Daiichi-Sankyo

Strategic Moves

DAIICHI SANKYO CO., LTD.
Annual Report 2009

PROFILE

Daiichi Sankyo Co., Ltd., was established in 2005, after the merger of two leading century-old Japanese pharmaceutical companies. With more than 100 years of scientific expertise across a wide range of therapeutic categories, our new Company draws upon a rich legacy of innovation and a robust pipeline of promising new compounds. Our corporate mission is "to contribute to the enrichment of quality of life around the world through the creation and provision of innovative pharmaceuticals."

To fulfill this mission, we are striving to realize our vision for 2015, to become a **"Global Pharma Innovator,"** and are making unceasing efforts to increase our corporate value, which we view as the sum of our social value, economic value, and humanistic value.

OUR VISION FOR 2015

Global Pharma Innovator

Global

Extending our global reach

Pharma

Fulfilling unmet medical needs

Innovator

Innovations in science, technology, and business model

Three Years Young—See How Much We've Achieved!

DAIICHI SANKYO TODAY*

Annual Net Sales of ¥842.1 Billion

No. 3 in Japan and No. 22 in the World

Annual Overseas Sales of ¥373.3 Billion

44.3% of Our Sales

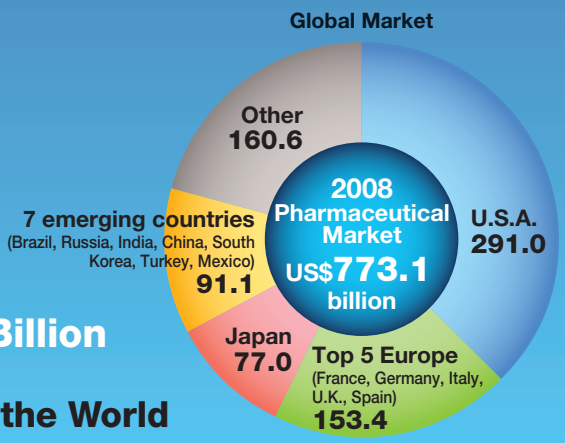
Annual R&D of ¥184.5 Billion

21.9% of Annual Net Sales

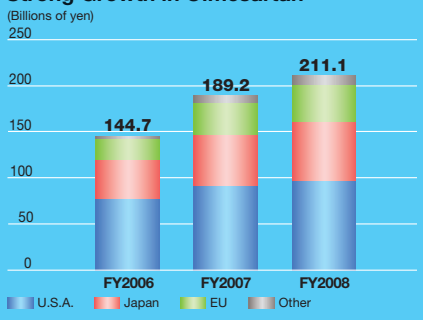
Return to Shareholders

¥102 Billion in Total Return

* Figures are actual figures recorded for fiscal 2008.

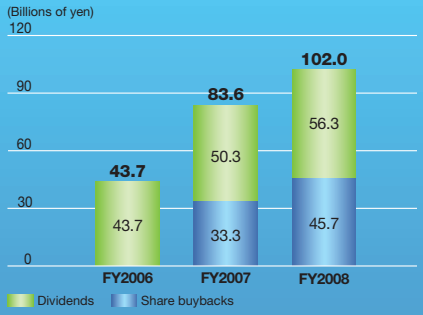


Strong Growth in Olmesartan



Note: Excluding the impact of fiscal period adjustments

Total Return to Shareholders



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.

Bold, Strategic Moves to Realize Our Vision for 2015

Strategic Move 1 Expanding Our Business

Japan
Top-level presence in home market

Start of FY2007 2,300 ▶ End of FY2008 2,400

* In addition, the Group has 150 sales representatives focused on OTC business.

United States
Top-tier cardiovascular company

Start of FY2007 900 ▶ End of FY2008 1,800

* Besides the above figures for DSI, the Group has the 70 sales representatives of LPI.

Global Reach

Europe
Top-tier cardiovascular company

Start of FY2007 800 ▶ End of FY2008 1,350

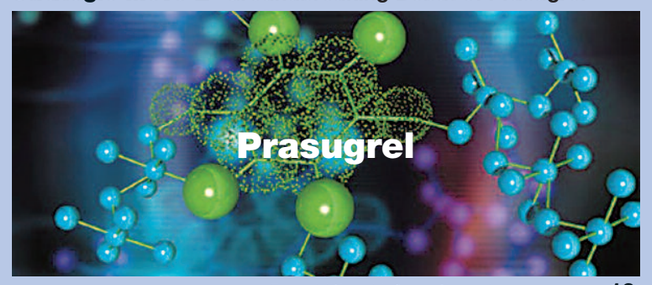
Other Regions
Broad coverage and contribution in each region

End of FY2008 700

* In addition, Ranbaxy has 2,800 sales representatives in India.

For additional information, please see page **10**.

Strategic Move 2 Groundbreaking Debut of Prasugrel



For additional information, please see page **12**.

Strategic Move 3 Realizing the Hybrid Business Model

	Innovative (Proprietary drugs)	Long-term sellers (Non-proprietary drugs)
Developed countries (Current market size: large) ▲ Low growth rate	Traditional core business	Cost containment
Emerging countries (Current market size: small) ▲ High growth rate	Daiichi-Sankyo Plus RANBAXY	Population increase, economic growth

For additional information, please see page **14**.

Strategic Moves

Expansion of Our Overseas Infrastructure
- *AZOR* launched in U.S.A.
- *Sevikar* launched in EU
- Expansion of our operational base—1st stage completed
- *Olvance* launched in India

Growth of Olmesartan

Development of Innovative Products
- GEMRAD established
- Additional indication of *Welchol* for type 2 DM
- Approach for thrombotic disorder treatment
- Edoxaban PIII study initiated
- *Efient* launched in EU
- *Efient* launched in U.S.A.
- Introducing Denosumab from Amgen
- Approach for malignant neoplasm treatment
- Acquisition of U3 Pharma
- Partnership with ArQule

Integration Synergy
- Acquisition of Zepharma

Active Investment in Strategic Business Development
- Hybrid Business Model with Ranbaxy

FY2005 | FY2006 | FY2007 | FY2008 | FY2009

Targets for FY2015

Sales
¥1.5 trillion

Operating income margin
25% or more

Overseas sales ratio
60% or more

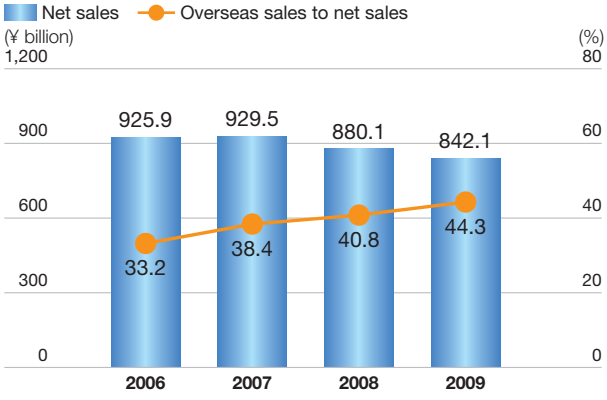
CONSOLIDATED FINANCIAL HIGHLIGHTS

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2009, 2008, 2007 and 2006 (Fiscal years 2008, 2007, 2006 and 2005)

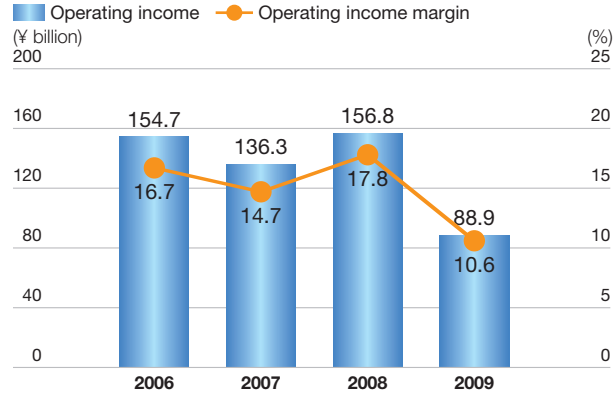
	Millions of yen				Millions of U.S. dollars**
	2009	2008	2007	2006	2009
Net sales	¥ 842,147	¥ 880,120	¥ 929,507	¥ 925,918	$ 8,593
Operating income	88,871	156,827	136,314	154,728	907
Net income (loss)	(215,499)	97,660	78,550	87,693	(2,199)
Overseas sales	373,254	358,639	356,701	307,265	3,809
Overseas sales to net sales (%)	44.3	40.8	38.4	33.2	44.3
R&D expenses	184,539	163,472	170,662	158,716	1,883
R&D expenses to net sales (%)	21.9	18.6	18.4	17.1	21.9
Expenditures of a capital nature	27,241	67,640	46,284	35,376	278
Depreciation	40,582	38,733	39,987	41,129	414
Total assets	1,494,600	1,487,889	1,636,835	1,596,127	15,251
Net assets	888,617	1,244,513	1,272,148	1,249,139	9,068
Net income (loss) per share of common stock (yen and U.S. dollars)	¥(304.22)	¥135.35	¥107.75	¥119.49	$(3.10)
Cash dividends per share (yen and U.S. dollars)	80.00	70.00	60.00	25.00*	0.82

* 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 ¥98=US$1.00, the approximate exchange rate prevailing on March 31, 2009.

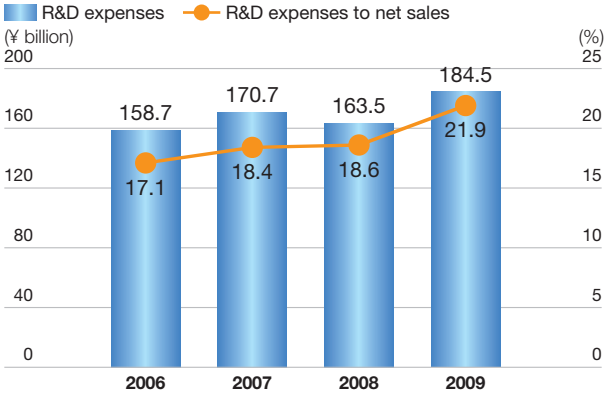
Net Sales / Overseas Sales to Net Sales



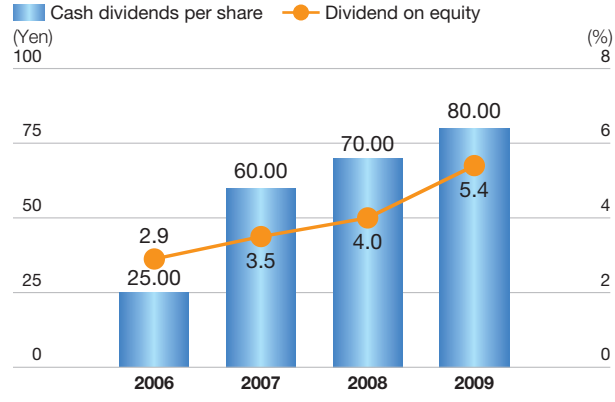
Operating Income / Operating Income Margin



R&D Expenses / R&D Expenses to Net Sales



Cash Dividends per Share / Dividend on Equity



TO OUR STAKEHOLDERS

Left:
Kiyoshi Morita
Representative Director and Chairman

Right:
Takashi Shoda
Representative Director, President and CEO

During fiscal 2008, ended March 31, 2009, Daiichi Sankyo made numerous strategic moves in line with its vision for 2015, a future for Daiichi Sankyo as a **Global Pharma Innovator**, and continued to make steady progress toward that vision.

Global: To promote global business development, we made great strides in the expansion and strengthening of our marketing capabilities, especially in the United States and Europe.

Pharma: Regarding our pharmaceutical strategies for creating and supplying innovative drugs, our most noteworthy advance was the approval of oral antiplatelet agent Prasugrel, now marketed as *Efient* in Europe and *Effient* in the United States.

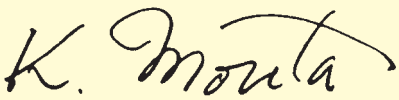
Innovator: In order to secure Daiichi Sankyo's sustained growth amid the global trends of slowing growth in developed country markets but accelerating growth in emerging country markets, we have broadened the scope of our business model. Our traditional high-risk/high-return business model centers mainly on providing proprietary drugs in developed countries. However, our innovative new "hybrid business model" calls for measures to extend our reach in emerging countries and to widen our reach in developed country markets by leveraging upgraded capabilities for business in generic drugs. As a means of realizing the new business model, we made the momentous decision to bring India-based Ranbaxy Laboratories Limited into the Daiichi Sankyo Group.

Our profitability for the fiscal year under review was greatly impacted by investments aimed at promoting Daiichi Sankyo's future growth as well as by losses stemming from accounting processes related to the strategic transaction involving Ranbaxy. These temporary factors forced us to record a net loss for the year.

While Ranbaxy plays a key role in our hybrid business model, that company was subjected to regulatory actions by the U.S. Food and Drug Administration (FDA) due to concerns about quality assurance at certain of its plants. Daiichi Sankyo has proactively increased its involvement in the situation and is doing its utmost to resolve related issues.

These challenges have not in the slightest undermined our commitment to our hybrid business model—we believe our mission is to maximize the strategic benefits of this innovative model.

We hope for the continued understanding and support of our stakeholders.



Kiyoshi Morita
Representative Director and Chairman

Takashi Shoda
Representative Director, President and CEO

"We are pursuing our hybrid business model, which promotes a sustained surge in performance and accelerated progress toward the realization of our vision for 2015."

Fiscal 2008 Performance

Fiscal 2008 was a difficult year for Daiichi Sankyo. Net sales amounted to ¥842.1 billion, down 4.3% from the fiscal 2007 level, and operating income totaled ¥88.9 billion, down 43.3%. Moreover, a net loss of ¥215.5 billion was recorded, compared with net income of ¥97.7 billion in the previous fiscal year.

