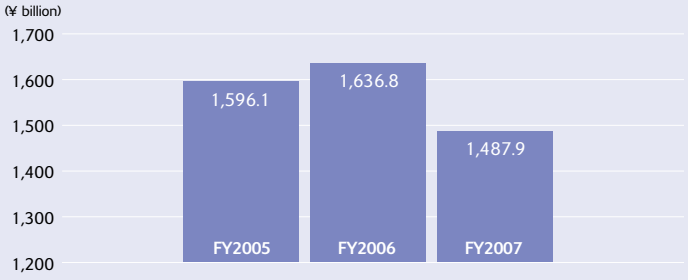
Liquidity and Financial Position

Total assets as of March 31, 2008 amounted to ¥1,487.9 billion, a decline of ¥148.9 billion, or 9.1%, compared with the previous fiscal year-end. A breakdown of this total shows that current assets declined by ¥89.3 billion, or 8.8%, year on year to ¥926.5 billion, while tangible fixed assets declined by ¥27.5 billion, or 11.1%, to ¥221.2 billion. Intangible assets increased by ¥30.9 billion, or 51.4%, to ¥91.0 billion, and investments and other assets declined by ¥62.9 billion, or 20.2%, to ¥249.0 billion.

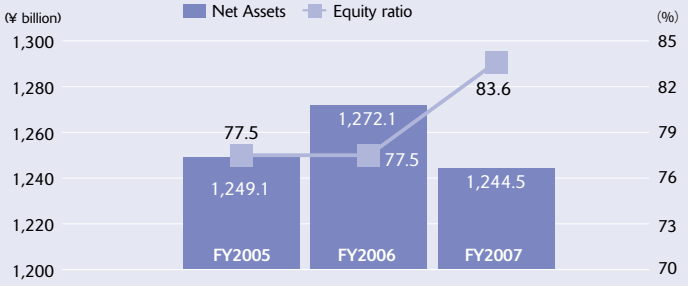
Current liabilities declined by ¥86.9 billion, or 30.9%, to ¥194.5 billion, while long term liabilities declined by ¥34.3 billion, or 41.3%, to ¥48.8 billion.

Net assets as of March 31, 2008 were ¥1,244.5 billion, a decline of ¥27.6 billion, or 2.2%, over the previous year's position. Net assets per share were ¥10.1 lower at ¥1,730.1.

Total Assets



Net Assets and Ratio of Net Assets to Total Assets



Cash Flows

■ Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥66.6 billion, a decline of ¥39.7 billion compared with the previous year. However, income before income taxes and minority interest increased by ¥39.9 billion over the previous year. Reduced operating cash flow reflected a decline of ¥54.0 billion in accounts payable and accrued expenses following the payment in the year ended March 31, 2008 of accrued severance and retirement benefits booked at the previous fiscal year-end in relation to workforce resizing and personnel transfer to functional subsidiaries.

There was also a decline of ¥26.8 billion in accrued employees' severance and retirement benefits from a revision of retirement benefits and pension policies.

■ Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥49.4 billion, compared with an inflow of ¥45.3 billion in the previous fiscal year. Expenditure on the acquisition of tangible and intangible fixed assets amounted to ¥51.5 billion. However, income amounted to ¥22.2 billion, including proceeds from sales of shares in consolidated subsidiaries.

■ Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥82.8 billion, including cash dividend payment of ¥47.0 billion and treasury stock purchases of ¥33.4 billion.

Cash Flow Highlights (¥ billion)

	FY2005	FY2006	FY2007
Net cash provided by operating activities	132.7	106.4	66.6
Net cash provided by (used in) investing activities	(39.2)	45.3	(49.4)
Net cash used in financing activities	(50.1)	(40.7)	(82.8)
Effect of exchange rate changes on cash and cash equivalents	3.7	0.4	(4.7)
Net increase in cash and cash equivalents	47.1	111.3	(70.4)
Cash and cash equivalents at end of year	400.9	513.2	444.3

Outlook for the Year Ending March 31, 2009

In all major world markets, the Group expects government measures aimed at restricting medical spending to have a significant impact on sales in the fiscal year ending March 31, 2009. In Japan, the Group faces the NHI (National Health Insurance) drug price revision, along with measures to promote greater use of generics.

Under these conditions, the Group plans to manage its sales force in Japan by further developing its MR Crosswise structure, which coordinates the functions of MRs (medical representatives) specializing in particular therapeutic areas with those of MRs assigned to specific medical institutions. Using this structure, the Group aims to expand prescriptions for Olmetec® and other leading products, while boosting sales via contributions from new products such as Loxonin® tape, a percutaneous absorption-type anti-inflammatory analgesic, and Gracevit®, a synthetic antibacterial agent.

In overseas markets, the Group plans to generate increased sales of leading products by expanding its sales force, among other actions. Major planned launches include the introduction of Prasugrel in the U.S. under the brand name Effient™ (tentative), if approved by the FDA.

On the other hand, sales generated by non-pharmaceutical businesses are forecast to decline by ¥32.0 billion, following the efforts in the year ended March 31, 2008, to make them independent of the Group. Moreover, the change in the accounting period of certain European subsidiaries in fiscal 2007 will also reduce year-on-year sales growth by ¥14.1 billion. Factoring in this combined ¥46.1 billion decrease in sales, consolidated net sales are projected to reach ¥840 billion in fiscal 2008, a year-on-year fall of 4.6%.

Excluding the aforementioned impact of operational restructuring, sales from the pharmaceutical business are expected to grow by ¥6.0 billion, or 0.7%, year on year. In addition, the forecasts assume average exchange rates of ¥100 against the U.S. dollar and ¥155 against the euro, which would have depressed sales by approximately ¥34.0 billion compared with the actual rates that prevailed during the year ended March 31, 2008.

Besides the decline in sales, the Group expects profits in the year ending March 31, 2009 to be depressed by the impact of marketing and promotional costs related to the launch of Prasugrel in the U.S., along with other upfront investment costs, such as sales force expansion. Other projected factors include higher R&D expenditures as key projects such as DU-176b move into late-phase clinical development. The Group forecasts operating income of ¥130.0 billion (down 17.1% year on year) ordinary income of ¥138.0 billion (down 18.4% year on year) and net income of ¥80.0 billion (down 18.1% year on year).

The Group considers its aggressive investments in R&D and stronger global sales infrastructure essential to the achievement of significant growth in fiscal 2009 and beyond. In fiscal 2008, the Group plans to address these various challenges and accelerate the pace further from that of fiscal 2007.

Business Risks

The following section provides an overview of the principal risks that could affect the business results and financial condition of the Group. Any forward-looking statements or projections contained in this overview represent the best judgment of the Group management as of the end of the fiscal year ended March 31, 2008.

■ Research and Development Risk

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 on a particular compound may be terminated due to failure to demonstrate expected clinical efficacy. In addition, any changes in the terms of agreements with other third-parties governing R&D-related alliances, or the cancellation thereof, can also materially affect the outcomes of R&D programs.

■ Manufacturing and Procurement Risk

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 such manufacturing or supply activities for any reason could have a material impact on the Group's business results and financial position.

Manufacture of pharmaceuticals in Japan is subject to strict regulation as stipulated in the Pharmaceutical Affairs Law. Any quality assurance problem that necessitated a product recall could have a material adverse impact on the Group's business results and financial position.

■ Sales-Related Risk

Any decline in sales due to the emergence of unanticipated side effects of a drug, or due to the entry of generic products into a sector following the expiration of a patent, and the introduction of competing products within the same therapeutic area, could have a material impact on the Group's business results and financial position.

Any changes in the terms of sales or technology transfer agreements, or the expiration or cancellation thereof, could have a material impact on the Group's business results and financial position.

■ Legal and Regulatory Risk

Prescription drugs in Japan are subject to a variety of laws, regulations and ordinances. Trends in regulatory measures related to the medical treatment systems and the national health insurance, most notably the NHI price revisions, could have a material impact on the Company's business results and financial position. Similarly, sales of prescription drugs in overseas markets are also subject to a variety of legal and regulatory constraints.

■ Intellectual Property Risk

The business activities of the Group could be subject to restraint or dispute in an event of the infringement of the patents or other intellectual property rights of other parties. Conversely, infringement of the intellectual property rights of the Group by other parties could lead to a legal action by the Group to protect such rights. In either case, the resulting outcome could have a material impact on the Group's business results and financial position.

■ Environmental Risk

Certain of the chemicals used in pharmaceutical research and manufacturing processes include substances with the potential to exert a negative impact on human health and natural ecosystems. All the Group facilities operate on a self-regulated basis according to the internal standards designed to prevent the occurrence of any air or water pollution caused by plant emissions. The Group also takes a proactive stance on environmental protection, for instance by employing substitute chemicals wherever possible to reduce a potential environmental impact of chemical substances used. Notwithstanding those efforts, there could be a material impact on the Group's business results and financial position, were the emissions of the Group facility determined to have resulted in a serious environmental problem.

■ Litigation-Related Risk

Besides potential antitrust issues, the Group could also face litigation of various forms concerning its business activities, such as lawsuits related to drug side effects, product liability or labor disputes. Such developments could have a material impact on the Group's business results and financial position.

■ Currency Fluctuation Risk

Fluctuations in foreign currency exchange rates could be a financially adverse effect on the Group. The Group conducts business, including production, sales, import and export activities, on a global basis, and foreign exchange movements could therefore have a material impact on the Group's business results and financial position.

■ Other Risks

Other risks besides those noted above that could have a material impact on the Group's business results and financial position include the suspension of its business activities due to an earthquake or other large-scale natural disaster; the interruption of the Group's computer systems due to a network-mediated virus or other causes; changes in stock prices and interest rates.