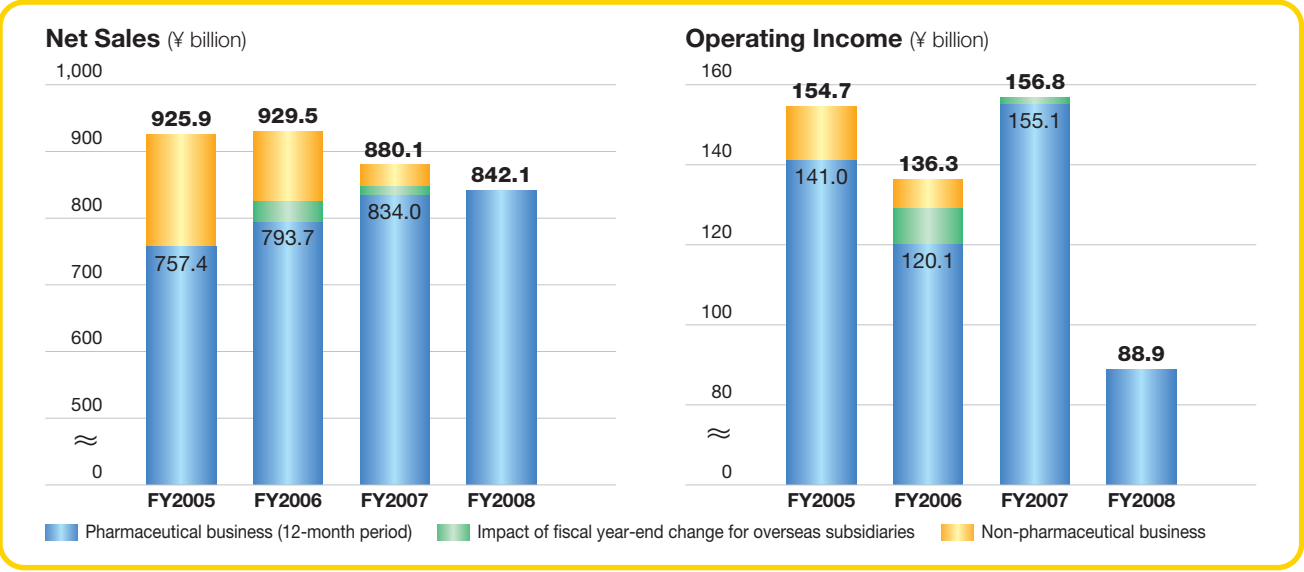
Besides being affected by the worldwide recession, the pharmaceutical industry was confronted by challenges associated with slackening market growth due to such factors as government policies aimed at restraining medical expenses and the increasing strictness of new drug approval standards. In addition, the proprietary drug markets undeniably faced strong headwinds from unfavorable trends, including generic drugs' growing share in developed countries.

Daiichi Sankyo's fiscal 2007 figures were increased by special factors—namely, a change in fiscal year-end for European subsidiaries that caused them to have one-time, 15-month-long fiscal years and revenues from the non-pharmaceutical businesses that were made independent from the Group by the end of fiscal 2007. For fiscal 2008, performance was boosted by the conversion of Ranbaxy into a consolidated subsidiary, but revenues were down year on year owing to negative factors, such as greater-than-expected currency fluctuation and the aforementioned special factors in fiscal 2007.

In addition to these revenue factors, increased spending to market new drugs in the United States and Europe and to augment R&D investment reduced fiscal 2008 profitability. Finally, in view of a drop in the market price of Ranbaxy shares, we recorded a ¥351.3 billion one-time write-down of goodwill associated with the investment in Ranbaxy, and this was the largest factor leading to the considerable net loss recorded for fiscal 2008. Recognizing the difficulty of the situation, the Company's directors, including myself, are forgoing our bonuses applicable to fiscal 2008.

Developments Regarding Ranbaxy

Issues associated with Ranbaxy's quality assurance systems have been a cause for great concern. Ranbaxy has numerous plants in India, and in September 2008 the FDA sent Ranbaxy warning letters regarding current good manufacturing practice (cGMP) violations at two of those plants—Paonta Sahib and Dewas—and placed restrictions on the import into the United States of products manufactured at those plants. In February 2009, the FDA invoked its Application Integrity Policy (AIP) against the Paonta Sahib facility. The AIP is invoked when there are concerns about



* For the periods through fiscal 2007, the graphs show separate portions for the impact of the spin-off of non-pharmaceutical business and exclusion of such business from the Group's consolidated accounts as well as the impact of the change of overseas subsidiaries' fiscal periods.

** FY2008 net sales include ¥38.6 billion of sales contributed by Ranbaxy following its inclusion within the scope of consolidation. In addition, the FY2008 operating income includes ¥0.6 billion of operating income contributed by Ranbaxy as well as ¥19.3 billion of expenses related to the consolidation of Ranbaxy, including a write-down of goodwill. Excluding the impact of Ranbaxy on consolidated performance, net sales would have been ¥803.5 billion and operating income would have been ¥107.6 billion in fiscal 2008.

Takashi Shoda
Representative Director,
President and CEO

the integrity of data in drug applications. Ranbaxy and Daiichi Sankyo immediately formed a task force that includes outside specialists and, while continuing to fully cooperate with the FDA, we are sparing no effort to resolve this issue.

Goals related to bringing Ranbaxy into the Daiichi Sankyo Group include promoting a hybrid business model that supplements Daiichi Sankyo's high-risk/high-return business model by extending our reach throughout the world, including emerging countries, and by widening our product portfolio leveraging upgraded capabilities for generics business. In line with these goals, in May 2009, Ranbaxy's executive leadership was reconstituted to further accelerate the collaboration and synergies between Daiichi Sankyo and Ranbaxy. Going forward, we will continue striving to realize all the strategic benefits of the hybrid business model as quickly as possible.

Outlook for Fiscal 2009

While it appears that market conditions will continue to be harsh during fiscal 2009, we are forecasting consolidated net sales of ¥960.0 billion, a 14.0% rise from the fiscal 2008 level. This reflects our expectations for sustained strong sales of existing products centered on mainstay antihypertensive agent Olmesartan, contributions from the launch of antiplatelet agent Prasugrel in the United States and Europe (marketed as *Effient* and *Efient*, respectively), and the inclusion of Ranbaxy within the scope of consolidation. We anticipate that profitability will be negatively affected by such factors as a rise in advertising and promotional expenses associated with the launch of *Effient/Efient* and an increase in R&D investments in connection with the progress of major development projects. However, we project that these factors will be more than offset by such positive factors as the increase in net sales and stepped-up efforts to improve our profit structure. Consequently, the Group is forecasting that it will record operating income of ¥96.0 billion, up 8.0%.

Key Management Challenges for Fiscal 2009

Besides collaborating with Ranbaxy in pursuing its hybrid business model, Daiichi Sankyo mainly has three key management challenges to address during fiscal 2009.

First, we will strengthen profitability and reinforce our earnings structure to ensure sustainable growth. Although our forecast for fiscal 2009—the final year of our first mid-term business management plan (MTP)—is considerably below the target figures of the MTP, our objective is to make sure we achieve the forecast figures for fiscal 2009 while also moving ahead with qualitative improvements to our operations. In this way, we aim to build a solid foundation for a performance surge during the second MTP, beginning from fiscal 2010.

In Japan, we are seeking to increase our market share to 6% or higher through measures aimed at further increasing the effectiveness of our MR Crosswise system (see page 10). In the United States, Europe, and the Asia and South and Central America (ASCA) region, we aim to sustain sales of Olmesartan while ensuring that *Effient/Efient* achieves good market penetration in the United States and Europe. We also intend to augment profitability through efforts to increase marketing productivity.

Our second challenge is to ensure that management evolves to support global business progress. We need to build a global management structure with clear roles and responsibilities for all locations and functions. In the pharmaceutical business, some functions must be local to meet specific needs, such as sales, while others should be global in line with global standards, notably R&D. Balances between local and global business differ from function to function; thus, we need to define the issues that our Group companies should autonomously address locally and the ones that global headquarters should tackle globally. We are also continuing our efforts to build global supply chains and make steady progress in reducing the Group's overall cost of sales.

Our third challenge is to make steady progress with priority development projects and achieve more from drug discovery in our core therapeutic areas.

In fiscal 2009, we will continue to make efforts centering on our supreme decision-making organization for R&D—the Global Executive Meeting of Research And Development (GEMRAD, see page 18)—to increase the precision and speed of our R&D project targeting in ways that concentrate the investment of corporate resources in prioritized projects.

Policy on Shareholder Returns

Our policy on shareholder returns for the current MTP—covering fiscal 2007 through fiscal 2009—is a 100% payout ratio, meaning that we aim to allocate an amount equivalent to all of the net income under the first MTP through dividends or share buybacks.

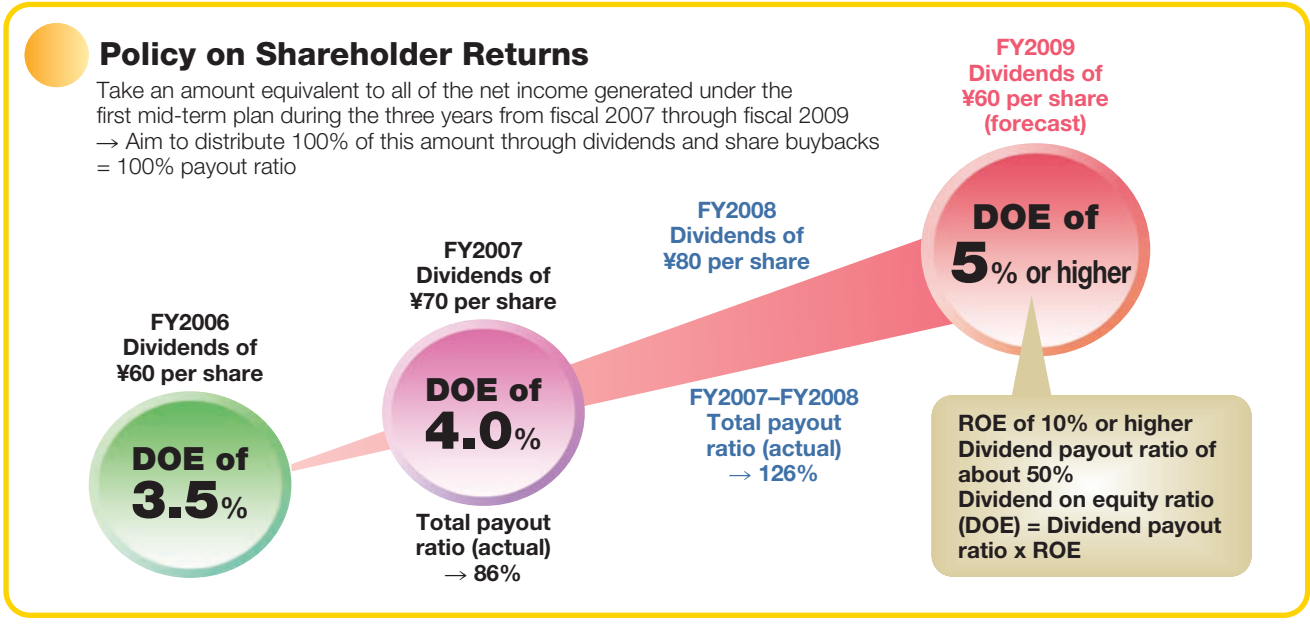
Dividends applicable to fiscal 2008 amounted to ¥80 per share, in accordance with our plans originally announced at the beginning of the fiscal year, while our fiscal 2009 forecasts currently plan to reduce annual dividends to ¥60 per share. While we regret the need to reduce dividends at this time, we hope you will understand that this has resulted from a comprehensive assessment of factors including the performance forecast for the current fiscal year, our shareholder return policy, and our funding plans regarding strategic investments and borrowings.

Based on the forecast level for fiscal 2009 dividends, we estimate that the total value of dividends applicable to the period of the first MTP will be approximately ¥150.0 billion. Adding the approximately ¥80.0 billion we used to repurchase approximately 25 million of our shares gives a figure of about ¥230.0 billion that will be used for the purpose of shareholder returns during this three-year period. We would expect to attain our 100% payout target, even if the impact of the strategic transaction involving Ranbaxy on net income is excluded.

I would like to thank you all for your support of the Daiichi Sankyo Group, and I hope that you will continue to support us going forward.

August 2009

Takashi Shoda
Representative Director, President and CEO



Strategic Move 1

Expanding Our Business

Global
Extending our global reach

1

Strategic Move 2

Groundbreaking Debut of Prasugrel

Pharma
Fulfilling unmet medical needs

2

Strategic Move 3

Realizing the Hybrid Business Model

Innovator
Innovations in science, technology, and business model

3

STRATEGIC MOVE 1: EXPANDING OUR BUSINESS

Covering Emerging as well as Developed Countries

Daiichi Sankyo's vision for 2015 calls for various measures to become a **Global Pharma Innovator**, with an overseas sales ratio of 60% or more. Rather than focusing on numerical targets alone, Daiichi Sankyo is seeking to respect the cultures and values of each individual country as it expands corporate activities globally. By extending our operations in developed countries and even further into emerging countries, we hope to help more people throughout the world enjoy good health and enriched lives. Daiichi Sankyo considers this goal an important manifestation of one of its key corporate values. In view of this, we are aiming to personally promote the broader utilization of the drugs we have created, and are thus working to expand and strengthen our global marketing base in four key regions: Japan, the United States, Europe, and Asia and South and Central America (ASCA).

Aiming to Increase Domestic Market Share

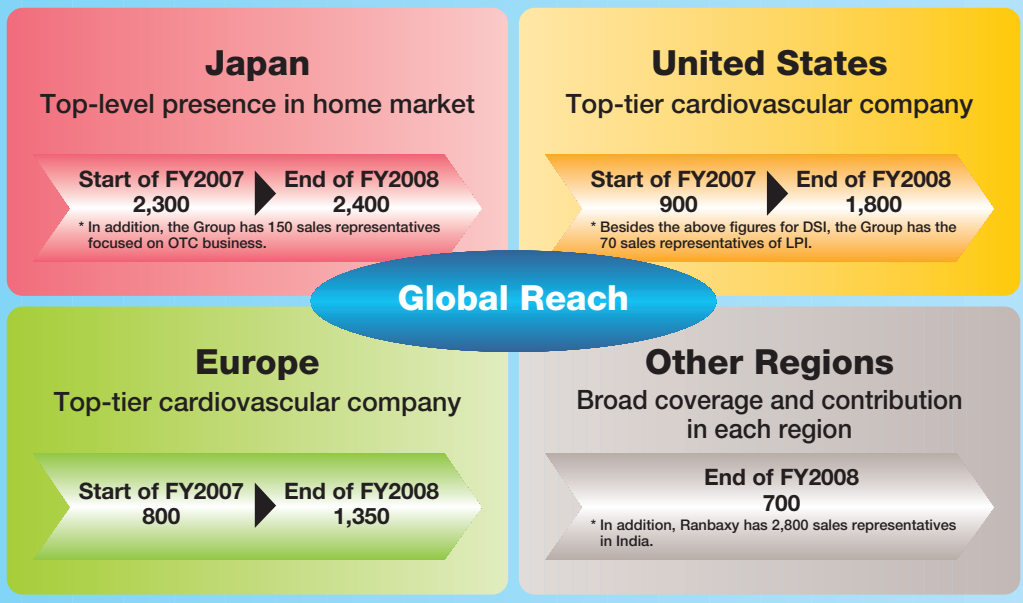
With approximately 2,400 sales representatives, Daiichi Sankyo has one of the largest sales forces in the Japanese market. Our sales representatives are aiming to achieve an industry-leading performance by means of the Company's MR Crosswise system, which is designed to promote ("Cross-") cooperation among sales representatives with different specialties to enable the timely provision of high-quality information ("wise") to medical professionals. Domain sales representatives, who maintain high levels of specialized knowledge regarding specific therapeutic domains, collaborate with Facility sales representatives, who are responsible for understanding and meeting the special needs of individual medical facilities, enabling them to effectively provide medical professionals with in-depth information in a variety of fields. Daiichi Sankyo will continue to strive for the reinforcement of its MR Crosswise system, to further meet medical needs and to expand market share.