Consolidated Balance Sheets

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
March 31, 2008 and 2007

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note1) 2008
ASSETS			
Current Assets:			
Cash and time deposits (Note 3)	¥ 47,335	¥ 172,615	$ 473,350
Marketable securities (Notes 3 and 4)	526,805	448,896	5,268,050
Trade notes and accounts receivable, net of allowance of ¥293 million ($2,930 thousand) and ¥725 million in 2008 and 2007, respectively	166,687	196,434	1,666,870
Inventories (Note 5)	98,158	107,759	981,580
Deferred tax assets (Note 8)	52,678	63,365	526,780
Other current assets	34,861	26,772	348,610
Total current assets	926,524	1,015,841	9,265,240
Property, Plant and Equipment (Notes 6 and 9):			
Land	33,117	38,011	331,170
Buildings and structures	315,626	332,267	3,156,260
Machinery, equipment and vehicles	324,423	369,343	3,244,230
Construction in progress	2,938	12,013	29,380
	676,104	751,634	6,761,040
Accumulated depreciation	(454,838)	(502,777)	(4,548,380)
Net property, plant and equipment	221,266	248,857	2,212,660
Investments and Other Assets (Notes 6 and 9):			
Investment securities (Note 4)	216,039	262,240	2,160,390
Long-term loans receivable, net of allowance of ¥352 million ($3,520 thousand) and ¥421 million in 2008 and 2007, respectively	953	1,195	9,530
Deferred tax assets (Note 8)	5,995	8,891	59,950
Other	117,112	99,811	1,171,120
Total investments and other assets	340,099	372,137	3,400,990
Total assets	¥1,487,889	¥1,636,835	$14,878,890

	Millions of yen 2008	Millions of yen 2007	Thousands of U.S. dollars (Note1) 2008
LIABILITIES AND NET ASSETS			
Current Liabilities:			
Short-term bank loans (Note 7)	¥ 64	¥ 8,260	$ 640
Long-term debt due within one year (Note 7)	5	300	50
Trade notes and accounts payable	83,185	146,028	831,850
Income taxes payable (Note 8)	18,682	27,574	186,820
Accrued expenses	60,936	87,535	609,360
Other current liabilities (Note 8 and 10)	31,642	11,813	316,420
Total current liabilities	194,514	281,510	1,945,140
Long-Term Liabilities:			
Long-term debt (Note 7)	18	1,533	180
Accrued employees' severance and retirement benefits (Note 10)	6,781	35,063	67,810
Accrued directors' severance and retirement benefits	115	1,038	1,150
Deferred tax liabilities (Note 8)	26,725	36,146	267,250
Other long-term liabilities (Note 10)	15,223	9,397	152,230
Total long-term liabilities	48,862	83,177	488,620
Total liabilities	243,376	364,687	2,433,760
Commitments and Contingencies (Note 12)			
Net Assets (Note 11):			
Common stock:			
Authorized - 2,800,000,000 shares in 2008 and 2007			
Issued- 735,011,343 shares in 2008 and 2007	50,000	50,000	500,000
Capital surplus	179,863	179,860	1,798,630
Retained earnings	1,025,145	971,483	10,251,450
Treasury stock, at cost	(43,407)	(9,996)	(434,070)
Sub total	1,211,601	1,191,347	12,116,010
Net unrealized gain on investment securities	48,540	72,359	485,400
Foreign currency translation adjustments	(16,264)	4,951	(162,640)
Subscription rights to shares (Note 14)	258	—	2,580
Minority Interests	378	3,491	3,780
Total net assets	1,244,513	1,272,148	12,445,130
Total liabilities and net assets	¥1,487,889	¥1,636,835	$14,878,890

See accompanying notes.

Consolidated Statements of Income

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen 2008	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note1) 2008
Net Sales (Note 13)	¥ 880,120	¥ 929,507	¥ 925,918	$8,801,200
Costs and Expenses (Note 13):				
Cost of sales	234,571	265,201	290,736	2,345,710
Selling, general and administrative expenses	325,250	357,330	321,738	3,252,500
Research and development expenses	163,472	170,662	158,716	1,634,720
	723,293	793,193	771,190	7,232,930
Operating Income (Note 13)	156,827	136,314	154,728	1,568,270
Other Income (Expenses):				
Interest and dividend income	11,863	11,273	5,322	118,630
Derivative gain (loss)	(748)	2,640	(460)	(7,480)
Interest expense	(128)	(252)	(313)	(1,280)
Gain on sale of property, plant and equipment	6,622	4,315	4,897	66,220
Gain on sales of investments in affiliates	8,719	59,347	1,180	87,190
Gain on sales of investment securities	256	8,222	650	2,560
Loss on disposal of property, plant and equipment	(2,161)	(3,623)	(5,550)	(21,610)
Loss on business integration (Note 9)	(9,998)	(82,479)	(9,893)	(99,980)
Loss on impairment of long-lived assets (Note 9)	—	(4,916)	(5,254)	—
Provision for contingent losses	(158)	(166)	(3,380)	(1,580)
Provision for soil remediation costs	(202)	(2,876)	(2,850)	(2,020)
Loss on business restructuring	(2,247)	(3,610)	(1,153)	(22,470)
Loss on litigation	(1,646)	—	(1,126)	(16,460)
Other, net	(143)	2,724	94	(1,430)
	10,029	(9,401)	(17,836)	100,290
Income before Income Taxes and Minority Interests	166,856	126,913	136,892	1,668,560
Income Taxes (Note 8):				
Income tax expense—current	52,355	64,710	54,207	523,550
Income tax benefit—deferred	16,741	(16,631)	(5,011)	167,410
Income before Minority Interests	97,760	78,834	87,696	977,600
Minority Interests in Net Income of Consolidated Subsidiaries	(100)	(284)	(3)	(1,000)
Net Income	¥ 97,660	¥ 78,550	¥ 87,693	$ 976,600

	Yen	Yen	Yen	U.S. dollars (Note1)
Amounts per Share of Common Stock (Note 2):				
Net income	¥135.35	¥107.75	¥119.49	$1.35
Diluted net income	135.34	—	119.47	1.35
Cash dividends applicable to the year	70.00	60.00	25.00	0.70

See accompanying notes.

Consolidated Statements of Change in Net Assets

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Thousands	Millions of yen								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gain on investment securities	Foreign currency translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Balance at March 31, 2005	735,011	¥50,000	¥180,027	¥ 956,658	¥(69,028)	¥44,097	¥ 8,332	¥ —	¥11,017	¥1,181,103
Loss on disposal of treasury stock		—	(169)	—	—	—	—	—	—	(169)
Net income		—	—	87,693	—	—	—	—	—	87,693
Cash dividends (¥25.00 per share)		—	—	(17,311)	—	—	—	—	—	(17,311)
Share transfer payment		—	—	(17,168)	—	—	—	—	—	(17,168)
Bonuses to directors		—	—	(406)	—	—	—	—	—	(406)
Retirement of treasury stock		—	—	(72,419)	—	—	—	—	—	(72,419)
Loss on sale of treasury stock		—	—	(298)	—	—	—	—	—	(298)
Decrease due to changes in scope of consolidation		—	—	(236)	—	—	—	—	—	(236)
Adjustment of net unrealized holding gains on securities		—	—	—	—	36,158	—	—	—	36,158
Adjustment from translation of foreign currency financial statements		—	—	—	—	—	(7,597)	—	—	(7,597)
Decrease in treasury stock		—	—	—	59,196	—	—	—	—	59,196
Increase in minority interests		—	—	—	—	—	—	—	593	593
Balance at March 31, 2006	735,011	¥50,000	¥179,858	¥ 936,513	¥ (9,832)	¥80,255	¥ 735	¥ —	¥11,610	¥1,249,139
Gain on sale of treasury stock		—	2	—	—	—	—	—	—	2
Net income		—	—	78,550	—	—	—	—	—	78,550
Cash dividends (¥55.00 per share)		—	—	(40,097)	—	—	—	—	—	(40,097)
Bonuses to directors		—	—	(344)	—	—	—	—	—	(344)
Decrease due to change in scope of consolidation		—	—	(3,007)	—	—	—	—	—	(3,007)
Decrease due to change in number of equity-method affiliates		—	—	(132)	—	—	—	—	—	(132)
Changes in net unrealized holding gains on securities		—	—	—	—	(7,896)	—	—	—	(7,896)
Changes in translation of foreign currency financial statements		—	—	—	—	—	4,216	—	—	4,216
Changes in treasury stock		—	—	—	(164)	—	—	—	—	(164)
Changes in minority interests		—	—	—	—	—	—	—	(8,119)	(8,119)
Balance at March 31, 2007	735,011	¥50,000	¥179,860	¥ 971,483	¥ (9,996)	¥72,359	¥ 4,951	¥ —	¥ 3,491	¥1,272,148
Gain on sale of treasury stock		—	3	—	—	—	—	—	—	3
Net income		—	—	97,660	—	—	—	—	—	97,660
Cash dividends (¥65.00 per share)		—	—	(47,034)	—	—	—	—	—	(47,034)
Increase due to changes in scope of consolidation		—	—	142	—	—	—	—	—	142
Increase due to merger of unconsolidated subsidiaries		—	—	2,894	—	—	—	—	—	2,894
Changes in net unrealized holding gains on securities		—	—	—	—	(23,819)	—	—	—	(23,819)
Changes in translation of foreign currency financial statements		—	—	—	—	—	(21,215)	—	—	(21,215)
Changes in treasury stock		—	—	—	(33,411)	—	—	—	—	(33,411)
Issuance of subscription rights to shares		—	—	—	—	—	—	258	—	258
Changes in minority interests		—	—	—	—	—	—	—	(3,113)	(3,113)
Balance at March 31, 2008	735,011	¥50,000	¥179,863	¥1,025,145	¥(43,407)	¥48,540	¥(16,264)	¥258	¥ 378	¥1,244,513