Reinforcing the U.S. Marketing Base

In the United States, Daiichi Sankyo, Inc. (DSI), has doubled its number of sales representatives—which rose from 900 at the start of fiscal 2007 to 1,800 by the end of fiscal 2008—giving it a considerably stronger marketing system. As a result, DSI has been able to augment its marketing activities for the franchise of Olmesartan, an antihypertensive agent, and to fully prepare for the

By increasing Daiichi Sankyo's presence in both developed countries and emerging countries, we are aiming to realize regionally balanced corporate development.

Expanding the Global Marketing Base in Four Key Regions
(Number of sales representatives)



launch of antiplatelet agent Prasugrel *(Effient).* It plans to take additional measures to increase marketing productivity.

Luitpold Pharmaceuticals, Inc. (LPI)—a U.S.-based Daiichi Sankyo subsidiary with operations centered on anemia drug *Venofer*—also has approximately 70 sales representatives in the United States. In July 2008, LPI signed an exclusive manufacturing and distribution sublicense agreement for *Venofer* in the U.S. dialysis market with Fresenius Medical Care AG & Co. KGaA, the world's largest integrated provider of products and services in dialysis. Ensuring stable sales of *Venofer* in the dialysis market over the long term regardless of generics or the entry of new competitors, the agreement has also enabled LPI to focus its *Venofer* marketing operations in non-dialysis areas, and it is expected to increase its market share in such areas.

Emphasizing Productivity Increases in Europe

Daiichi Sankyo Europe GmbH (DSE) has expanded its operations to include business in 12 countries, including Turkey and Ireland, where DSE established new sales subsidiaries during fiscal 2008. DSE has also boosted its own sales force from approximately 800 sales representatives at the start of fiscal 2007 to 1,350 by the end of fiscal 2008. DSE will also increase its marketing productivity through the expansion of the Olmesartan franchise and the launch of *Efient*. DSE is aiming to realize a performance surge that positions it among the top companies in the cardiovascular therapies.

Extending the Global Marketing Base to Cover a Widespread 56 Countries

Daiichi Sankyo views the ASCA markets, which are projected to grow rapidly, as the fourth key region of its global marketing base, following Japan, the United States, and Europe. The Company has been making various efforts to expand and strengthen its operations in the ASCA region.

Daiichi Sankyo's ASCA marketing bases currently include those in China, Hong Kong, Taiwan, South Korea, Thailand, Brazil, and Venezuela. The addition of Ranbaxy has dramatically enhanced Daiichi Sankyo's global reach, which now covers 56 countries throughout the world, including India, Eastern Europe, West Asia, Africa, and other regions. Daiichi Sankyo's collaboration with Ranbaxy took a large step forward in April 2009 when Ranbaxy began marketing Olmesartan *(Olvance)* in India.

STRATEGIC MOVE 2: GROUNDBREAKING DEBUT OF PRASUGREL

An Epochal Antiplatelet Agent

Following the initial market launch of next-generation antiplatelet agent Prasugrel under the brand name *Efient* in European countries, Daiichi Sankyo has begun marketing Prasugrel under the brand name *Effient* in the United States.

An oral antiplatelet agent that targets platelet aggregations, Prasugrel *(Effient/Efient)* was discovered by Daiichi Sankyo and its Japanese research partner Ube Industries, Ltd., and is being co-commercialized by Daiichi Sankyo and Eli Lilly and Company. Prasugrel was approved by the European Commission (EC) in February 2009 and by the U.S. Food and Drug Administration (FDA) in July 2009 for the treatment of patients with acute coronary syndrome (ACS) who are managed with an artery-opening procedure known as percutaneous coronary intervention (PCI).

Powerful, Rapid, and Stable Efficacy

Platelet aggregation can form blood clots that can result in clogged arteries and may lead to heart attack or stroke. Prasugrel works by blocking the P2Y12 adenosine diphosphate (ADP) receptors on platelet surfaces and thereby inhibiting platelet activation and subsequent aggregation, and it has been found to inhibit platelet aggregation more effectively and quickly than drugs currently used in standard therapeutic regimes. Moreover, while some patients do not respond to existing antiplatelet drugs—meaning that the desired level of platelet inhibition cannot be achieved with a standard dosage—the low incidence of non-responders to Prasugrel is an important feature demonstrating that variations in the drug's effectiveness for different patients are small.

One of the world's leading causes of death and disability, it is estimated that cardiovascular disease claims the lives of roughly 17.5 million people worldwide each year, and it has become a principal cause of death in Japan as well. ACS, which includes heart attacks and unstable angina (chest pain), affects nearly 1.5 million people in the United States annually. Coronary heart disease, which can result in ACS, is the single most common cause of death in the European Union, accounting for more than 700,000 deaths in the EU each year. It is important for ACS patients to have multiple treatment options.

Providing Patients with a New Treatment Option

ACS treatments can be broadly divided into coronary artery bypass grafting (CABG), PCI, and medical management. Prasugrel

Having attracted worldwide attention during its development, the antiplatelet agent Prasugrel has recently been marketed as *Efient* in Europe and *Effient* in the United States. This advance offers a powerful new therapeutic option to medical professionals and patients.

Prasugrel *(Effient/Efient)* History

1992	Discovery of Prasugrel
1997	Start of Phase I trials in the United Kingdom
2004 September	Results of Phase II trials (JUMBO-TIMI 26) presented at the European Society of Cardiology (ESC)
2004 November	Start of Phase III trials (TRITON-TIMI 38)
2007 November	Results of TRITON presented at American Heart Association (AHA)'s Scientific Sessions
2007 December	New Drug Application filed with U.S. Food and Drug Administration (FDA)
2008 February	Marketing Authorization Application filed with European Medicines Agency (EMEA)

was initially developed for patients with ACS undergoing PCI. Phase III TRITON clinical trials involving over 13,600 patients at 707 facilities in 30 countries directly compared Prasugrel with an existing drug. Prasugrel showed a significant 19% reduction in relative risk for the combined endpoint of cardiovascular death, non-fatal heart attack, or non-fatal stroke; a 30% relative risk reduction for patients with diabetes for that combined endpoint; and an approximately 50% reduction in the risk of stent thrombosis. Prasugrel also showed an increase in bleeding risk, but a risk-benefit analysis indicated a net clinical benefit.

Based upon data from the TRITON trials, Daiichi Sankyo and Eli Lilly submitted a New Drug Application to the FDA in December 2007 and a Marketing Authorization Application to the European Medicines Agency (EMEA) in February 2008. Prasugrel was approved by the EC and FDA for the treatment of ACS patients managed with PCI in February 2009 and July 2009, respectively, and is now available in several European countries and the United States as a powerful new therapeutic option.

Further Potential

Following the TRITON trials focused on ACS patients managed with PCI, in June 2008 Daiichi Sankyo and Eli Lilly started a new Phase III TRILOGY ACS clinical trial for medically managed ACS patients. TRILOGY ACS directly compares Prasugrel with an existing drug, involving approximately 10,000 patients at more than 800 facilities in 35 countries. Leveraging the data and experience obtained through TRITON, we will continue to evaluate Prasugrel as an effective treatment for medically managed ACS patients and to maximize its potential.

Currently, Phase II trials are in progress in Japan. Going forward, Daiichi Sankyo will sustain its utmost efforts to deliver its next-generation antiplatelet agent to patients worldwide as quickly as possible.

Strategic Move 2

2008 June	Start of new Phase III trials (TRILOGY ACS) designed to add further indications
2008 December	Approval recommendation by EMEA's Committee for Medicinal Products for Human Use
2009 February	Unanimous approval recommendation by FDA's Cardiovascular and Renal Drugs Advisory Committee
2009 February	Approval by the European Commission (EC)
2009 March	Launch of *Efient* in the United Kingdom
2009 July	Approval by FDA
2009 August	Launch of *Effient* in the United States

STRATEGIC MOVE 3: REALIZING THE HYBRID BUSINESS MODEL

Ranbaxy Joins the Daiichi Sankyo Group

To realize its vision for 2015 of becoming a **Global Pharma Innovator,** Daiichi Sankyo has been implementing its first mid-term business management plan (MTP), which covers the period from fiscal 2007 through fiscal 2009. The three-year plan aims to quickly realize the management integration synergies of Daiichi Sankyo's predecessor companies (Daiichi Pharmaceutical Co., Ltd., and Sankyo Co., Ltd.), strengthen drug development capabilities, reinforce and expand business infrastructure to promote corporate growth, and attain various other strategic objectives. We have been implementing diverse measures in accordance with the MTP. One of these measures is the addition of Ranbaxy Laboratories Limited to the Daiichi Sankyo Group. Following the agreement entered into by Daiichi Sankyo and Ranbaxy in June 2008, Daiichi Sankyo completed its transactions to acquire the majority of voting rights in Ranbaxy in November 2008.

Established in 1961, Ranbaxy has more than 12,000 employees and marketing bases in 49 countries throughout the world as well as manufacturing facilities in India, the United States, and nine other countries. In 2008, Ranbaxy recorded about Rs73.0 billion (US$1.68 billion) in consolidated sales* and maintained a well-balanced geographic sales structure with significant contributions from markets such as India, Asia, North America, Europe, and Commonwealth of Independent States (CIS) countries.

While Ranbaxy is most prominent in the field of generic drugs, it also has great potential in R&D on innovative drugs. Ranbaxy has several projects in its development pipeline, represented by an anti-malaria drug that is currently undergoing Phase III trials.

Mr. Atul Sobti
CEO and Managing Director of Ranbaxy Laboratories Limited

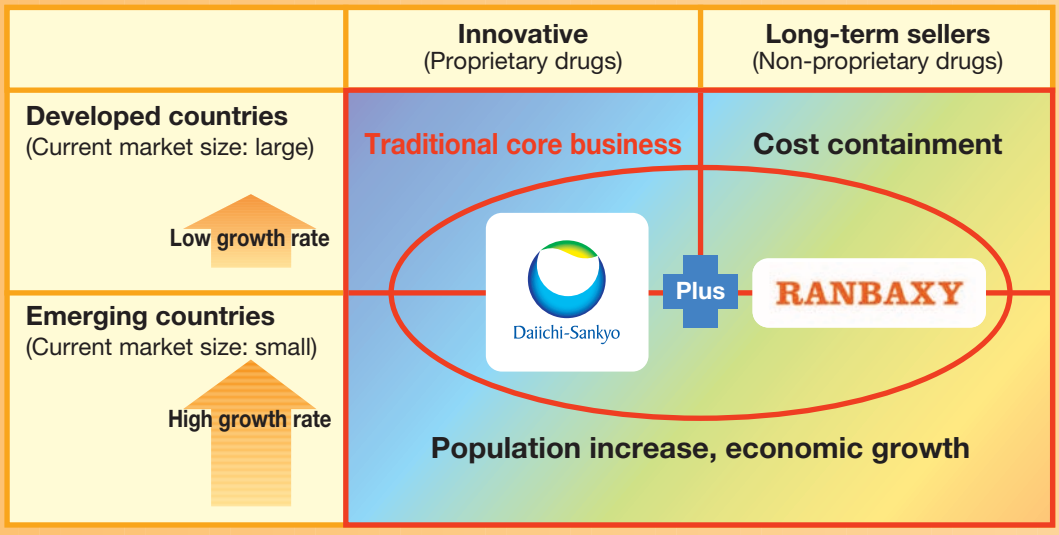
* Calculated based on Indian accounting standards.

Changes in the Global Drug Market

In 2008, the worldwide drug market amounted to approximately US$773.1 billion, the majority of which was attributable to the developed countries of North America, Europe, and Japan. However, expiring patents on blockbusters (drugs with global annual sales exceeding ¥100 billion) and growing emphasis on

With its executive leadership reconstituted, Ranbaxy will make a powerful contribution to the hybrid business model.

Hybrid Business Model



reducing medical expenses, particularly in Europe, have restrained the annual growth rate of developed countries' drug markets to low single digits. In contrast, dynamic economic growth in emerging countries such as Brazil, Russia, India, and China (BRICs), South Korea, Mexico, and Turkey has encouraged demand for improved medical care that—together with population growth—has resulted in annual market growth at double-digit rates.

Thus, while the growth rate of the global drug market in 2009 is projected to be in the low single digits, more than half of that is expected to stem from the emerging markets, which are also forecast to sustain double-digit growth during the period from 2009 through 2013. In view of this, it is not an exaggeration to say that the emerging countries will be the main engine of global drug market growth for the near future. Moreover, some emerging countries are making progress in protecting intellectual property and their markets for patented drugs are expected to expand. Ranbaxy has extended Daiichi Sankyo's presence in the emerging countries dramatically and is anticipated to make a major contribution to the Group's sustained growth going forward.

Response to Changes in the Global Environment and Intensifying Competition

In the past, Daiichi Sankyo has followed somewhat single-minded strategies focused on high-risk/high-return proprietary drug business, mainly in developed countries. Scientific innovation capabilities for generating first-in-class and best-in-class drugs will continue to be a primary pillar of Daiichi Sankyo's operations, and there is no doubt that pursuing additional growth in developed countries will continue to be important. However, given the slackening growth in these markets, companies that remain excessively dependent on such markets or business are likely to restrict their growth.

Instead of focusing exclusively on developed countries, Daiichi Sankyo has decisively broadened its strategic perspective to include the emerging countries. Rather than viewing the question of whether to do business in innovative products or generic products as an "either/or" choice between incompatible business models, we believe the two types of business should be leveraged harmoniously as a parallel means to a common end—contributing to the health and well-being of people throughout the world. Moreover, we anticipate that this approach will generate benefits regarding proactive business development in promising markets as well as regarding the dispersal of risks.

Daiichi Sankyo and Ranbaxy intend to integrate their respective strengths while monitoring environmental changes in both developed and emerging countries as they strategically move ahead with the implementation of a "hybrid business model." While considerable hurdles must be surmounted to successfully realize this innovative model, we firmly believe that addressing this kind of ambitious challenge is an indispensable key to dynamic corporate development.

Strategic Move 3

The hybrid business model offers at least two kinds of concrete benefits.

Expansion of Global Reach

By interlinking with Ranbaxy's network, Daiichi Sankyo has dramatically extended its global reach and built a marketing network that can cover many emerging countries to which it did not previously have direct access. As a result, we are now able to increase our presence in a wide range of areas throughout the world, including emerging country markets.

In addition, by adding generic products previously absent from its product lineup, Daiichi Sankyo can take full advantage of strengths stemming from an abundant array of offerings and a marketing network that covers 56 countries as it strives to provide the drugs needed by patients in each area of the world.

Realizing an Efficient Value Chain

As in other fields, global competition is intensifying in Daiichi Sankyo's core business of R&D and manufacturing operations related to proprietary drugs, and this competition makes it extremely important for the Company to further increase its productivity. India-based pharmaceutical companies have earned high evaluations for their cost competitiveness and quality assurance capabilities as well as their excellent performance as a partner for pharmaceutical companies based in various other countries, and Ranbaxy is no exception.

Ranbaxy has many outstanding researchers engaged in creating innovative drugs and novel drug delivery systems as well as participating in cooperative research programs with global companies such as GlaxoSmithKline plc and Merck & Co., Inc. Furthermore, it has superior cost competitiveness backed up by solid manufacturing technologies.

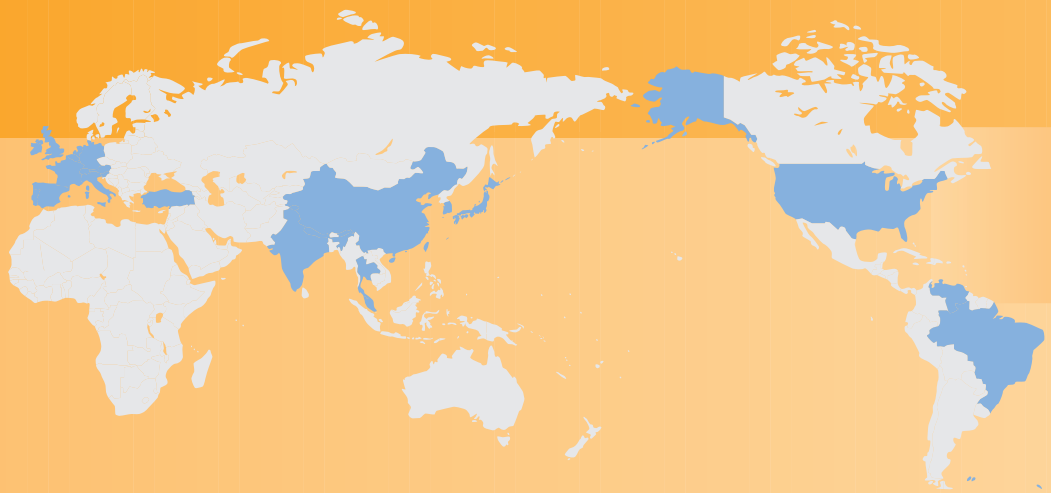
By putting these resources with great potential to good use, Daiichi Sankyo can build a highly efficient value chain for all processes from research through marketing and accelerate its creation and provision of innovative drug products.

Overcoming Challenges and Harvesting Results

In September 2008, the U.S. Food and Drug Administration (FDA) issued warning letters to Ranbaxy regarding current good manufacturing practice (cGMP) violations at two of its plants in India—Paonta Sahib and Dewas—and import alerts restricting products produced at those facilities. In addition, in February 2009, the FDA moved to invoke its Application Integrity Policy (AIP) against the Paonta Sahib facility, raising questions about the integrity of data in Abbreviated New Drug Applications (ANDAs)* from that plant. Ranbaxy and the Daiichi Sankyo Group take this issue very

Ranbaxy's head office, Gurgaon, India

Global Reach



seriously and immediately formed a task force, including outside specialists. While continuing to fully cooperate with the FDA, we are doing our utmost to resolve this issue.

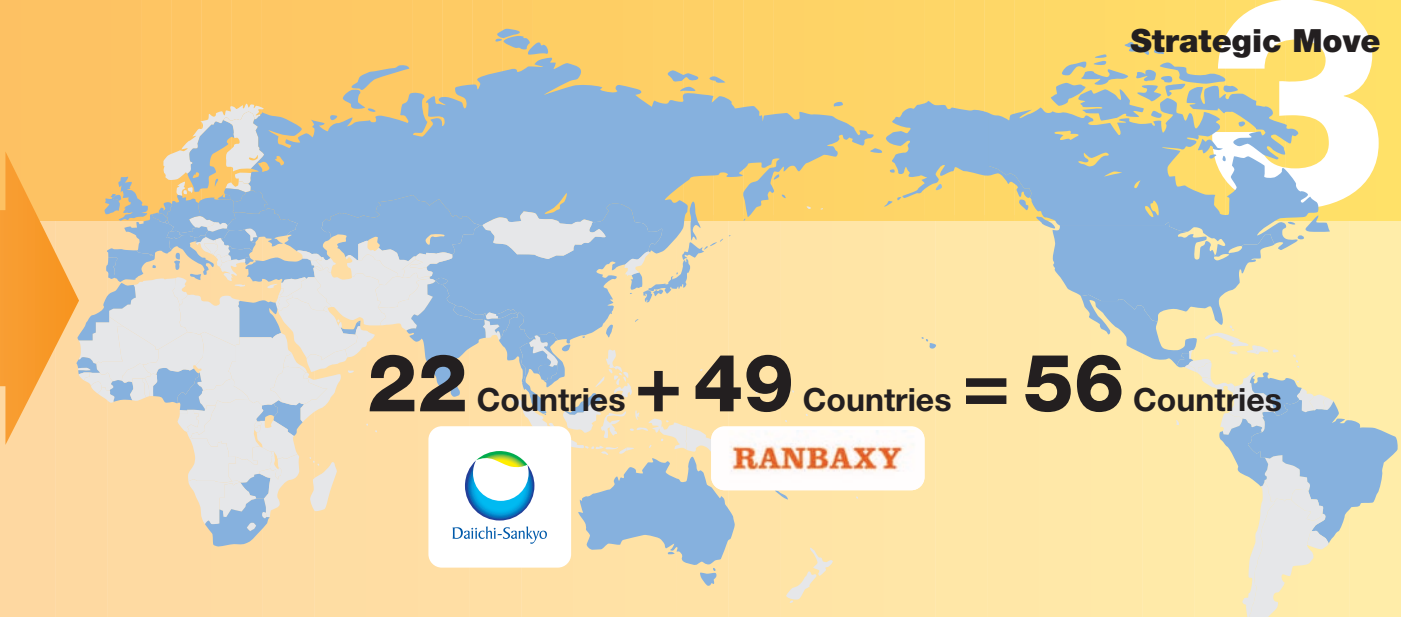
Besides taking steps to overcome the issues that arose at those two facilities, Daiichi Sankyo is proceeding with measures to accelerate collaboration with Ranbaxy as a means of maximizing the strategic benefits of the hybrid business model. To start with, in April 2009, Ranbaxy began marketing antihypertensive agent Olmesartan, the flagship product of Daiichi Sankyo, in India (marketed as *Olvance*). In May 2009, Ranbaxy's executive leadership was reconstituted, with Dr. Tsutomu Une elected chairman of the board and Mr. Atul Sobti appointed as CEO and managing director. Mr. Sobti has abundant corporate experience, including managing Japan-affiliated companies, and, as chief operating officer at Ranbaxy since 2007, he has handled business development and executive leadership duties for some time. A senior executive officer and member of the board of Daiichi Sankyo, Dr. Une has participated in Ranbaxy's management as a non-executive director since December 2008.

Under the direction of the new management team, Ranbaxy is expected to implement strategic decision making and operational execution with even higher levels of speed, flexible responsiveness, transparency, and reliability.

The most important objective of the hybrid business model is to respond effectively to changes in the market environment in both developed and emerging countries and thereby attain Daiichi Sankyo's vision for 2015. Ranbaxy is a perfect fit for this innovative business model, and will greatly contribute to sustained business growth over the long term for the entire Group. To realize these goals and a sustained increase in the Group's overall corporate value, plans call for proactive efforts to maximize the utilization of Ranbaxy's various strengths and ensure that those strengths bear fruit.

* Abbreviated New Drug Applications (ANDAs) permit applicants to provide data demonstrating that a generic drug is the same as a previously approved drug in terms of its bioequivalence, etc., in lieu of the studies necessary for an initial New Drug Application (NDA).

Strategic Move 3



22 Countries + **49** Countries = **56** Countries

Daiichi-Sankyo

RANBAXY

The launch of *Effient/Efient* offers a great option for patients and medical professionals. Going forward, Daiichi Sankyo will consistently generate a steady flow of innovative pharmaceuticals as a Global Pharma Innovator, contributing to the enrichment of quality of life around the world.

Determined to Accelerate the Development of Eagerly Awaited New Drugs

Daiichi Sankyo is dynamically moving ahead with efforts to overcome challenges associated with unmet medical needs. Regarding therapeutic areas with high levels of unmet medical needs—such as thrombotic disorders and malignant neoplasm—people are eagerly awaiting the creation of new pharmaceuticals.

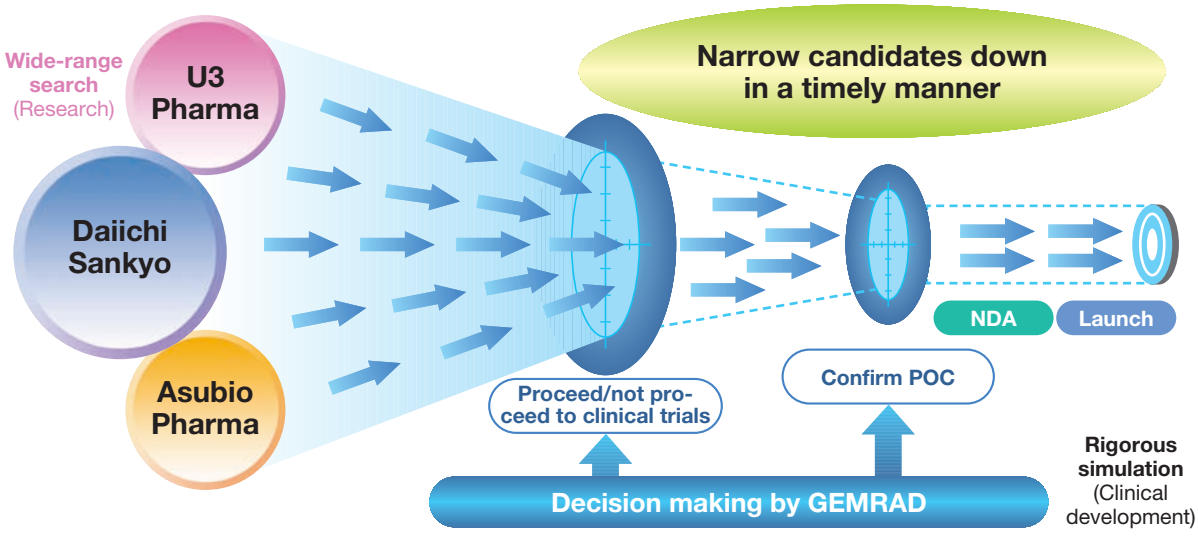
In order to meet such patient needs and to accelerate the development of innovative pharmaceuticals for patients, Daiichi Sankyo has built a structure centered on the key regions of Japan, the United States, and Europe to support rapid R&D activities that are of top quality even when measured by global standards.

Daiichi Sankyo's approach to research emphasizes a "wide-range search." The research facilities of Daiichi Sankyo and its Group companies as well as Asubio Pharma Co., Ltd., and U3 Pharma GmbH leverage their respective strengths regarding specific research fields and technologies to engage in each research project and thereby collectively realize a broad-ranging search. On the other hand, Daiichi Sankyo's clinical development projects focus on "rigorous simulation" and narrow the candidate drugs down at the start of clinical trials and the proof of concept (POC) confirmation stage. In order to manage such R&D activities timely and effectively, Daiichi Sankyo has established the Global Executive Meeting of Research And Development (GEMRAD) as its supreme decision-making organization for R&D.

GEMRAD—Comprehensive Decisions on Key R&D Issues

It is extremely important to establish a process for making rapid and precise decisions on whether to proceed or not for each R&D project. GEMRAD members include not only R&D executives but also representatives in a wide range of other areas, such as marketing, licensing, portfolio management, and intellectual property management. Together, these diverse members reach well-balanced conclusions. GEMRAD makes comprehensive judgments covering all stages from research to marketing regarding a drug candidate's potential, business viability, and compatibility with the Group's strategy. In addition, GEMRAD periodically evaluates the priority levels of projects in the pipeline from a portfolio management perspective. For fiscal 2009, we plan to implement the following top-priority projects: antiplatelet agent Prasugrel, anticoagulant Edoxaban, triple-combination antihypertensive CS-8635, and bone disease therapy antibody Denosumab (AMG 162).