	Thousands	Thousands of U.S. dollars (Note 1)								
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gain on investment securities	Foreign currency translation adjustments	Subscription rights to shares	Minority interests	Total net assets
Balance at March 31, 2007	735,011	$500,000	$1,798,600	$ 9,714,830	$(99,960)	$723,590	$ 49,510	$—	$34,910	$12,721,480
Gain on sale of treasury stock		—	30	—	—	—	—	—	—	30
Net income		—	—	976,600	—	—	—	—	—	976,600
Cash dividends ($0.65 per share)		—	—	(470,340)	—	—	—	—	—	(470,340)
Increase due to changes in scope of consolidation		—	—	1,420	—	—	—	—	—	1,420
Increase due to merger of unconsolidated subsidiaries		—	—	28,940	—	—	—	—	—	28,940
Changes in net unrealized holding gains on securities		—	—	—	—	(238,190)	—	—	—	(238,190)
Changes in translation of foreign currency financial statements		—	—	—	—	—	(212,150)	—	—	(212,150)
Changes in treasury stock		—	—	—	(334,110)	—	—	—	—	(334,110)
Issuance of subscription rights to shares		—	—	—	—	—	—	2,580	—	2,580
Changes in minority interests		—	—	—	—	—	—	—	(31,130)	(31,130)
Balance at March 31, 2008	735,011	$500,000	$1,798,630	$10,251,450	$(434,070)	$485,400	$(162,640)	$2,580	$3,780	$12,445,130

Consolidated Statements of Cash Flows

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

	Millions of yen 2008	Millions of yen 2007	Millions of yen 2006	Thousands of U.S. dollars (Note1) 2008
Cash Flows from Operating Activities:				
Income before income taxes and minority interests	¥166,856	¥126,913	¥136,892	$ 1,668,560
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	38,733	39,987	41,129	387,330
Loss on impairment of long-lived assets	—	4,916	5,254	—
Amortization of goodwill	3,599	3,596	1,424	35,990
Increase (decrease) in allowance for doubtful accounts	(394)	5	(27)	(3,940)
Decrease in accrued severance and retirement benefits	(26,834)	(28,547)	(3,315)	(268,340)
(Increase) decrease in prepaid pension costs	9,947	(714)	(1,814)	99,470
Interest and dividend income	(11,863)	(11,273)	(5,322)	(118,630)
Interest expense	128	252	313	1,280
Gain on sales of investment securities	(256)	(8,200)	(650)	(2,560)
Gain on sales of investments in affiliates	(8,719)	(59,347)	(1,180)	(87,190)
(Gain) loss on sales and disposal of property, plant and equipment	(4,461)	(692)	653	(44,610)
Loss on settlement of vitamin-related anti-trust litigations	—	—	1,126	—
Equity in net losses of affiliated companies	107	18	349	1,070
Decrease in trade notes and accounts receivable	7,602	16,795	11,652	76,020
(Increase) decrease in inventories	(4,539)	1,684	8,252	(45,390)
Increase (decrease) in trade notes and accounts payable	(260)	3,294	(6,990)	(2,600)
Increase (decrease) in accounts payable and accured expenses	(54,056)	56,551	(3,362)	(540,560)
Other, net	80	12,299	(2,470)	800
Subtotal	115,670	157,537	181,914	1,156,700
Interest and dividends received	11,646	11,099	5,286	116,460
Interest paid	(128)	(251)	(313)	(1,280)
Fines, penalties and legal settlement paid	—	—	(1,126)	—
Income taxes paid	(60,521)	(61,955)	(53,001)	(605,210)
Net cash provided by operating activities	66,667	106,430	132,760	666,670
Cash Flows from Investing Activities:				
Purchases of time deposits	(2,053)	(6,621)	(5,140)	(20,530)
Proceeds from maturities in time deposits	992	5,403	4,409	9,920
Purchases of marketable securities	(166,335)	(148,217)	(86,578)	(1,663,350)
Proceeds from sales of marketable securities	142,973	165,049	119,972	1,429,730
Acquisitions of property, plant and equipment	(25,317)	(28,066)	(41,798)	(253,170)
Proceeds from sales of property, plant and equipment	8,364	11,450	5,471	83,640
Acquisitions of intangible assets	(26,269)	(14,886)	(6,788)	(262,690)
Acquisitions of investment securities	(28,392)	(37,483)	(38,975)	(283,920)
Proceeds from sales of investment securities	26,761	14,157	16,095	267,610
Acquisitions of investments in subsidiaries from minority interest	(753)	(571)	(10,268)	(7,530)
Acquisition of investments in newly consolidated subsidiaries (Note 3)	—	(27,210)	—	—
Proceeds from sales of investments in consolidated subsidiaries resulting in changes in scope of consolidation (Note 3)	22,260	91,020	642	222,600
Net decrease in short-term loans receivable	8,000	16,137	—	80,000
Payment for loans receivable	(150)	(1,365)	(2,451)	(1,500)
Proceeds from collection of loans receivable	858	5,893	1,837	8,580
Other, net	(10,376)	616	4,313	(103,760)
Net cash provided by (used in) investing activities	(49,437)	45,306	(39,259)	(494,370)
Cash Flows from Financing Activities:				
Net increase(decrease) in short-term bank loans	(1,569)	1,312	(2,287)	(15,690)
Proceeds from long-term debt	—	—	1,110	—
Repayments of long-term debt	(809)	(297)	(1,204)	(8,090)
Purchases of treasury stock	(33,420)	(173)	(16,611)	(334,200)
Proceeds from sale of treasury stock	13	10	2,920	130
Dividends paid	(47,017)	(40,050)	(17,327)	(470,170)
Share transfer payments	—	—	(17,168)	—
Other, net	(96)	(1,571)	460	(960)
Net cash used in financing activities	(82,898)	(40,769)	(50,107)	(828,980)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(4,739)	400	3,794	(47,390)
Net increase in Cash and Cash Equivalents	(70,407)	111,367	47,188	(704,070)
Cash and Cash Equivalents, Beginning of Year	513,212	400,967	354,102	5,132,120
Increase (decrease) in Cash and Cash Equivalents due to Changes in Scope of Consolidation	501	878	(323)	5,010
Increase in cash and cash equivalents due to merger with unconsolidated subsidiaries	1,029	—	—	10,290
Cash and Cash Equivalents, at End of Year (Note 3)	¥444,335	¥513,212	¥400,967	$ 4,443,350

See accompanying notes.

Notes to Consolidated Financial Statements

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2008, 2007 and 2006

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of DAIICHI SANKYO COMPANY, LIMITED (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2008, which was ¥100 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Investments in Affiliated Companies

The consolidated financial statements include the accounts of the Company and its significant subsidiaries (the "Companies"). All significant intercompany balances, transactions and profits have been eliminated. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control.

The equity method is applied, with minor exception, to the 20 to 50 % owned affiliated companies whereby the Company has the ability to exercise significant influence over the operational and financial policies of a company, and certain immaterial subsidiaries not consolidated.
The goodwill, which is the difference between the investment and the net assets of the subsidiary, is amortized over 5 or 10 years.

Daiichi Sankyo INC. and Luitpold Pharmaceuticals Inc. , the Company's consolidated subsidiaries, changed their fiscal year-end from December 31 to March 31 effective from the fiscal year ended March 31, 2007. As a result, while the financial statements of these subsidiaries as of December 31, 2005 were used in the preparation of the Consolidated Financial Statements for the fiscal year ended March 31, 2006, due to these changes in fiscal year-end, the consolidated financial statements for the fiscal year ended March 31, 2007 include 15-month results of the two subsidiaries (for the period from January 1, 2006 to March 31, 2007). The net effect of these changes in fiscal year-end on the consolidated statement of income for the fiscal year ended March 31, 2007 were increases in net sales, operating income, income before income taxes and minority interests, and net income of ¥31,514 million, ¥9,030 million, ¥9,587 million and ¥5,830 million, respectively.

DAIICHI SANKYO EUROPE GmbH and its 11 subsidiaries, along with two other companies, changed their fiscal year-end from December 31 to March 31 effective from this fiscal year. As a result, while the financial statements of these subsidiaries as of December 31, 2006 were used in the preparation of the Consolidated Financial Statements for the fiscal year ended March 31, 2007, due to this change in fiscal year-end, the consolidated financial statements for the fiscal year ended March 31, 2008 include 15-month results of these subsidiaries (for the period from January 1, 2007 to March 31, 2008). The net effect of these changes in fiscal year-end on the consolidated statement of income for the fiscal year ended March 31, 2008 were increases in net sales, operating income, income before income taxes and minority interests, and net income of ¥14,129 million ($141,290 thousand), ¥1,886 million ($18,860 thousand), ¥2,161 million ($21,610 thousand) and ¥2,027 million ($20,270 thousand), respectively

Business Combination

The Company was established through a joint stock transfer by Sankyo Company, Limited ("Sankyo") and Daiichi Pharmaceutical Co., Ltd. ("Daiichi") and became the parent company of its wholly-owned subsidiaries at September 28, 2005. This integration of both wholly-owned subsidiaries (Sankyo and Daiichi) has been judged as a combination of interest, in consideration of the contents of business, financial conditions and earnings records of these subsidiaries and because they jointly would bear Daiichi Sankyo Group's risk and enjoy the Group's benefit. In the fiscal year ended March 31, 2006, the Company accounted for this business combination using the pooling of interests method in accordance with "Consolidation Procedure for Full Parent-subsidiary Relationship Established Utilizing Share Exchange and Transfer System"(JICPA Accounting Committee Research Report No. 6) and, accordingly , the assets and liabilities of Sankyo and Daiichi are combined at their book value. In addition, the Consolidated Statement of Income gives effect to the transaction as if the transaction occurred at the beginning of the fiscal year presented, regardless of when the Combination was in effect. As there are no accounting requirements for the financial statements to be restated for prior periods under Japanese GAAP, the opening balances of the fiscal year in the Consolidated Statement of Changes in Net Assets are presented, assuming the Company has existed as of April 1, 2005.

Pursuant to a merger agreement entered into on November 30, 2006, Sankyo and Daiichi were merged into the Company on April 1, 2007.

In addition to that, Pursuant to a spin-off agreement between Daiichi Sankyo Propharma Co., Ltd., a wholly-owned subsidiary, and Sankyo entered into on November 30, 2006, the Company spun-off the manufacturing operation of former Sankyo as to pharmaceuticals and other products on April 1, 2007, and the operation was then contributed to Daiichi Sankyo Propharma Co., Ltd..