R&D Approach



Dr. Glenn Gormley
President, Daiichi Sankyo Pharma Development
GEMRAD Co-Chairperson

R&D Core Disease Areas and Franchise Areas

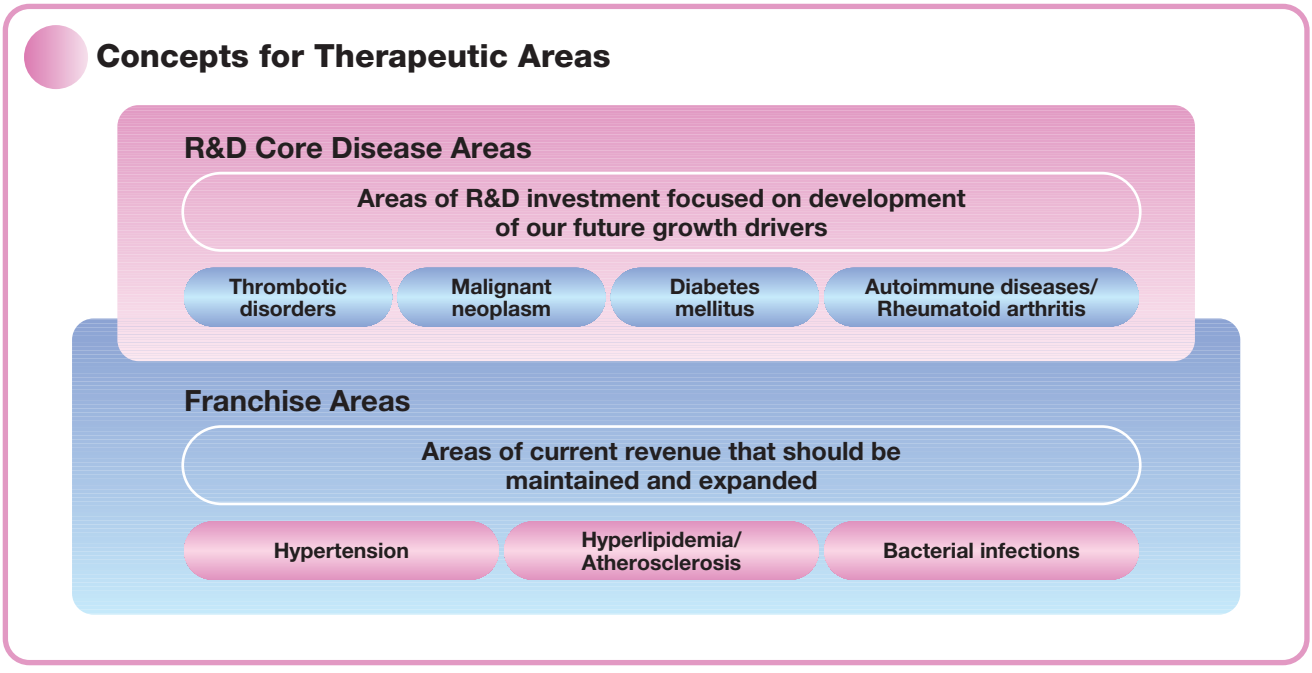
In global R&D, Daiichi Sankyo is placing emphasis on four therapeutic areas: thrombotic disorders, malignant neoplasm, diabetes mellitus, and autoimmune diseases/rheumatoid arthritis. These areas are positioned as "Core Disease Areas" that are characterized by having unmet needs and our developed technologies and know-how. Our R&D resources are being allocated to these priority areas to realize a solid foundation for our future growth. On the other hand, we have positioned three therapeutic areas—hypertension, hyperlipidemia/atherosclerosis, and bacterial infections—as "Franchise Areas" in which, in general, outstanding therapeutic drugs already exist and a great many medical needs are already being met. In these franchise areas, Daiichi Sankyo will maintain and expand its existing revenue base through product life-cycle management strategies, including those for developing combination drugs and additional formulations. In the core disease areas, the Company is proactively obtaining advanced technologies and pipeline candidates from outside sources, and it has made particularly great progress in augmenting its development pipeline in the cancer area during the past year.

Emerging as the Leading Company in Antithrombotic Agents

Thrombotic disorders arise when blood clots form in blood vessels; clots in locations such as the coronary artery, lungs, and brain can result in fatalities. Because of differences between the ways blood clots form in arteries and veins, drug development processes in this field generally separate into two categories: those focused on antiplatelet agents and those focused on anticoagulants.

In the United States and Europe, Daiichi Sankyo has already launched antiplatelet agent *Effient/Efient* (Prasugrel), which targets platelet aggregation in arteries. The Company is also conducting clinical trials of anticoagulant DU-176b (Edoxaban), which targets a blood coagulation factor in veins. Covering a wide range of thrombotic disorders with these two agents, we believe that Daiichi Sankyo is capable of becoming the leader in antithrombotic agents in the near future.

Concepts for Therapeutic Areas



Enriching the Oncology Pipeline

In the field of anticancer drug research, mainstream work is shifting from chemotherapeutic treatments that kill cancer cells and inhibit cell division to molecularly targeted drugs that focus on targets specifically seen in cancer cells and tissue. Daiichi Sankyo is seeking to develop such molecularly targeted drugs from low molecules and antibodies.

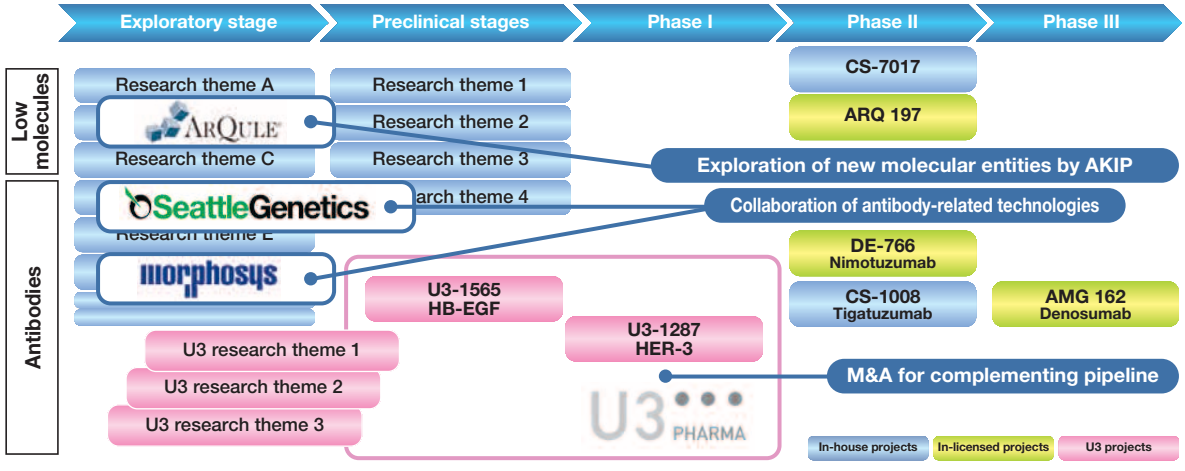
To increase its R&D pipeline in the cancer area, in May 2008 Daiichi Sankyo moved to acquire U3 Pharma, which has numerous promising antibody drug candidates for cancer. In addition, in November 2008 Daiichi Sankyo arranged a license for ARQ 197 (worldwide rights, excluding Japan and certain other Asian countries), an anticancer drug candidate of U.S.-based ArQule, Inc., as well as a cooperative research program with ArQule's kinase inhibitor discovery platform (AKIP) to discover new compounds. These alliances have greatly expanded Daiichi Sankyo's R&D pipeline in the cancer area.

Regarding antibody-related technologies, Daiichi Sankyo has arranged alliances with biotechnology companies such as U.S.-based Seattle Genetics, Inc., and Germany-based MorphoSys AG. Within its own research facility organization, Daiichi Sankyo has reorganized its Advanced Technology Research Laboratories to focus exclusively on antibody drugs, and those laboratories have been renamed the Biologics Research Laboratories.

In addition to the field of antithrombotic drugs, Daiichi Sankyo is aiming to increase its worldwide presence in the treatment of cancer.

Dr. Kazunori Hirokawa
Senior Executive Officer and Head of R&D Division
GEMRAD Co-Chairperson

Pipeline of Anticancer Drugs



U3 Pharma—Creating Innovative Biotherapeutic Products to Treat Cancer

A biotechnology firm founded by the famous Professor Axel Ullrich, whose discoveries have led to novel cancer therapies, U3 Pharma is an emerging leader in targeted cancer drug development. Led by U3-1287 and U3-1565, U3 Pharma's pipeline has many promising fully human therapeutic antibody drug candidates in the cancer area. These antibodies are expected to be effective for many types of cancer. Moreover, working through U3 Pharma, Daiichi Sankyo is seeking to enhance its drug discovery research capabilities in this field through collaboration with the Max Planck Institute, one of Germany's leading research organizations.

U3-1287 (Anti-HER-3 Antibody)

This antibody controls oncogenic signal transduction to human epidermal growth factor receptor HER-3 from both HER-2 and epidermal growth factor receptor (EGFR), which are heterodimer partners to HER-3 and are over-expressed in several cancers, such as those of the breast, colon, and lung. It is being co-developed with Amgen Inc.

U3-1565 (Anti-HB-EGF Antibody)

This antibody targets a receptor tyrosine kinase ligand (RTKL) that activates HER-4 and EGFR.

Top-Priority Projects

The following are positioned as top-priority projects. Daiichi Sankyo is placing strong emphasis on their successful execution.

■ *Effient*/*Efient* (Prasugrel [CS-747], an Antiplatelet Agent)

For more information on Prasugrel, please see the special feature on pages 12-13 of this report.

■ DU-176b (Edoxaban, an Anticoagulant)

Edoxaban is an oral anticoagulant that directly inhibits blood coagulation factor Xa. It is being developed with the goal of preventing venous thromboembolism such as pulmonary embolism, which is often associated with "travelers' thrombosis," as well as post-surgical thromboembolism. Daiichi Sankyo is itself developing Edoxaban globally in the United States, Europe, Japan, and other Asian countries. In addition to conducting multinational Phase III trials for the prevention of thromboembolic events in patients with atrial fibrillation and Japanese Phase III trials for the prevention of post-surgery thromboembolic events, the Company plans to begin multinational Phase III trials for the prevention of venous thromboembolic events in patients with deep vein thrombosis and pulmonary embolism during the latter half of 2009.

■ AMG 162 (Denosumab, an Anti-RANKL Antibody)

Denosumab is a fully human monoclonal antibody that specifically inhibits RANK Ligand, a key mediator of the cells that break down bone, and it is being developed for treating such conditions as osteoporosis and bone metastases of cancer. Having obtained exclusive development and marketing rights in Japan for AMG 162 from Amgen Inc. in July 2007, Daiichi Sankyo is now conducting Phase III trials for the antibody in Japan for the indication of osteoporosis and is participating in multinational Phase III trials for the indication of bone metastases.

■ CS-8635 (Triple-Combination Antihypertensive Agent)

CS-8635 is a combination of three drugs—Daiichi Sankyo's angiotensin II receptor blocker Olmesartan, the calcium channel blocker Amlodipine, and the diuretic Hydrochlorothiazide. It is designed to provide a greater antihypertensive effect as well as to serve as a product life-cycle management method for increasing the value of Olmesartan. Daiichi Sankyo plans to submit a New Drug Application for CS-8635 in the United States during 2009. In addition, Phase III trials in Europe began in 2009.

To Become a Leader in the Treatment of Thrombotic Disorders

	Arterial thrombosis	Venous thrombosis
Target	Platelets	Blood coagulation system
Drugs currently used	Antiplatelets Aspirin Ticlopidine Clopidogrel	Anticoagulants Low-molecular-weight Heparin Warfarin
Daiichi Sankyo pipeline	Prasugrel (CS-747) **Characteristics** • Higher IPA* • Rapid onset of IPA • More-consistent IPA * IPA: Inhibition of platelet aggregation	Edoxaban (DU-176b) **Target profile** • Efficacy not inferior to Warfarin • Wide therapeutic range and lower incidence of bleeding • No severe hepatoxicity

ArQule—Specializing in Next-Generation Small-Molecule Anticancer Therapeutics

Daiichi Sankyo has entered into an agreement with U.S.-based ArQule for an exclusive license, co-development, and co-commercialization agreement under which they are collaborating to conduct research and clinical trials and undertake the market launch of ARQ 197 for human cancer indications globally, excluding Japan, China (including Hong Kong), South Korea, and Taiwan. Daiichi Sankyo has also entered into a research collaboration, exclusive license, and co-commercialization agreement under which ArQule is applying its proprietary technology and know-how from its AKIP platform for the discovery of therapeutic compounds that selectively inhibit certain kinases.

ARQ 197 (a Novel Oncology Therapeutic Agent)

ARQ 197 is a selective inhibitor of c-Met, a receptor tyrosine kinase. In Phase I trials in the United States, treatment with ARQ 197 has been well tolerated and has resulted in tumor responses and prolonged stable disease across broad ranges of tumors and doses.

AKIP (ArQule's Kinase Inhibitor Platform)

AKIP is the platform to discover and validate compounds that inhibit kinase targets with mechanisms similar to that of ARQ 197.

Development Pipeline

Development Code	Generic Name	Dosage Form	Class	Indication
Cardiovascular diseases				
CS-747	Prasugrel	Oral	Antiplatelet agent	Acute coronary syndromes, managed with PCI
				Acute coronary syndromes, medical management
DU-176b	Edoxaban	Oral	Factor Xa inhibitor	Atrial fibrillation
				Venous thromboembolism
☆CS-8635	Olmesartan Amlodipine Hydrochlorothiazide	Oral	Angiotensin II receptor antagonist Calcium channel blocker Diuretic	Hypertension
☆CS-866AZ	Olmesartan Azelnidipine	Oral	Angiotensin II receptor antagonist Calcium channel blocker	Hypertension
☆CS-866CMB	Olmesartan Hydrochlorothiazide	Oral	Angiotensin II receptor antagonist Diuretic	Hypertension
DB-772d	—	Oral	Factor Xa inhibitor	—
Malignant neoplasm				
CS-1008	Tigatuzumab	Injection	Anti-DR5 antibody	—
CS-7017	—	Oral	PPARγ activator	—
DE-766	Nimotuzumab	Injection	Anti-EGFR antibody	—
ARQ 197	—	Oral	c-Met inhibitor	—
U3-1287	—	Injection	Anti-HER-3 antibody	—
Glucose metabolic disorders				
CS-1036	—	Oral	Glucose absorption inhibitor	Diabetes
Infectious diseases				
☆Levofloxacin Injection	Levofloxacin	Injection	New quinolone	Bacterial infections
CS-8958	Laninamivir	Inhalant	Neuraminidase inhibitor	Influenza
Immunological allergic diseases				
SUN13834	—	Oral	Chymase inhibitor	Atopic dermatitis
CS-0777	—	Oral	Immunosuppressant	—
Bone/joint diseases				
AMG 162	Denosumab	Injection	Anti-RANKL antibody	Osteoporosis
				Bone metastases of cancer
☆CS-600G	Loxoprofen	Gel	Anti-inflammatory and analgesic	—
Others				
☆DL-8234	Interferon-β	Injection	Interferon-β	Hepatitis C (with Ribavirin)
KMD-3213	Silodosin	Oral	Selective alpha 1A blocker	Treatment of dysuria associated with benign prostatic hyperplasia
SUN Y7017	Memantine	Oral	NMDA receptor antagonist	Dementia of Alzheimer type
SUN11031	Human ghrelin	Injection	—	Cachexia
				Anorexia nervosa
☆DD-723-B	Perflubutane	Injection	Ultrasonic contrast agent	Ultrasound contrast agent for detecting pathological changes in the prostate gland
				Ultrasound contrast agent for detecting pathological changes in the breast

☆ Additional indications, new formulations, etc.