Under the provisions of the Accounting Standard for Business Combination, these transactions were accounted for as a business combination among entities under common control and there were no effects on the consolidated statements of the fiscal year ended March 31, 2008.

Cash and cash equivalents and cash flow statements

For the purpose of the consolidated statements of cash flows, the Companies classify cash on hand, readily available bank deposits and short-term, highly liquid investments with maturities of no more than three months at the time of purchase as cash and cash equivalents.

Marketable securities and investment securities

The Companies examine the intent of holding each security and classify those securities as (a) securities held for trading purposes (hereafter, "trading securities"), (b) debt securities intended to be held to maturity (hereafter, "held-to-maturity debt securities"), (c) equity securities issued by subsidiaries and affiliated companies and (d) all other securities that are not classified in any of the above categories (hereafter, "available-for-sale securities")

Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies which are not consolidated or accounted for by the equity method are stated at the moving-average cost. Available-for-sale securities with available fair market value are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains or losses on the sale of such securities are computed using the moving-average cost. The Companies have no trading securities.

Derivative transactions

Derivatives are, in principle, stated at market value. The Company and certain consolidated subsidiaries enter into derivative agreements, such as forward foreign exchange contracts, currency options, call options on specific stocks and interest-rate swaps, in order to manage the risk arising from fluctuation in foreign currency exchange rates, stock prices and interest rates. Forward foreign exchange contracts and currency options are utilized to hedge risks arising from changes in foreign currency exchange rates in relation to imports and exports. Interest-rate swaps are utilized to manage interest-rate risk on debts. Call options on specific stocks are utilized to avoid the risk of fluctuation in stock prices relating to stock appreciation rights. The Company and its consolidated subsidiaries do not enter into derivative transactions for speculative trading purposes.

Deferred hedge accounting is basically adopted. Interest-rate swaps which meet the criteria to qualify as hedges and satisfy certain criteria are accounted for by a special method stipulated in the accounting standard, as if the interest rates on the swaps were originally applied to the underlying borrowings.

Forward foreign exchange contracts and currency options which meet hedging criteria are accounted for by the allocation method. The allocation method requires that recognized foreign currency receivables or payables be translated at the underlying exchange rates in the corresponding forward foreign exchange contracts and currency options. The Company and its consolidated subsidiaries which have derivatives positions have also developed hedging policies to control various aspects of these transactions, including establishing authorization levels and limits of transaction volumes. The effectiveness of the interest-rate swaps accounted for by the special method as highly qualified hedges has not been assessed, as permitted under the standard.

The effectiveness of the forward foreign exchange contracts and the currency options as hedges has also not been assessed as the conditions of these transactions are principally the same.

Inventories

Inventories are accounted for at the lower of cost and market, cost being determined principally by the weighted-average method until March 31, 2007. However , effective from the year ended March 31, 2008, the valuation method for inventories held for ordinary sales purposes has been changed to the weighted average cost basis, being written-down to reflect the decline of profitability.

This change in accounting method is an early adoption of the Accounting Standard for Measurement of Inventories (Accounting Standards Board of Japan Statement No. 9, July 5, 2006) which is effective mandatorily from the year ended March 31, 2009, by the Company and its domestic consolidated subsidiaries.

The effects of this change on operating income and income before income taxes and minority interests were decreases of ¥2,993 million ($29,930 thousand) and ¥2,311 million ($23,110 thousand), respectively

Property, plant and equipment

Depreciation of property, plant and equipment (except for certain buildings) is computed by the declining-balance method based on the estimated useful lives of the respective assets as to the Company and its domestic consolidated subsidiaries.

Depreciation of buildings (other than structures attached to the buildings) acquired on and after April 1, 1998 by the Company and its domestic consolidated subsidiaries is computed by the straight-line method.

As to the overseas consolidated subsidiaries, depreciation of property, plant and equipment is computed principally by the straight-line method.

The range of useful lives is from 15 to 50 years for buildings and structures, and from 4 to 7 years for machinery, equipment and vehicles.

The Company and its domestic consolidated subsidiaries changed the method of depreciation for all tangible fixed assets acquired on or after

April 1, 2007 in accordance with fiscal 2007 amendments of the Japanese Corporation Tax Law, the Law to Amend Part of the Income Tax Law (Cabinet Order No.83, March 30, 2007).

The effects of this change on operating income and income before income taxes and minority interests are decreases of ¥1,351 million ($13,510 thousand) and ¥1,359 million ($13,590 thousand), respectively.

In accordance with the amendments, in addition, the Company and its domestic consolidated subsidiaries started to depreciate the amounts of the differences between 5% of the acquisition costs and memorandum prices for all tangible fixed assets acquired on or before March 31, 2007 in equal amounts over five years, starting in the year after the fiscal year in which accumulated depreciation based on the pre-revision method reached 95% of the acquisition costs.

The effects of this change on operating income and income before income taxes and minority interests are decreases of ¥1,589 million ($15,890 thousand) and ¥1,609 million ($16,090 thousand), respectively

Accrued severance and retirement benefits

The accrued employees' severance and retirement benefits at year–end is provided based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at the balance sheet date.

Prior to fiscal 2007, retirement benefits covering all employees of domestic consolidated subsidiaries are basically provided through the following two arrangements: an unfunded lump-sum benefits plan and a non-contributory funded pension plan. Upon retirement or termination of employment, employees are generally entitled to lump-sum or annuity payments based on their current rate of pay, length of service and cause of termination.

Actuarial gains or losses are recognized as income or expenses in equal amounts over a period of 5 to 10 years commencing from the succeeding period, except for Sankyo which recognizes actuarial gains or losses immediately as they incurred.

Prior service costs are recognized as expenses in equal amounts over a period of 5 to 10 years including the year in which such costs were incurred.

The Company and certain domestic consolidated subsidiaries integrated their retirement benefit and pension plans on April 1, 2007 following the corporate reorganization and implemented their revision, which included introduction of a cash balance plan-type retirement and pension system in accordance with the Defined-Benefit Pension Plan Law, and transferring 20% of the retirement benefit amounts to a defined contribution pension plan. Since the Company does not expect to incur a large amount of prior service costs after the revision of the retirement benefit plans, effective from the fiscal year ended March 31, 2008, the Company and Asubio Pharma CO., LTD. changed their accounting methods to amortize the prior service costs over 12 months since they incurred, although the former amortization period of prior service costs for Sankyo was 5 years and 10 years for Daiichi and Daiichi Asubio Pharmaceutical, Inc, which were the major companies before the corporate organization.

The effects of this change on operating income and income before income taxes and minority interests were increases of ¥7,957 million ($79,570 thousand) and ¥8,189 million ($81,890 thousand), respectively.

As a result, retirement benefits covering all employees of the Company and domestic consolidated subsidiaries are basically provided by the group-wide retirement benefit arrangement comprising of a defined benefit plan and a defined contribution pension plan. Upon retirement or termination of employment, employees are generally entitled to lump-sum or annuity payments based on the number of "points" determined by their current rate of pay, length of service and cause of termination, and certain other factors.

In conjunction with the integration of the retirement benefit and pension plans, effective from the fiscal year ended March 31, 2008, the Company changed the method of amortization of actuarial gains and losses to a straight-line method over 10 years, although the former amortization period of actuarial gains or losses for Daiichi was 10 years, and Sankyo recognized actuarial gains or losses immediately as they incurred.

The effects of this change on operating income and income before income taxes and minority interests were increases of ¥4,712 million ($47,120 thousand).

In addition, certain of its domestic consolidated subsidiaries participated in a multi-employer welfare pension fund plan.

Certain overseas consolidated subsidiaries provide for such accruals in accordance with accounting principles generally accepted in the countries of their domicile.

Retirement benefits to directors and corporate statutory auditors of the Company were calculated based on the established guidelines. Payment of such benefits is subject to approval at the shareholders' meeting

Research and development

Research and development expenses are charged to income when incurred.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the balance sheet date with the resulting gain or loss included in the current statements of income.

Assets and liabilities of overseas subsidiaries are translated into Japanese yen at the exchange rates at the balance sheet date of the overseas subsidiaries, shareholders' equity accounts at historical rates and expenses and income at average rates of exchange during the year. The resulting foreign currency translation adjustment is reported as a separate component of net assets.

Accounting for certain lease transactions

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Amounts per share

In computing net income per share of common stock, the average number of shares issued during each fiscal year has been used. For diluted net income per share, both net income and shares outstanding were adjusted to assume the exercise of stock warrants.

Cash dividends per share represent actual amounts applicable to the respective years.

Accounting standard for Statement of Changes in Net Assets

Effective from the fiscal year ended March 31, 2007, the Company and its domestic consolidated subsidiaries adopted new accounting standards, "Accounting Standard for Statement of Changes in Net Assets"("Statement No.6"issued by the Accounting Standards Board of Japan on December 27, 2005), and " the Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets"("the Financial Accounting Standard Implementation Guidance No.9" issued by the Accounting Standards Board of Japan on December 27, 2005),(collectively, the "New Accounting Standards").

Accordingly, the Company prepared the consolidated statements of changes in net assets in accordance with the New Accounting Standards from the year ended March 31, 2007. Also, the Company voluntarily prepared the consolidated statement of changes in net assets for 2006 in accordance with the New Accounting Standards. Previously, consolidated statements of shareholders' equity were prepared for purposes of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Based on the reclassification of the previously presented shareholders' equity for 2006,, minority interest of ¥11,610 million , which was not included in the 2006 consolidated statements of shareholders' equity, is now presented in the consolidated statements of changes in net assets.

Accounting Standard for Directors' and Corporate Auditors' Bonuses

Although bonuses to directors and corporate auditors were recorded as appropriations of retained earnings up until fiscal year 2006, effective in the fiscal year ended March 31, 2007, the Company adopted the provisions of "the Accounting standards for Directors' Bonuses" ("Statement No.4"issued by the Accounting Standards Board of Japan on November 29, 2005) under which such bonuses are expensed as incurred on an accrual basis.

As a result of adopting this accounting standard, both operating income and income before income taxes and minority interests were decreased by ¥306 million for the year ended March 31, 2007.

Accounting Standard for Business Combination

Effective from the fiscal year ended March 31, 2007, the Company adopted the provisions of "Accounting Standard for Business Combination" (Corporate Accounting Deliberation Council; October 31, 2003), as well as "Accounting Standard for Business Separation (Corporate Accounting Standard No. 7; December 27, 2005) and the related "Implementation Guidelines on Accounting Standards for Business Combination and Business Separation" (Corporate Accounting Standard Implementation Guidelines No. 10; December 27, 2005).

Reclassification

Certain prior year amounts have been reclassified to conform to the current year presentation. Also, as described in Note 2 to the consolidated financial statements, in lieu of the consolidated statement of shareholders' equity for the year ended March 31, 2006, which was prepared on a voluntary basis for inclusion in the 2006 consolidated financial statements, the Company prepared the consolidated statement of changes in net assets for 2006 as well as 2008 and 2007.

These reclassifications had no impact on previously reported results of operations or retained earnings

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2008, 2007 and 2006 for the consolidated statements of cash flows consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Cash and time deposits	¥ 47,335	¥172,615	¥145,979	$ 473,350
Less time deposits with maturities extending over three months	(2,418)	(2,146)	(2,902)	(24,180)
Add short-term investments with maturities within three months	399,418	342,743	257,890	3,994,180
Cash and cash equivalents	¥444,335	¥513,212	¥400,967	$4,443,350

In the year ended March 31, 2008, the Company excluded Daiichi Fine Chemical Co., Ltd., Nippon Nyukazai Co., Ltd., and other three companies from the scope of consolidation.

The amounts of assets and liabilities of these companies at the time they were excluded from the consolidation, related sales prices of shares and proceeds from sales of the investments were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥53,886	$538,860
Non-current assets	22,749	227,490
Current liabilities	(36,830)	(368,300)
Long-term liabilities	(4,281)	(42,810)
Net unrealized gain on investment securities	(322)	(3,220)
Foreign currency translation adjustments	268	2,680
Minority interests	(3,011)	(30,110)
Gain on sale of investments in affiliate	8,007	80,070
Loss on sale of investments in affiliate	(1,439)	(14,390)
The Company's interest in the companies after sale of shares of such companies	(1,204)	(12,040)
Sales price of shares	37,823	378,230
Cash and cash equivalents owned by the subsidiaries	(15,563)	(155,630)
Proceeds from sales of investments in consolidated subsidiaries resulting in change in scope of consolidation	¥22,260	$222,600

In the year ended March 31, 2007, the Company excluded Wakodo Co., Ltd , Sankyo Agro Co., Ltd., Daiichi Radioisotope Laboratories, Ltd., Daiichi Pure Chemicals Co., Ltd. and other 8 companies from the scope of consolidation. The amounts of assets and liabilities of these companies at the time they were excluded from the consolidation, related sales prices of shares and proceeds from sales of the investments were as follows:

	Millions of yen
Current assets	¥ 82,292
Non-current assets	39,423
Current liabilities	(59,247)
Long-term liabilities	(9,841)
Net unrealized gain on investment securities	1
Minority interests	(6,059)
Gain on sale of shares, net	58,443
Sales prices of shares	105,012
Cash and cash equivalents owned by the subsidiaries	(13,992)
Proceeds from sales of investments in consolidated subsidiaries resulting in change in scope of consolidation	¥ 91,020

In the year ended March 31, 2007, the Company newly consolidated Zepharma Inc..

The amounts of assets and liabilities of Zepharma Inc. at the beginning of the consolidation period used for consolidation purposes and the acquisition of investments in newly consolidated subsidiary was as follows:

	Millions of yen
Current assets	¥19,639
Non-current assets	17,266
Goodwill	12,207
Current liabilities	(7,169)
Long-term liabilities	(6,190)
Purchase price of the subsidiary	35,753
Cash and cash equivalents owned by the subsidiary	(8,543)
Acquisition of investments in newly consolidated subsidiary	¥27,210

In the year ended March 31, 2006, the Company excluded Nippon Daiya Valve Co., Ltd and F.P. Kakou Co., Ltd. from the scope of consolidation. The amounts of assets and liabilities of the two companies at the time they were excluded from the consolidation, related sales prices of shares and proceeds from sales of the investments were as follows:

	Millions of yen
Current assets	¥4,452
Non-current assets	939
Current liabilities	(3,526)
Long-term liabilities	(561)
Gain on sale of shares, net	(303)
Sales prices of shares	1,001
Cash and cash equivalents owned by the subsidiaries	(359)
Proceeds from sales of investments in consolidated subsidiaries resulting in change in scope of consolidation	¥ 642

4. MARKET VALUE INFORMATION FOR SECURITIES

(1) At March 31, 2008 and 2007, the acquisition costs, carrying amounts and fair market values of securities with available market values were as follows:

(a) Held-To-Maturity Securities with Determinable Market Values

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Securities with market values greater than their carrying amounts:			
Carrying amount	¥81,818	¥80,141	$818,180
Market value	82,648	80,620	826,480
Difference	¥ 830	¥ 479	$ 8,300
Securities with fair value not exceeding book value:			
Carrying amount	¥96,646	¥89,759	$966,460
Market value	96,103	89,211	961,030
Difference	¥ (543)	¥ (548)	$ (5,430)

(b) Available-for-Sale Securities with Determinable Market Value

	Millions of yen 2008		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	¥34,057	¥117,265	¥83,208
Bonds	—	—	—
Others	86	174	88
Total	¥34,143	¥117,439	¥83,296
Securities with carrying amounts at or less than their acquisition costs:			
Stock	¥11,374	¥ 10,462	¥ (912)
Bonds	3,910	3,910	—
Others	2,716	2,146	(570)
Total	¥18,000	¥ 16,518	¥ (1,482)

	Millions of yen 2007		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	¥40,051	¥161,457	¥121,406
Bonds	1,120	1,187	67
Others	2,099	2,732	633
Total	¥43,270	¥165,376	¥122,106
Securities with carrying amounts at or less than their acquisition costs:			
Stock	¥180	¥165	(15)
Bonds	9,447	9,447	—
Others	505	481	(24)
Total	¥10,132	¥ 10,093	¥ (39)

	Thousands of U.S. dollars 2008		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	$340,570	$1,172,650	$832,080
Bonds	—	—	—
Others	860	1,740	880
Total	$341,430	$1,174,390	$832,960
Securities with carrying amounts at or less than their acquisition costs:			
Stock	$113,740	$ 104,620	$(9,120)
Bonds	39,100	39,100	—
Others	27,160	21,460	(5,700)
Total	$180,000	$ 165,180	$ (14,820)

The Companies recognized ¥682 million ($6,820 thousand) and ¥ 301 million as impairment losses of available-for-sale securities with determinable market value in the year ended at March 31, 2008 and 2006 respectively.

(2) At March 31, 2008 and 2007, carrying amounts of securities without determinable market values were as follows:

(a) Held-to-maturity securities

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Commercial paper	¥213,494	¥151,102	$2,134,940
Certificates of deposit	45,000	60,000	450,000
Mortgage-backed securities	15,000	15,000	150,000
Others	10	10	100

(b) Available-for-sale securities

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Money management fund, etc.	¥137,851	¥116,289	$1,378,510
Unlisted stock	10,098	10,314	100,980
Others	6,923	11,805	69,230

(3) At March 31, 2008 and 2007, available-for-sale securities with maturities and held-to-maturity securities were as follows:

	Millions of yen 2008				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	¥ 63,673	¥ 2,997	¥ —	¥ —	¥ 66,670
Corporate bonds	51,712	55,400	5,000	—	112,112
Others	273,494	10	—	3,542	277,046
Others:	—	—	—	—	—
Total	¥388,879	¥58,407	¥5,000	¥3,542	¥455,828

	Millions of yen 2007				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	¥ 55,709	¥ 7,838	¥ —	¥ —	¥ 63,547
Corporate bonds	41,216	57,136	8,000	—	106,352
Others	151,102	10	—	—	151,112
Others:	133	1,055	—	—	1,188
Total	¥248,160	¥66,039	¥8,000	¥ —	¥322,199

	Thousands of U.S. dollars 2008				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	$ 636,730	$ 29,970	$ —	$ —	$ 666,700
Corporate bonds	517,120	554,000	50,000	—	1,121,120
Others	2,734,940	100	—	35,420	2,770,460
Others:	—	—	—	—	—
Total	$3,888,790	$584,070	$50,000	$35,420	$4,558,280

(4) Available-for-sale securities sold during the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen 2008	
Sales amount	Total gain	Total loss
¥2,026	¥268	¥—

	Millions of yen 2007	
Sales amount	Total gain	Total loss
¥10,367	¥8,583	¥14

	Millions of yen 2006	
Sales amount	Total gain	Total loss
¥4,593	¥752	¥207

	Thousands of U.S. dollars 2008	
Sales amount	Total gain	Total loss
$20,260	$2,680	$—

5. INVENTORIES

Inventories at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods	¥48,522	¥56,140	$485,220
Work in process and semi-finished products	30,930	33,401	309,300
Raw materials and supplies	18,706	18,218	187,060
	¥98,158	¥107,759	$981,580

6. LEASE INFORMATION

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2008 and 2007 were as follows:

	Millions of yen 2008		
	Acquisition cost	Accumulated depreciation	Net book Value
Machinery, equipment and vehicles, and other:	¥7,133	¥(3,792)	¥3,341

	Millions of yen 2007		
	Acquisition cost	Accumulated depreciation	Net book Value
Machinery, equipment and vehicles, and other:	¥10,228	¥(5,752)	¥4,476

	Thousands of U.S. dollars 2008		
	Acquisition cost	Accumulated depreciation	Net book Value
Machinery, equipment and vehicles, and other:	$71,330	$(37,920)	$33,410

Future lease payments at March 31, 2008 and 2007, inclusive of interest under such leases, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥1,155	¥1,581	$11,550
Due after one year	2,186	2,895	21,860
	¥3,341	¥4,476	$33,410

Total expenses for finance leases which do not transfer ownership to lessees and assumed depreciation charges for the years ended March 31, 2008, 2007 and 2006 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Total expenses	¥1,426	¥2,829	¥4,469	$14,260
Assumed depreciation charges	¥1,426	¥2,829	¥4,469	$14,260

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The weighted-average interest rates on short-term bank loans outstanding were 28.0% and 1.3% at March 31, 2008 and 2007, respectively.
Long-term debt at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Secured loans principally from banks and insurance companies, with interest rates ranging from 1.5% to 5.9%	¥23	¥1,833	$230
Less amount due within one year	(5)	(300)	(50)
	¥18	¥1,533	$180

At March 31, 2007, property, plant and equipment amounting to ¥4,570 million was mortgaged as collateral to secure long-term debt.