(As of July 2009)

Origin	Region	Development	Stage			
			Phase I	Phase II	Phase III	Application
Daiichi Sankyo, Ube Industries	Japan	In-house				
Daiichi Sankyo, Ube Industries	U.S./EU	Co-development (Eli Lilly)				
Daiichi Sankyo	Global	In-house				
Daiichi Sankyo	U.S./EU	In-house				
	Japan	In-house				
Daiichi Sankyo	U.S./EU	In-house				
Daiichi Sankyo	Japan	In-house				Dec. 2008
Daiichi Sankyo	Japan	In-house				
Daiichi Sankyo	U.S./EU	In-house				
Daiichi Sankyo	U.S.	In-house				
	Japan	In-house				
Daiichi Sankyo	U.S.	In-house				
CIMYM BioSciences	Japan	In-house				
ArQule	U.S./EU	Co-development (ArQule)				
U3 Pharma	U.S.	Co-development (Amgen)				
Daiichi Sankyo	Japan/Asia	In-house				
Daiichi Sankyo	Japan	In-house				
Daiichi Sankyo	Japan	In-house				
	U.S./EU	Co-development (Biota)				
Asubio Pharma	U.S.	In-house				
Daiichi Sankyo	U.S./EU	In-house				
Amgen	Japan	In-house				
Amgen	Japan	In-house (multinational trials)				
Daiichi Sankyo	Japan	In-house				June 2009
Toray	Japan	Co-development (Toray)				Sept. 2007
Kissei	China	In-house				Dec. 2008
Merz	Japan	In-house				
Asubio Pharma	U.S./EU	In-house				
Asubio Pharma	Japan	In-house				
GE Healthcare	Japan	In-house				
GE Healthcare	Japan	In-house				

SALES AND MARKETING OPERATIONS

Prescription Drug Business

Japan

Market Trends

In fiscal 2008, the Japanese prescription drug market expanded due to the growing prevalence of lifestyle diseases and progressive demographic graying, despite the impact of various negative factors—including an additional change in prescription format designed to encourage the use of generic drugs, an increased number of hospitals applying the diagnosis procedure combination (DPC) reimbursement system, and other intensified government efforts to restrain drug-related expenditures through systemic reforms as well as other factors such as drug price revision under the National Health Insurance (NHI) scheme. The market had a noteworthy boost from the increasing use of innovative pharmaceuticals such as antibody drugs. Amid these conditions, Daiichi Sankyo's domestic net sales of prescription drugs amounted to ¥406.7 billion, down 4.8% from the fiscal 2007 level. Although sales of flagship products centering on *Olmetec* grew, overall sales decreased due to factors such as lower sales of long-selling products and the transfer of marketing rights for *Zantac* and *Coversyl.*

Evolution of the MR Crosswise System

Daiichi Sankyo's MR Crosswise system ("MR" refers to marketing representatives, or sales representatives) is designed to effectively provide medical professionals with information on each therapeutic area based on collaboration between two types of sales representatives. Under this system, some sales representatives maintain high levels of specialized knowledge in therapeutic areas such as cardiovascular diseases and oncology, while other sales representatives are responsible for understanding and meeting the special needs of individual medical facilities. The first system of its type in Japan, the MR Crosswise structure organically integrates Daiichi Sankyo's sales 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. Through this structure, the Company's sales representatives have been earning high overall ratings from outside evaluation institutions.

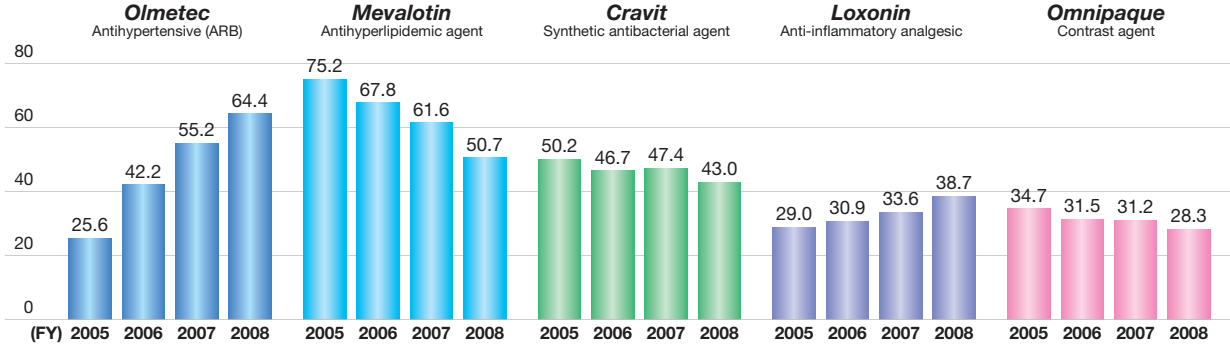
To meet the increasingly diverse needs of medical institutions, Daiichi Sankyo will continue to promote the further evolution of the MR Crosswise system, and shift from the conventional one-sided provision of information to a more bilateral approach involving additional efforts to elicit and respond to the ideas of medical professionals.

Performance of Principal Products

Cardiovascular Diseases: Angiotensin II receptor blockers (ARBs) are a growing sector of the Japanese drug market, and sales of our flagship antihypertensive agent *Olmetec* (generic name Olmesartan) grew more than those of any other single ARB product. *Olmetec* sales jumped 16.6% over the fiscal 2007 level, to ¥64.4 billion, despite a price reduction due to Japan's drug price system revision, in response to ARB market expansion.

Conditions in the ARB market continue to be harsh due to the entry of competitors as well as fixed-dose combination antihypertensive agents, but *Olmetec* is considered to be a best-in-class product owing to its strong efficacy in reducing blood pressure and superior performance in protecting internal organs. In view of these benefits, the Pharmaceutical Society of Japan selected *Olmetec* as the winner of its Award for Drug Research and Development in 2008. To further increase the value of *Olmetec,* we will generate additional scientific evidence related to its performance and contribute to the health of even more patients in the future.

Net Sales of Key Products (¥ billion)



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

In contrast to the growth in the ARB market, the calcium channel blocker (CCB) market has shrunk due to the launch of generic Amlodipine products. Despite this market shrinkage, sales of *Calblock* surged 18.9% year on year, to ¥12.1 billion. In December 2008, Daiichi Sankyo submitted an application for a fixed-dose combination agent that includes *Calblock* and *Olmetec.* By combining the two drugs most often prescribed for concomitant use in treating hypertension into a single-pill, fixed-dose formulation, the new product is expected to significantly expand the breadth of treatment options.

In addition, *Artist,* the only beta-blocker approved for the indication of chronic heart failure, recorded robust sales, up 3.6% from the fiscal 2007 level, to ¥21.9 billion.

Sales of antihyperlipedemic agent *Mevalotin* fell 17.6% year on year, to ¥50.7 billion, reflecting intensifying competition and growing sales of generics. Prescriptions of antihyperlipedemic agent *Livalo,* well known for its safety and efficacy, grew steadily. Daiichi Sankyo is working to maintain or increase its overall share of the statin market based on the combined sales of *Mevalotin* and *Livalo.* As a pioneer in statins, Daiichi Sankyo will continue to contribute to society through the provision of highly useful, high-quality information.

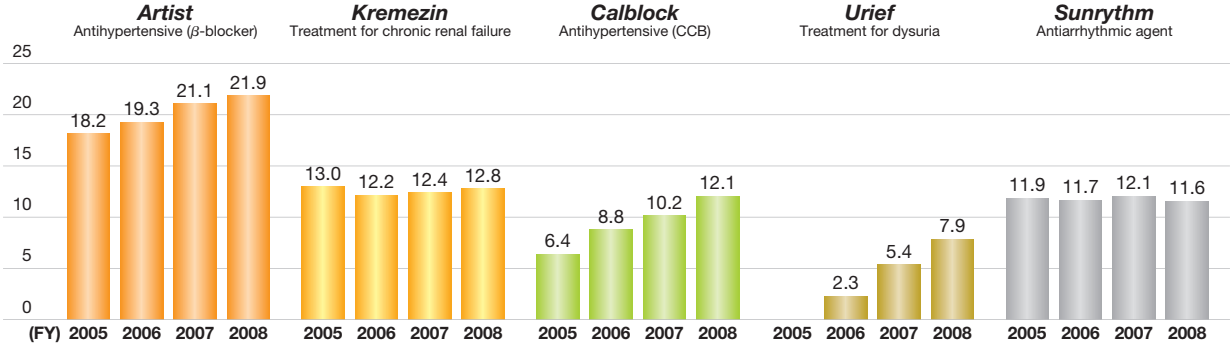
Infectious Diseases: Since its initial marketing in 1993, *Cravit* (generic name Levofloxacin) has been a leading product in the market for oral antibacterial agents. Although the drug maintained its market share, market shrinkage led to a 9.2% year-on-year decrease in *Cravit* sales from the fiscal 2007 level, to ¥43.0 billion.

In Japan, the standard dosage of *Cravit* was 100mg three times a day. Overseas, however, a once-daily 500mg dosage regime has been approved in more than 120 countries and regions because, by increasing the blood concentration level, this regime is believed to increase the antibacterial effect while also lowering the risk of fostering drug-resistant bacteria. Amid this environment, many medical specialists in Japan have expressed a strong desire to introduce this dosage regime that scientific evidence indicates can help control drug-resistant bacteria. In response, Daiichi Sankyo began developing *Cravit* 500mg tablets that can be taken just once daily. It obtained approval for *Cravit* 250mg and 500mg tablets as well as 10% granules in April 2009 and began marketing these products in July 2009.

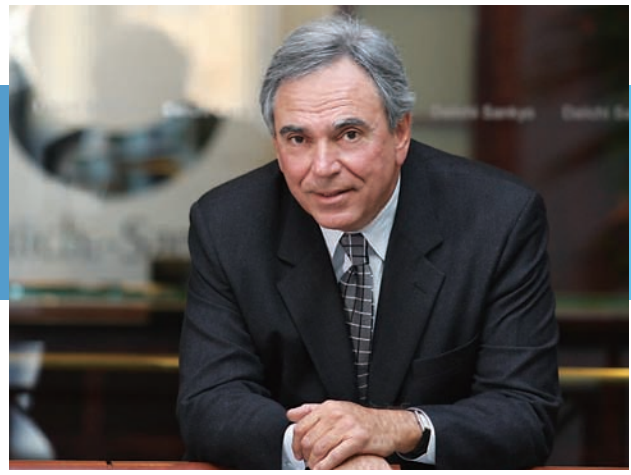
Going forward, Daiichi Sankyo will shift to the new once-daily 500mg dosage, which is now considered the most appropriate. In addition, to offer sequential therapy from injection to oral forms, the Company plans to file an application for approval of a new dosage regime for *Cravit* injection during 2010.

Bone/Joint Diseases: Sales of anti-inflammatory analgesic agent *Loxonin* surged 15.1% over the fiscal 2007 level, to ¥38.7 billion. This reflected the introduction of a new dosage form in July 2008—percutaneous absorption-type *Loxonin Tape*—following the 2006 launch of *Loxonin Pap.* To broaden the range of choice in *Loxonin* administration methods in line with therapeutic needs, we submitted an application for the approval of a gel formulation of *Loxonin* in June 2009.

Net Sales of Key Products (¥ billion)



United States
DAIICHI SANKYO, INC. (DSI)



Joseph P. Pieroni
President and CEO, Daiichi Sankyo, Inc.

Market Trends

While the United States remains the largest pharmaceutical market in the world, the expiration of patents on many major products, a decrease in the number of newly marketed products, the impact of slack economic conditions, and other factors restrained market growth in 2008 to a slower rate than that of the global market, just as in 2007.

Despite the harshness of its operating environment, Daiichi Sankyo, Inc. (DSI), was able to record robust sales of antihypertensive *Benicar* (Olmesartan), *Benicar HCT*,* and antihyperlipidemic agent *Welchol,* which was approved for the additional indication of type 2 diabetes in January 2008. In addition, sales of *AZOR*** showed a large increase. Consequently, DSI achieved net sales of ¥129.3 billion in fiscal 2008. In local currency terms, sales amounted to US$1,286 million, up 15.8% from fiscal 2007, a growth rate considerably greater than that of the U.S. market overall.

* *Benicar HCT* is a combination of Olmesartan and the diuretic Hydrochlorothiazide.
** *AZOR* is a combination of Olmesartan and the calcium channel blocker Amlodipine.