The annual maturities of long-term debt at March 31, 2008 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 5	$ 50
2010	5	50
2011	5	50
2012	5	50
2013	3	30
2014 and thereafter	—	—
	¥23	$230

The Companies entered into lines of credit agreements with the various banks in order to borrow their operating funds efficiently. At March 31, 2008 and 2007, unused lines of credit were ¥30,000 million ($300,000 thousand).

8. INCOME TAXES

Taxes on income consist of corporation tax, inhabitants' taxes and enterprise taxes. The aggregate statutory tax rate on income before income taxes and minority interests in net income of consolidated subsidiaries was approximately 40.5% for the years ended March 31, 2008, 2007 and 2006. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The actual effective tax rates in the consolidated statements of income differ from the aggregate statutory tax rate principally because of the effect of expenses not deductible for tax purposes.

Since the difference between the statutory tax rate and the effective tax rate does not exceed 5% of the statutory tax rate, the disclosure for the year ended March 31,2008 has been omitted.

The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates for financial statement purposes for the years ended March 31, 2007 and 2006:

	2007	2006
Statutory tax rate	40.5%	40.5%
Expenses not deductible for income tax purposes	6.3	5.2
Dividend income deductible for income tax purposes	(0.7)	(1.0)
Decrease in valuation allowance	(4.6)	(3.1)
Tax credit for research and development expenses	(5.4)	(6.2)
Other	1.8	0.5
Effective tax rates	37.9%	35.9%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Depreciation	¥24,157	¥17,737	$241,570
Prepaid consigned research and co-development expenses	20,813	27,748	208,130
Unrealized profit on inventories and loss on valuation of inventories	19,091	16,374	190,910
Net operating loss carry forwards for income tax purposes	12,847	14,856	128,470
Accrued bonuses	7,211	9,387	72,110
Accrued payable for the shift to the defined contribution pension plan	1,627	581	16,270
Loss on revaluation of securities	1,625	967	16,250
Accrued enterprise taxes	1,339	2,499	13,390
Other	17,383	46,474	173,830
Valuation allowance	(19,025)	(23,534)	(190,250)
Total deferred tax assets	87,068	113,089	870,680
Deferred tax liabilities:			
Net unrealized holding gain on investment securities	(33,958)	(50,171)	(339,580)
Reserve for reduction in bases of property, plant and equipment for income tax purposes	(11,170)	(9,260)	(111,700)
Intangible assets	(4,408)	(4,766)	(44,080)
Prepaid pension costs	(2,348)	(7,297)	(23,480)
Other	(3,236)	(5,485)	(32,360)
Total deferred tax liabilities	(55,120)	(76,979)	(551,200)
Net deferred tax assets	¥31,948	¥36,110	$319,480

Net deferred tax assets as of March 31, 2008 and 2007 were included in the following accounts of the consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred income taxes (assets):			
Current	¥52,678	¥63,365	$526,780
Non-current	5,995	8,891	59,950
Deferred income taxes (liabilities):			
Current	—	—	—
Non-current	26,725	36,146	267,250

9. OTHER INCOME (EXPENSES)

(1) Loss on business integration

The loss represents non-recurring costs associated with integration of the pharmaceutical operations of the Companies. The amounts consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Supplemental retirement benefits, etc.	¥3,913	¥54,212	¥ —	$39,130
Expenses associated with the consolidation and closure of operating locations	2,358	3,256	—	23,580
IT systems related expenses	2,219	11,096	—	22,190
Expenses associated with the integration of healthcare business	169	3,353	968	1,690
Expenses associated with the integration of overseas operations	—	3,225	7,087	—
Other research expenses, etc.	1,339	7,337	1,838	13,390

(2) Loss on impairment of long-lived assets

The Companies categorized their assets for their business operations into groups on which are based income/loss management for managerial accounting, taking into consideration the similarity in the type of products and business activities, the consistency as a business group and the continuity of management in the future, and individually categorized their assets for lease and unutilized assets that are not directly used for business. In the years ended March 31, 2007 and 2006, the Companies recognized loss on impairment in the following asset groups:

(Fiscal 2007)

Location	Function	Asset Type	Status
Shimotsuke, Tochigi	Former Tochigi Research Center facility	Buildings, land, etc.	Idle
Tosu,Saga	Former Kyushu Distribution Center facility	Buildings, land, etc.	Idle
Kasukabe, Saitama	FormerTokyo Distribution Center facility	Buildings	Idle
Iwaki, Fukushima, etc.	Dormitory/recreation facility	Buildings, land	Idle
Bunkyo-ku, Tokyo	Office	Building	Idle
Shinagawa-ku, Tokyo, etc.	ERP packages	Software	Idle

(Fiscal 2006)

Location	Function	Asset Type	Status
Iwaki, Fukushima	Onahama Plant (manufacturing facilities of pharmaceuticals)	Buildings and Structures, Machinery, equipment and vehicles, etc.	Idle
Shiraishi-ku, Sapporo-shi	Former Sapporo Distribution Center facility	Land	Idle
Shimotoga-gun, Tochigi	Former Tochigi Research Center facility	Buildings and structures, land, etc.	Idle
Tsuchiura, Ibaraki	Company housing, etc.	Land	Idle
Sanbu, Chiba	Chiba plant site	Land	Idle

Because the above asset groups are idle and have uncertain prospects for future utilization, their book values have been written down to a recoverable amount, and such reductions in the amount of ¥4,916 million and ¥5,254 million were recorded as loss on impairment of long-lived assets for the years ended March 31, 2007 and 2006, respectively.

The amounts consisted of the following:

	Millions of yen	
	2007	2006
Buildings and structures	¥2,103	¥2,443
Machinery, equipment and vehicles	33	1,889
Land	407	902
Software	2,368	—
Other	5	20

The recoverable amount of an assets group represents an estimated net realizable value, which was obtained based on third-party appraisal or the valuation amount for real estate tax purpose, after making reasonable adjustments.

10. RETIREMENT AND TERMINATION BENEFITS PLANS

Retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligation	¥(90,003)	¥(109,179)	$(900,030)
Plan assets at fair value	81,261	92,664	812,610
Under-funded projected benefit obligations in excess of plan assets	(8,742)	(16,515)	(87,420)
Unrecognized actuarial losses	9,984	(227)	99,840
Unrecognized prior service costs	—	(299)	—
Net pension liabilities recognized in the consolidated balance sheet	1,242	(17,041)	12,420
Prepaid pension assets	8,023	18,022	80,230
Accrued employees' severance and retirement benefits	¥ (6,781)	¥ (35,063)	$ (67,810)

The plan assets in the multi-employer welfare pension fund were estimated based on the domestic consolidated subsidiaries' contribution ratio since the amount attributable to their contributions cannot be calculated reasonably, totaled ¥4,099 million at March 31, 2007. These amounts have not been included in the plan assets presented above.

In the fiscal year ended March 31, 2007, due to the retirement of a large number of employees at Sankyo, each of projected benefit obligation, unrecognized prior service costs and plan assets were decreased by ¥30,050 million, ¥1,142 million, and ¥603 million.

In the fiscal year ended March 31, 2008, the Company and certain domestic consolidated subsidiaries transferred a part of unfunded lump-sum severance and retirement benefit plan to a defined contribution pension plan. The effects were to decrease projected benefit obligation by ¥5,440 million ($54,400 thousand), prior service costs by ¥208 million ($2,080 thousand) and accrued employees' severance and retirement benefits by 5,648 million ($56,480 thousand).

The transferred amount to a defined contribution pension plan was ¥5,610 million ($56,100 thousand) which will be implemented for four years. The outstanding balance to be transferred as of March 31, 2008 was ¥4,033 million ($40,330 thousand) and was included in other current liabilities and other long-term liabilities.

The Companies withdrew from the multi-employer pension fund by the end of the year ended March 31, 2008.

Additional retirement benefits which are not subject to the actuarial valuation in accordance with the accounting standards for the severance and retirement benefits may be paid to employees upon retirement.

Periodic employees' severance and retirement benefit expenses for the years ended March 31, 2008, 2007 and 2006 are consisting of the following:

	Millions of yen			Thousands of U.S. dollars
	2008	2007	2006	2008
Service costs for benefits earned	¥5,538	¥10,333	¥8,716	$55,380
Interest costs	1,979	3,172	3,272	19,790
Expected return on plan assets	(2,582)	(2,567)	(2,339)	(25,820)
Amortization of actuarial loss (gain)	552	404	(1,438)	5,520
Amortization of prior service costs	(9,469)	(763)	(871)	(94,690)
Additional retirement benefits and other	2,890	53,571	1,621	28,900
Other	3,901	808	721	39,010
Total	¥2,809	¥64,958	¥9,682	$ 28,090

The discount rates for calculating projected benefit obligation used by the Companies were principally 2.5 % and the rates of expected return on plan assets used by the Companies were 3.0% and 2.5% to 3.0% at March 31, 2008 and, 2006 and 2007, respectively.

11. NET ASSETS

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under the Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal earnings reserve must be set aside as additional paid-in-capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, companies were required to set aside an amount equal to at least 10% of the aggregate amount of cash dividends and other cash appropriations as legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, legal earnings reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on the condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting.

Under the Law, all additional paid-in-capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on June 27, 2008, the shareholders resolved cash dividends amounting to ¥25,164 million ($251,640 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2008 and are recognized in the period in which they are resolved.

12. COMMITMENTS AND COTINGENCIES

At March 31, 2008, the Company was contingently liable as guarantors for loans of employees and certain unconsolidated company in the amount of ¥4,239 million ($42,390 thousand).

13. SEGMENT INFORMATION

The Companies' primary business activities consist mainly of the pharmaceuticals.

"Other" includes various remaining businesses such as agrochemicals, chemicals, and other. Since net sales, operating income and total assets in the "Pharmaceutical" segment constituted more than 90% of the consolidated totals, the disclosure of business segment information for the year ended March 31, 2008 has been omitted.

Net sales, operating expenses and operating income by segment of business activities for the years ended March 31, 2007 and 2006 were as follows:

Millions of yen
2007

	Pharmaceuticals	Other	Elimination and/or corporate	Consolidated
Sales and operating income				
Net sales:				
Outside customers	¥ 837,116	¥92,391	¥ —	¥ 929,507
Inter-segment	352	3,298	(3,650)	—
Total sales	837,468	95,689	(3,650)	929,507
Operating expenses	706,099	91,312	(4,218)	793,193
Operating income	¥ 131,369	¥ 4,377	¥ 568	¥ 136,314
Identifiable assets	¥1,559,252	¥78,964	¥(1,381)	¥1,636,835
Depreciation	36,570	3,417	—	39,987
Impairment loss	4,916	—	—	4,916
Capital expenditures	42,398	3,886	—	46,284

Millions of yen
2006

	Pharmaceuticals	Other	Elimination and/or corporate	Consolidated
Sales and operating income				
Net sales:				
Outside customers	¥ 784,667	¥141,251	¥ —	¥ 925,918
Inter-segment	791	4,024	(4,815)	—
Total sales	785,458	145,275	(4,815)	925,918
Operating expenses	637,343	139,129	(5,282)	771,190
Operating income	¥148,115	¥6,146	¥467	¥ 154,728
Identifiable assets	¥1,429,425	¥169,660	¥(2,958)	¥1,596,127
Depreciation	35,796	5,333	—	41,129
Impairment loss	5,254	—	—	5,254
Capital expenditures	28,967	6,409	—	35,376

As described in note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2007 the Company adopted "the Accounting standards for Directors' Bonuses" ("Statement No. 4" issued by the Accounting Standards Board of Japan on November 29, 2005). As compared with the previous accounting method, the effects of adopting this standard were to increase operating expenses in the "Pharmaceuticals" segment by ¥232 million and in the "Other" segment by ¥74 million, and to decrease operating income in the respective operating segments by the same amount.

Geographic segments are classified as Japan, North America and Other, according to the location of the companies. "Other" includes Europe, Asia, and others. Net sales, operating expenses and operating income by geographic segment for the years ended March 31, 2008, 2007 and 2006 were as follows:

Millions of yen
2008

	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	¥ 598,149	¥177,954	¥104,017	¥ —	¥ 880,120
Inter-segment	66,676	49,832	21,864	(138,372)	—
Total sales	664,825	227,786	125,881	(138,372)	880,120
Operating expenses	557,688	190,164	112,669	(137,228)	723,293
Operating income	¥ 107,137	¥ 37,622	¥ 13,212	¥ (1,144)	¥ 156,827
Assets	¥1,226,415	¥186,385	¥140,442	¥(65,353)	¥1,487,889

Millions of yen
2007

	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	¥ 667,852	¥191,466	¥70,189	¥ —	¥ 929,507
Inter-segment	81,943	41,240	17,044	(140,227)	—
Total sales	749,795	232,706	87,233	(140,227)	929,507
Operating expenses	637,080	195,421	79,603	(118,911)	793,193
Operating income	¥ 112,715	¥37,285	¥ 7,630	¥(21,316)	¥ 136,314
Assets	¥1,454,251	¥183,524	¥94,757	¥(95,697)	¥1,636,835

Millions of yen
2006

	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	¥ 752,794	¥116,061	¥57,063	¥ —	¥ 925,918
Inter-segment	21,554	18,213	5,805	(45,572)	—
Total sales	774,348	134,274	62,868	(45,572)	925,918
Operating expenses	644,098	108,817	62,690	(44,415)	771,190
Operating income	¥ 130,250	¥ 25,457	¥ 178	¥ (1,157)	¥ 154,728
Assets	¥1,452,287	¥132,455	¥59,042	¥(47,657)	¥1,596,127

Thousands of U.S. dollars
2008

	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	$ 5,981,490	$1,779,540	$1,040,170	$ —	$ 8,801,200
Inter-segment	666,760	498,320	218,640	(1,383,720)	—
Total sales	6,648,250	2,277,860	1,258,810	(1,383,720)	8,801,200
Operating expenses	5,576,880	1,901,640	1,126,690	(1,372,280)	7,232,930
Operating income	$ 1,071,370	$ 376,220	$ 132,120	$ (11,440)	$ 1,568,270
Assets	$12,264,150	$1,863,850	$1,404,420	$ (653,530)	$14,878,890

As described in note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2008 the Company adopted "Accounting standard for Measurement of Inventories ("Statement No.9" issued by the Accounting standards Board of Japan on July 5, 2006). As compared with the previous accounting method, the effects of adopting this standard were to increase operating expenses in the "Japan" segment by ¥2,993 million ($29,930 thousand) and to decrease operating income by the same amount.

As described in note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2008 the Company and its domestic consolidated subsidiaries changed the method of depreciation for all tangible fixed assets acquired on or after April 1, 2007 in accordance with the fiscal 2007 amendments of Japanese Corporation Tax Law, the Law to Amend Part of the Income Tax Law (Cabinet Order No.83, March 30, 2007). As compared with the previous accounting method, the effects of changing this method were to increase operating expenses in the "Japan" segment by ¥1,351 million ($13,510 thousand) and to decrease operating income by the same amount.

In accordance with the amendment, also, the Company and its domestic subsidiaries have started to depreciate the difference between 5% of the acquisition costs and memorandum prices for the all tangible fixed assets acquired on or before March 31, 2007 by equal amounts over five years, starting in the year after the fiscal year in which accumulated depreciation based on the pre-revision method reached 95% of the acquisition costs. The effects of this change were to increase operating expenses in the "Japan" segment by 1,589 million ($15,890 thousand) and to decrease operating income by the same amount as compared with the previous accounting method.

As described in note2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2008 the Company and certain domestic consolidated subsidiaries revised the retirement benefit and pension plans, and changed the amortization period of prior service cost to 1 year (12 months) since they incurred. Actuarial gains and losses were also changed to be calculated on a straight-line method over 10 years. As compared with the previous accounting method, the effects of this change were to decrease operating expenses in the "Japan" segment by ¥12,669 million ($126,690 thousand) and to increase operating income by the same amount.

As described in note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2007 the Company adopted "the Accounting standards for Directors' Bonuses" ("Statement No. 4" issued by the Accounting Standards Board of Japan on November 29, 2005). As compared with the previous accounting method, the effects of adopting this standard were to increase operating expenses in the "Japan" segment by ¥306 million and to decrease operating income by the same amount.

The Companies' overseas business activities consist mainly of those in North America and Europe. "Other" includes mainly Asia. A summary of overseas net sales by the Companies for the years ended March 31, 2008, 2007 and 2006 were as follows:

Millions of yen
2008

	North America	Europe	Other	Total
Overseas net sales	¥219,939	¥98,455	¥40,245	¥358,639
Consolidated net sales				880,120
Ratio of overseas net sales to a consolidated basis	25.0%	11.2%	4.6%	40.8%

Millions of yen
2007

	North America	Europe	Other	Total
Overseas net sales	¥ 241,850	¥ 84,328	¥ 30,523	¥356,701
Consolidated net sales				929,507
Ratio of overseas net sales to a consolidated basis	26.0%	9.1%	3.3%	38.4%

Millions of yen
2006

	North America	Europe	Other	Total
Overseas net sales	¥ 182,615	¥ 98,440	¥ 26,210	¥ 307,265
Consolidated net sales				925,918
Ratio of overseas net sales to a consolidated basis	19.7%	10.6%	2.9%	33.2%

Thousands of U.S. dollars
2008

	North America	Europe	Other	Total
Overseas net sales	$2,199,390	$984,550	$402,450	$3,586,390
Consolidated net sales				8,801,200

14. STOCK OPTIONS PLANS

The Company has implemented a stock option plan under which subscription rights to shares were granted to directors and corporate officers of the Company. Stock option expense included in selling, general and administrative expenses for the year ended March 31, 2008 amounted to ¥258 million ($2,580 thousand).

The outline of stock option as of March 31, 2008 was as follows:

		2008 stock option plan
Individuals covered by the plan		
Directors		6
Corporate officers		20
Total		26
Class and number of stock (shares)	Common stock	101,900
Date of grant		February 15, 2008
Required service period		—
Exercise period		February 16, 2008 to February 15, 2038

The activity of stock option was as follows:

	2008 stock option plan
Subscription rights to shares which have not been vested (shares):	
Outstanding as of March 31, 2007	—
Granted	101,900
Forfeited/expired	—
Vested	101,900
Outstanding as of March 31, 2008	—
Subscription rights to shares which have been vested (shares):	
Outstanding as of March 31, 2007	—
Vested	101,900
Exercised	—
Forfeited/expired	—
Outstanding as of March 31, 2008	101,900

Price information of stock option was as follows:

	2008 stock option plan
Exercise price (yen)	¥ 1
Average market price of the stock at the time of exercise (yen)	—
Fair value (date of grant) (yen)	¥2,528

The fair value of options granted was estimated using the Black-Scholes model with the following assumptions:

	2008 stock option plan
Expected volatility	29.7%
Expected holding period	10 years
Expected dividend	¥65
Risk-free rate	1.5%

15. SUBSEQUENT EVENTS

(1) Acquisition of Biotech Firm U3 Pharma AG

On June 19, 2008, the Company purchased all shares of stock of U3 Pharma AG from its founder, investment funds and other stockholders, and made a one-time payment of 161 million Euros for the acquisition by its own fund.