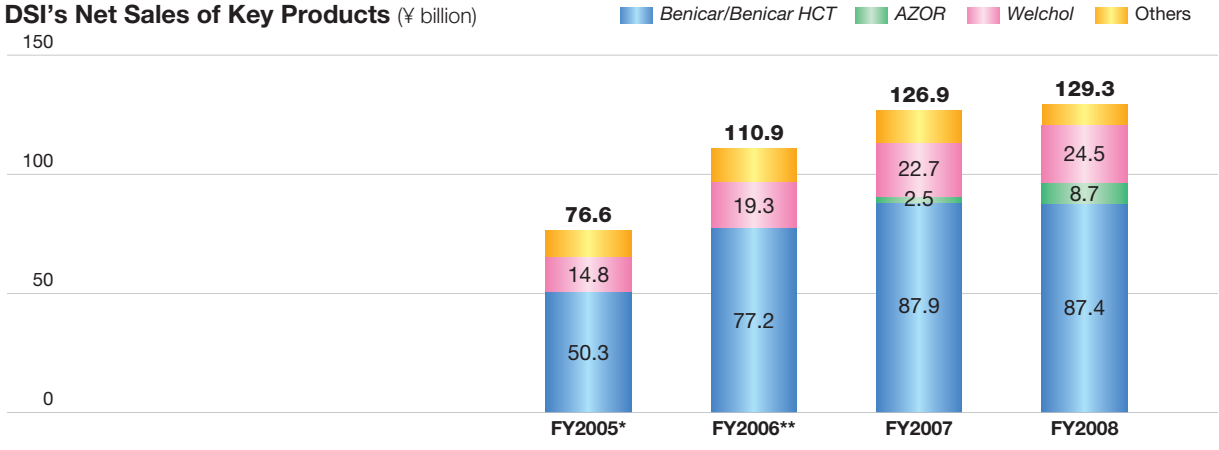
Further Sustained Growth in Sales of Olmesartan

Antihypertensive Olmesartan is included in three products—*Benicar, Benicar HCT,* and *AZOR.* Since the 2002 launch of *Benicar,* Olmesartan has been considered a best-in-class antihypertensive with distinctively strong blood pressure reduction, and it has been used in the treatment of a great many patients. As part of our product life-cycle management strategy for Olmesartan, we plan to submit a New Drug Application for CS-8635—a combination of three antihypertensives: Olmesartan, Amlodipine, and Hydrochlorothiazide—to the U.S. Food and Drug Administration (FDA) during 2009.

Effient a Highly Promising Product

On July 10, 2009, the FDA approved antiplatelet agent Prasugrel *(Effient)* for the reduction of thrombotic cardiovascular events (including stent thrombosis) in patients with acute coronary syndrome who are managed with an artery-opening procedure known as percutaneous coronary intervention. Prasugrel is a highly promising drug that has demonstrated superior efficacy in direct comparison with Clopidogrel, which is one of the world's top-selling products and a standard product used in conventional antiplatelet therapy. DSI and its partner Eli Lilly and Company have begun co-promoting Prasugrel under the brand name *Effient.* Expecting *Effient* to be a major product, DSI had completed its sales force expansion program in advance by the end of 2008. With high-added-value products on the market and in the development pipeline in the area of cardiovascular disease, DSI continues to advance toward its goal of becoming a leader in cardiovascular therapies in the United States.

DSI's Net Sales of Key Products (¥ billion)



* FY2005 results are simple totals of the figures of the U.S. subsidiaries of the former Sankyo Co., Ltd., and the former Daiichi Pharmaceutical Co., Ltd.
** DSI's FY2006 results are based on sales for 15 months (¥130.4 billion) due to a change in accounting period. To facilitate comparison, the graph has been adjusted to show a 12-month-period result.

United States
Luitpold Pharmaceuticals, Inc. (LPI)

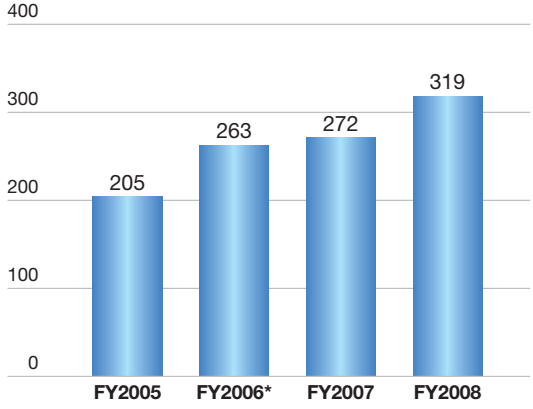
Mary Jane Helenek
President and CEO, Luitpold Pharmaceuticals, Inc.

Luitpold Pharmaceuticals, Inc. (LPI), is an innovative manufacturer and distributor of a wide spectrum of injectable drugs and medical devices for human and animal health. It consists of four divisions—American Regent Inc., Luitpold Animal Health, the Osteohealth Company, and Contract Manufacturing—and its net sales amounted to ¥51.1 billion in fiscal 2008. In local currency terms, this amounted to US$509 million, up 13.8% from fiscal 2007. Robust sales were bolstered by the continuing success of *Venofer,* LPI's flagship product and the most prescribed intravenous (IV) iron product, used as a first-line treatment for iron deficiency anemia in both dialysis and non-dialysis chronic kidney disease patients.

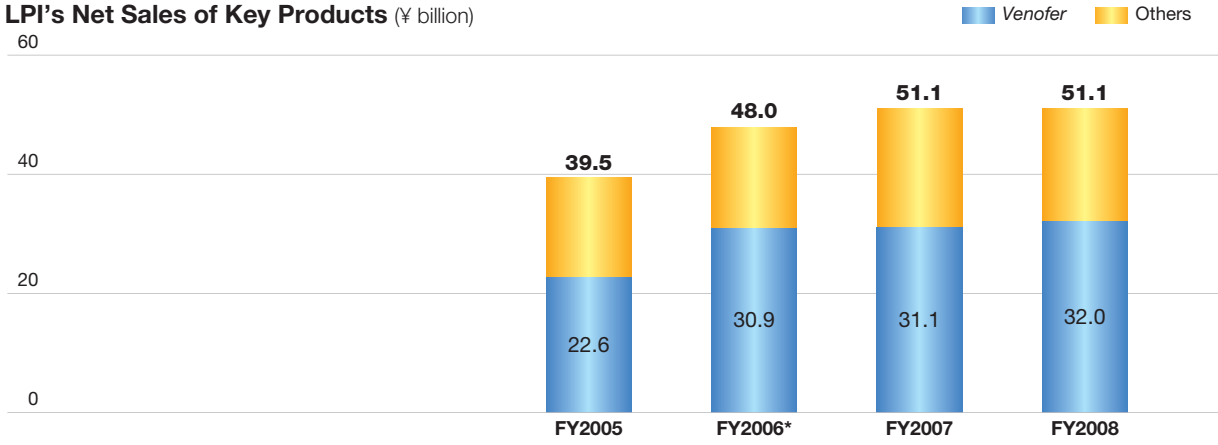
In 2008, LPI entered into an exclusive U.S. manufacturing and distribution sublicense agreement for *Venofer* with Fresenius Medical Care, the largest provider of dialysis-related products and services in the United States. This alliance ensures further growth in LPI's revenue in the dialysis market segment, and it has already enabled American Regent to concentrate its marketing efforts in the non-dialysis chronic kidney disease areas, which hold a large untapped growth potential for *Venofer.* LPI is also continuing to move forward with the development of *Injectafer,* its next-generation IV iron product. It is conducting additional clinical trials to determine the safety and efficacy of this compound and intends to submit a New Drug Application for iron deficiency anemia.

LPI is striving to maintain and expand sales of existing products while also undertaking R&D activities designed to create new products.

Net Sales of *Venofer* (US$ million)



LPI's Net Sales of Key Products (¥ billion)



* LPI's FY2006 results are based on sales for 15 months (¥61.0 billion; *Venofer* sales of ¥37.7 billion) due to a change in accounting period. To facilitate comparison, the graph has been adjusted to show a 12-month-period result.

Europe
DAIICHI SANKYO EUROPE GmbH (DSE)

Reinhard Bauer
Managing Director and CEO, Daiichi Sankyo Europe GmbH

Market Trends

The world's second-biggest market for pharmaceuticals, Europe is continuing to present a highly challenging environment due to the efforts of authorities in each country to control medical expenditures. Amid this environment, Daiichi Sankyo Europe GmbH (DSE) maintained robust sales of antihypertensive Olmesartan, which is marketed as *Olmetec* and *Olmetec Plus*.* Surging sales of newly launched antihypertensive *Sevikar*** and of *Evista,* a medication for osteoporosis in postmenopausal women, made additional contributions to performance. DSE acquired additional marketing rights for *Evista* to cover all European countries with the exception of Greece. As a result, DSE's net sales amounted to ¥70.3 billion in fiscal 2008. In local currency terms, excluding the impact of changes to fiscal accounting periods, this totaled €490 million, up 23.3% from fiscal 2007, a much faster growth rate than that of the market.

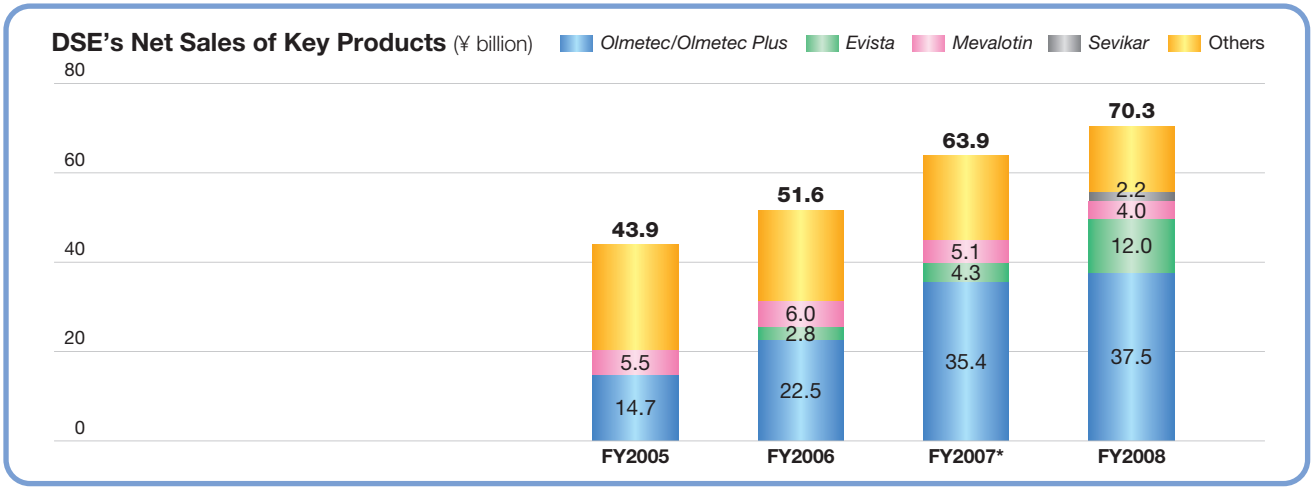
* *Olmetec Plus* is a combination of Olmesartan and the diuretic Hydrochlorothiazide.
** *Sevikar* is a newly launched combination of Olmesartan and the calcium channel blocker Amlodipine.

Launch of Two Promising Products

Following launches in Germany and several other European countries during the latter half of fiscal 2008, DSE recorded €15 million in sales of *Sevikar* during the fiscal year. DSE plans to launch *Sevikar* in most other European countries during fiscal 2009 and expects further sales growth.

On February 25, 2009, antiplatelet agent Prasugrel was approved by the European Commission for the prevention of atherothrombotic events in patients with acute coronary syndrome undergoing percutaneous coronary intervention, and it went on sale as *Efient* in the United Kingdom at the end of March 2009, before anywhere else in the world. DSE plans to launch *Efient* in other key European countries during fiscal 2009 and fiscal 2010.

As part of measures to strengthen its marketing infrastructure in preparation for the launch of these two products, DSE established two subsidiaries during fiscal 2008—in Turkey and Ireland—and also obtained sales representatives from Merck Serono in several European countries. As a result, during fiscal 2009, DSE will promote marketing activities in 12 countries with 1,350 sales representatives, up from approximately 800 at the beginning of fiscal 2008, and it will leverage these expanded marketing capabilities to realize sustained growth in its sales of existing and new products.



* DSE's FY2007 results are based on sales for 15 months (¥78.0 billion) due to a change in accounting period. To facilitate comparison, the graph has been adjusted to show a 12-month-period result.

Asia and South and Central America (ASCA)

Continued Rapid Growth in Daiichi Sankyo's Fourth Major Market

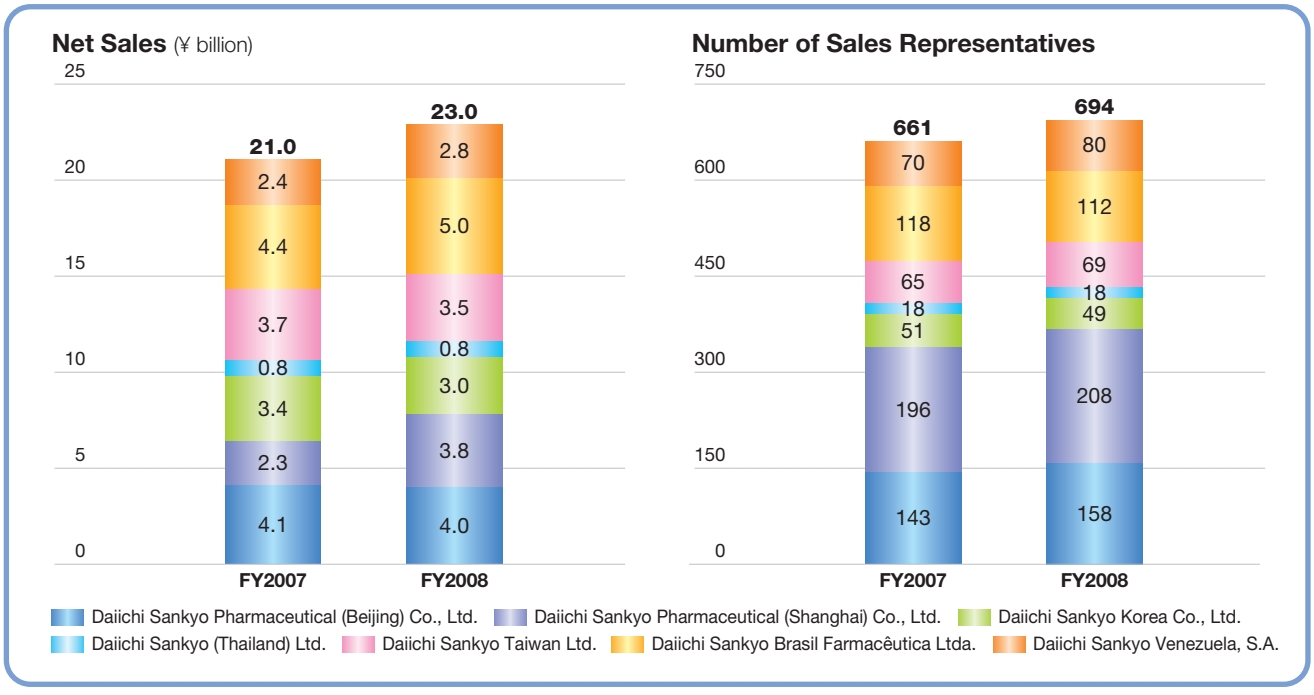
In addition to its principal markets of Japan, the United States, and Europe, Daiichi Sankyo has positioned Asia and South and Central America (ASCA) as its fourth major market of global operations, and it is proceeding to strengthen and expand its business base in these regions. Currently, Daiichi Sankyo has marketing and development bases in China (Beijing and Shanghai), South Korea, Taiwan, Thailand, India, Brazil, and Venezuela, and is expanding its presence in these markets largely through the sale of products centered on antihypertensive Olmesartan and synthetic antibacterial agent Levofloxacin.