In order to achieve one of its goals to develop innovative pharmaceuticals, the Group is focusing on the enhancement of its development pipeline especially in the key therapeutic areas including malignant neoplasm.

Information of U3 Pharma AG:

Description of business	Research and development focused on antibodies drug of oncology
Common stock	743 thousand Euros (Fiscal year 2007)
Sales	792 thousand Euros (Fiscal year 2007)

(2) Acquisition of Ranbaxy Laboratories Limited

On June 11, 2008 the Company, Ranbaxy and its founding family, the largest and controlling shareholders of Ranbaxy agreed to enter into an agreement that the Company will purchase more than 50.1 percent of the voting right of Ranbaxy Laboratories Limited at a price of Rs737 per share with the total transaction value expected to be between ¥368.5 billion (Rs147 billion) to ¥495 billion (Rs198 billion: Rs1 = ¥2.5) by its own fund and borrowing.

Foreseeing the change in business environment laying ahead, the Group took advanced steps for new opportunities and innovation in business model. With the dramatic enhancement of global reach by acquiring presence in the emerging countries and broadening the product portfolio, the Group will tackle the complementary business combination that provides sustainable growth by diversification that spans the full spectrum of the pharmaceutical business.

Information of Ranbaxy Laboratories Limited:

Description of business	Manufacturing, sales, research and development of generic medicines focused on hyperlipemia and infection disease
Common stock	Rs 1,865 hundred (Fiscal year 2007)
Total assets	Rs 72,748 hundred (Fiscal year 2007)
Sales	Rs 74,255 hundred (Fiscal year 2007)
Ordinary income	Rs 9,985 hundred (Fiscal year 2007)

Although the transaction is subject to regulatory agency approval, the acquisition is expected to be completed by the end of the fiscal year ending March, 2009.

In association with the transaction, under Indian law, the Group will also make an open offer to the public shareholders for up to 20% stake of Zenotech Laboratories Ltd., an affiliate of Ranbaxy Laboratories Ltd.

(3) Proposal for Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2008 were resolved at the annual general meeting of shareholders of the Company held on June 27, 2008.

	Millions of yen	Thousands of U.S. dollars
	2008	2008
Year-end cash dividends of ¥35.00 ($0.35) per share	¥25,164	$251,640

KPMG

Independent Auditors' Report

To the Board of Directors of
DAIICHI SANKYO COMPANY, LIMITED.:

We have audited the accompanying consolidated balance sheets of DAIICHI SANKYO COMPANY, LIMITED. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for each of the three years in the period ended March 31, 2008, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DAIICHI SANKYO COMPANY, LIMITED. and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2008, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.
(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2007, the Company and its domestic subsidiaries adopted early the Accounting Standard for Measurement of Inventories.
(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2007, the Company and its certain subsidiary changed their accounting methods for accrued severance and retirement benefits.
(3) As discussed in Note 15 to the consolidated financial statements, the Company agreed to acquire certain shares of Ranbaxy Laboratories Limited. on June 11, 2008.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 27, 2008

Major Group Companies

(Consolidated Subsidiaries)

(As of June 30, 2008)

Company	Country	Paid-in capital (thousands)	Equity owned by the parent company (%)	Principal activities
DAIICHI SANKYO PROPHARMA CO., LTD.	Japan	¥100,000	100.0	Manufacturing of pharmaceuticals
DAIICHI SANKYO RD ASSOCIE CO., LTD.	Japan	¥50,000	100.0	Support of research and development in the group
DAIICHI SANKYO BUSINESS ASSOCIE CO., LTD.	Japan	¥50,000	100.0	Business support in the group
DAIICHI SANKYO HAPPINESS CO., LTD.	Japan	¥50,000	100.0	Business support in the group
DAIICHI SANKYO LOGISTICS CO., LTD.	Japan	¥50,000	100.0	Distribution and related affairs
DAIICHI SANKYO CHEMICAL PHARMA CO., LTD.	Japan	¥10,000	100.0	Manufacturing of active pharmaceutical ingredients and intermediates
DAIICHI SANKYO HEALTHCARE CO., LTD.	Japan	¥100,000	100.0	Manufacturing and sales of OTC drugs, cosmetics, medical equipments, food and beverage, among others
ASUBIO PHARMA CO., LTD.	Japan	¥11,000,000	100.0	Research, development, manufacturing and sales of pharmaceuticals
DAIICHI SANKYO, INC.	U.S.A.	US$24,900	100.0	Research, development and sales of pharmaceuticals
Luitpold Pharmaceuticals, Inc.	U.S.A.	US$200	100.0	Manufacturing and sales of pharmaceuticals and veterinary
DAIICHI SANKYO EUROPE GmbH	Germany	EUR16,000	100.0	Development, manufacturing and sales of pharmaceuticals
DAIICHI SANKYO UK LTD.	U.K.	£19,500	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ESPANA S.A.	Spain	EUR120	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ITALIA S.p.A.	Italy	EUR120	100.0	Sales of pharmaceuticals
DAIICHI SANKYO PORTUGAL LDA.	Portugal	EUR349	100.0	Sales of pharmaceuticals
DAIICHI SANKYO AUSTRIA GmbH	Austria	EUR18	100.0	Sales of pharmaceuticals
DAIICHI SANKYO (SCHWEIZ) AG	Switzerland	CHF3,000	100.0	Sales of pharmaceuticals
DAIICHI SANKYO NEDERLAND B.V.	The Netherlands	EUR18	100.0	Sales of pharmaceuticals
DAIICHI SANKYO BELGIUM N.V.-S.A.	Belgium	EUR62	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ALTKIRCH SARL	France	EUR457	100.0	Manufacturing of raw materials for pharmaceuticals
DAIICHI SANKYO DEUTSCHLAND GmbH	Germany	EUR40	100.0	Sales of pharmaceuticals
DAIICHI SANKYO FRANCE SAS	France	EUR2,182	100.0	Sales of pharmaceuticals
DAIICHI SANKYO İLAÇ TİCARET Ltd., Şti.	Turkey	TL105	100.0	Sales of pharmaceuticals

(As of June 30, 2008)

Company	Country	Paid-in capital (thousands)	Equity owned by the parent company (%)	Principal activities
DAIICHI SANKYO DEVELOPMENT LTD.	U.K.	£400	100.0	Development of pharmaceuticals
U3 Pharma AG	Germany	EUR743	100.0	Research and development of pharmaceuticals
Shanghai Sankyo Pharmaceuticals Co., Ltd.	China	US$53,000	100.0	Research, development, manufacturing and sales of pharmaceuticals
Daiichi Pharmaceutical (Beijing) Co., Ltd.	China	US$63,800	100.0	Development, manufacturing and sales of pharmaceuticals
DAIICHI SANKYO HONG KONG LTD.	China	HK$3,000	100.0	Marketing of pharmaceuticals
DAIICHI SANKYO TAIWAN LTD.	Taiwan	NT$80,000	100.0	Manufacturing and sales of pharmaceuticals
DAIICHI SANKYO KOREA CO., LTD.	Korea	WON3,000,000	100.0	Sales of pharmaceuticals
DAIICHI SANKYO (THAILAND) LTD.	Thailand	Baht10,000	100.0	Import, sales, and agency of pharmaceuticals and raw materials
DAIICHI SANKYO INDIA PHARMA PRIVATE LIMITED	India	INR250,000	100.0	Sales of pharmaceuticals
DAIICHI SANKYO BRASIL FARMACÉUTICA LTDA.	Brazil	BRL21,832	100.0	Manufacturing and sales of pharmaceuticals
DAIICHI SANKYO VENEZUELA, S.A.	Venezuela	VEB50,000	100.0	Manufacturing and sales of pharmaceuticals

Corporate Information (As of March 31, 2008)

Corporate Data

Company Name: DAIICHI SANKYO COMPANY, LIMITED

Established: September 28, 2005

Headquarters: 3-5-1, Nihombashi Honcho, Chuo-ku, Tokyo 103-8426, Japan

URL: http://www.daiichisankyo.com

Business: Research & Development, Manufacturing and Sales & Marketing of pharmaceutical products

Paid-in Capital: ¥50,000 million

Employees: 15,349 (Consolidated)

Stock Information

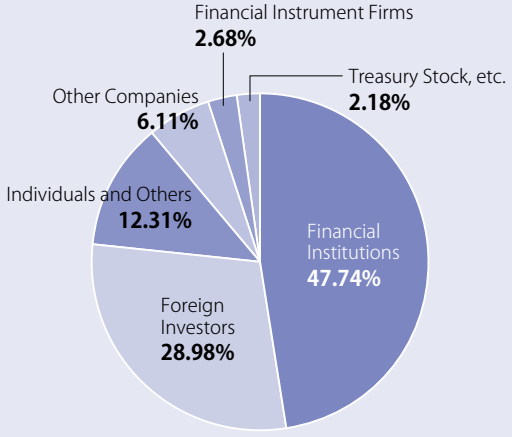
Common Stock

Number of shares authorized: 2,800,000,000

Number of shares issued: 735,011,343

Number of shareholders: 66,210

Distribution of Shareholders



Major Shareholders

Name	Number of Shares Held (shares)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (trust account)	67,313,300	9.16
Japan Trustee Services Bank, Ltd. (trust account)	43,855,200	5.97
Nippon Life Insurance Company	41,839,182	5.69
The Chase Manhattan Bank NA, London SL, Omnibus Account	19,139,654	2.60
JPMorgan Chase Bank, N.A. 380055	19,110,300	2.60
Sumitomo Mitsui Banking Corporation	13,413,368	1.82
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,468,983	1.29
Tokio Marine & Nichido Fire Insurance Co., Ltd.	9,328,109	1.27
Nomura Securities Co., Ltd.	9,162,838	1.25
Japan Trustee Services Bank, Ltd. (trust account 4)	8,626,300	1.17
Total	241,257,234	32.82

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