In fiscal 2008, net sales in the ASCA region totaled ¥23.0 billion, up 9.5% from the fiscal 2007 level. Calculated on a real basis excluding the impact of yen appreciation, sales in the region rose by more than 20% during fiscal 2008.

In China, Daiichi Sankyo has steadily increased its sales of products centered on Levofloxacin and cough suppressant *Asmeton.* Anticipating that Olmesartan will gain a posting on China's medical insurance list during fiscal 2009, we expect to accelerate our growth in China. Daiichi Sankyo is seeking to effectively leverage the authorization of Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd. (DSSH), to import and market the parent company's products, along with the capabilities of Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd. (DSBJ), to undertake promotional activities on behalf of the parent company. Currently, a portion of the products imported and marketed by DSSH are being promoted by DSBJ, and this collaboration framework is significantly contributing to our growth in China.

In South Korea and Taiwan, our revenues have centered on Levofloxacin and antihyperlipidemic agent Pravastatin, with an additional contribution from growing sales of Olmesartan. We expect further growth from the approval of *Sevikar*—a combination of Olmesartan and calcium channel blocker Amlodipine—and other factors.

In Brazil and Venezuela, we faced intensifying competition in local markets but undertook proactive marketing campaigns that supported the smooth growth of Olmesartan. Sales are expected to benefit from the launch of a combination drug consisting of Olmesartan and Amlodipine from July 2008 in Brazil and from some time in fiscal 2009 in Venezuela. Besides bolstering marketing capabilities in line with the timing of those launches, we are expanding manufacturing capacity in Brazil to meet sales growth in that country as well as exports to nearby countries.



Healthcare Business

Striving to Realize Total Healthcare to Meet the Needs of a Greater Number of People

Toshio Takahashi
Representative Director, President
Daiichi Sankyo Healthcare Co., Ltd.

Daiichi Sankyo is positioning its healthcare operations as a core business segment, encompassing over-the-counter (OTC) pharmaceuticals and peripheral product categories such as functional foods and functional skincare products.

In Japan, people are paying more attention to their health, and there is increasingly widespread belief in the concept of "self-medication" or "taking care of one's own health" rather than always relying on doctors. These trends are expected to intensify, along with the trend of increasingly diverse needs for OTC drugs. To meet those needs, Daiichi Sankyo Healthcare Co., Ltd. (DSHC), is leveraging the breadth and depth of its product lineup as well as the powerful R&D and marketing of a major pharmaceutical company as it continues striving to realize the concept of "total healthcare."

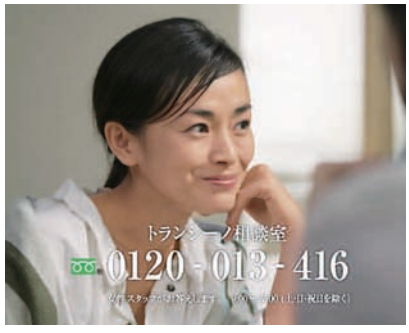
In fiscal 2008, DSHC launched 13 new products, including *Gaster 10 Liquid,* which is Japan's first H_2-receptor blocker liquid formulation stomach medication. Reflecting DSHC's determination to offer a more-convenient formulation, *Gaster 10 Liquid* makes it "easy to drink anywhere and anytime" in response to sudden stomach problems. DSHC recorded ¥47.2 billion in net sales, a 6.2% decrease from fiscal 2007 but a somewhat smaller decline than the year-on-year drop in Japan's OTC market.

DSHC sustained its campaign to promote *Transino*—the first medication in Japan to receive official approval for the indication of skin blemishes caused by melasma—through various measures including pamphlet distribution, the establishment of a telephone consultation service staffed exclusively by women, and others aimed at increasing the awareness of the benefits and administration methods of *Transino.*

Drawing on its exclusive formulation and manufacturing technologies, DSHC was able to develop *Patecs Usupita Shippu*—the thinnest and lightest standard-sized (10cm x 14cm) OTC analgesic poultice available in Japan. In order to quickly maximize sales of this epochal product, the company has launched TV commercials featuring Ryo Ishikawa, a young professional golfer who has attracted huge attention in the sports world as well as in Japanese society at large.

In fiscal 2009, the amendment of Japan's Pharmaceutical Affairs Law is enabling changes in OTC drug marketing methods designed to create a system that is more effective and easier for consumers to understand. Viewing these changes as an opportunity to deepen consumers' understanding of OTC products, DSHC is seeking to further augment its brand power and thereby expand its presence in its existing business segments. DSHC is also proactively moving to develop products—centered on Rx-to-OTC-switch products—that open up new market segments and offer new kinds of efficacy, and is moreover pursuing additional new growth opportunities such as those related to overseas business.

Patecs Usupita Shippu



Transino

Gaster 10 Liquid

GLOSSARY OF TERMS

Term	Explanation
Acute Coronary Syndrome	Acute coronary syndrome (ACS) comprises heart attacks and unstable angina (chest pain). Coronary artery disease occurs when the arteries become narrowed or clogged by cholesterol and fat deposits and cannot supply enough blood to the heart.
Antibody Drugs	"Antibody drugs" is a general appellation for drugs that employ proteins called antibodies, which help control immune responses in the body. Because the activity of antibodies is focused on specific target antigens, antibody drugs are expected to show few of the side effects of conventional drugs and enable high levels of efficacy.
Artist	A product name of an oral agent for treating hypertension and angina as well as chronic heart failure. Generic name: Carvedilol. Marketed in Japan.
AZOR	A product name of an oral antihypertensive agent that contains two different active ingredients in one tablet, namely Amlodipine and Olmesartan. Marketed in the United States by DSI.
Best-in-Class	Drugs that are superior to other existing drugs regarding safety, efficacy, and other characteristics, thereby increasing patient satisfaction with therapy.
Calblock	A product name of an oral antihypertensive agent. Generic name: Azelnidipine. Marketed in Japan.
Cravit	A product name of a new oral quinolone antibacterial agent. Generic name: Levofloxacin. Marketed in Japan and some other Asian countries.
CS-8635	An oral antihypertensive agent under development that is a triple-combination formulation consisting of Olmesartan, Amlodipine, and the diuretic Hydrochlorothiazide.
Denosumab (AMG 162)	A fully human monoclonal antibody that specifically inhibits RANK Ligand, an essential mediator of the cells that break down bone. Phase III trials are being conducted for the indications of osteoporosis and bone metastases.
Edoxaban (DU-176b)	An oral anticoagulant that inhibits blood coagulation factor Xa. Daiichi Sankyo is developing this for the prevention of thrombo-embolic events in patients with atrial fibrillation and for the prevention of venous thromboembolic events.
Effient/Efient	Product names under which Prasugrel is marketed in the United States *(Effient)* and Europe *(Efient).* Prasugrel was initially launched in the United Kingdom in March 2009.
Evista	A product name of an oral agent for treating postmenopausal osteoporosis. Generic name: Raloxifene. Daiichi Sankyo has marketing rights for this agent throughout Europe with the exception of Greece.
First-in-Class	Unique drugs that work via completely new mechanisms and greatly change conventional therapeutic methods. "First-in-class" is used to describe innovative new drugs.
Kremezin	A product name of oral spherical adsorbent carbon granules for treating chronic renal failure. *Kremezin* enables the adsorption in the gastrointestinal tract of uremic toxins, which are then excreted together with stools. It is used to delay the introduction of dialysis treatment. Marketed in Japan.
Life-Cycle Management	Besides increasing a product's added value and thereby helping maximize product value, life-cycle management methods are used to extend product life spans so that products can contribute to medical therapy and corporate profitability over longer periods of time.
Livalo	A product name of an oral antihyperlipidemic agent. Generic name: Pitavastatin. Marketed in Japan.
Loxonin	A product name of an anti-inflammatory antipyretic analgesic agent. Generic name: Loxoprofen. Products in the *Loxonin* line reduce pain and inflammation associated with rheumatoid arthritis, osteoarthritis, post-surgical conditions, external wounds, and tooth extractions as well as reduce fever and pain associated with acute upper respiratory tract inflammation. In addition to oral formulations, the product line includes percutaneous absorption tape and patch formulations.
Mevalotin	A product name of an oral antihyperlipidemic agent. Generic name: Pravastatin. Marketed in Japan and some other Asian and European countries.
Olmesartan	A generic name of an antihypertensive agent categorized as an angiotensin II receptor blocker (ARB). Olmesartan is marketed globally under such brand names as *Olmetec* in Japan and Europe, *Benicar* in the United States, and *Olvance* in India.
Omnipaque	A product name of an injectable contrast agent for X-ray imaging. Generic name: Iohexol. Used for angiography, computed tomography (CT), and other kinds of diagnostic imaging processes. Marketed in Japan.
Percutaneous Coronary Intervention	Percutaneous coronary intervention (PCI) is a procedure that uses catheters to expand arteries rather than employing open chest surgery.
Prasugrel (CS-747)	The generic name of the antiplatelet agent marketed under the names *Effient* and *Efient.* Prasugrel works by inhibiting platelet activation and subsequent aggregation. Antiplatelet agents prevent platelets from clumping or sticking together, which can result in clogged arteries that may lead to myocardial infarction and angina.
Sevikar	A brand name of an oral antihypertensive agent that contains two different active ingredients in one tablet, namely Amlodipine and Olmesartan. Marketed in Europe and other markets.
Statin	"Statin" is the common term for HMG-CoA reductase inhibitors, which are a type of drug that lowers cholesterol levels.
Sunrythm	A product name of an oral antiarrhythmic agent. Generic name: Pilsicainide. Marketed in Japan.
Unmet Medical Needs	Medical needs for which medical treatment is not fully satisfactory and needs related to diseases for which therapy methods have not been fully established.
Urief	A product name of an oral agent for the treatment of dysuria associated with benign prostatic hyperplasia. Generic name: Silodosin. Marketed in Japan.
Venofer	A product name of an injectable agent for treating iron deficiency anemia in both dialysis and non-dialysis chronic kidney disease patients. Marketed in the United States by LPI.
Welchol	A product name of an oral agent for treating hyperlipidemia and type 2 diabetes. Generic name: Colesevelam. Marketed in the United States.

CORPORATE GOVERNANCE AND INTERNAL CONTROL SYSTEM

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 meet social expectations, adhere to global and domestic rules and regulations, and attain high ethical standards.

Corporate Governance

Besides 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 has strengthened its oversight of management and operational execution processes. We strongly emphasize maintaining a corporate governance environment that helps us live up to the expectations and trust of our stakeholders.

Daiichi Sankyo has adopted a corporate auditor system and employs a corporate officer system to realize rapid management processes. The Company clearly separates the roles of its Board of Directors and the president by having the Board of Directors be responsible for the supervision of operational execution and the president for operational execution.

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

■ Operational Execution

The term of office for members of the Board of Directors is set at one year to clarify management responsibility and create an optimal system that can respond swiftly to changes in the business environment. In addition, 4 of the 10 directors are appointed from outside the Group to strengthen oversight of all aspects of operational execution and ensure management transparency.

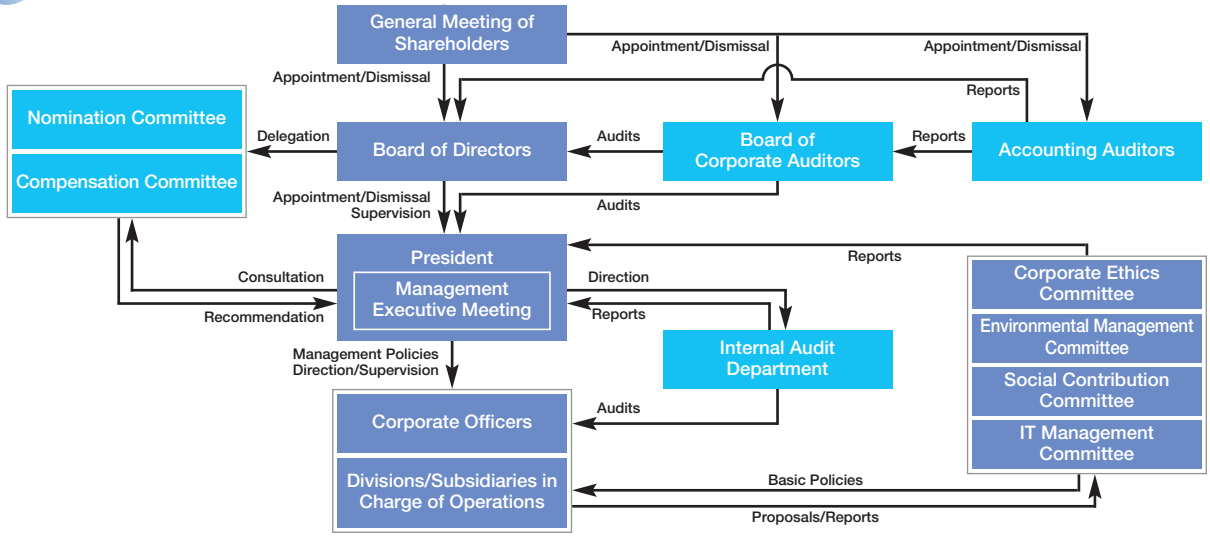
The Board of Directors meets once a month, in principle, to resolve important operational execution matters and supervise the execution of duties by directors. In fiscal 2008, the Board of Directors met 16 times, with the attendance rate for outside directors and outside corporate auditors at 86.4% and 90.6%, respectively. In addition, we are striving to improve the speed and appropriateness of management decisions through discussions on business execution at the Management Executive Meetings, held once a week, in principle.

The Board of Directors appoints corporate officers for a one-year term of office. Corporate officers are responsible for specified operational execution tasks under the control and supervision of the president, and they have a high level of expertise in their relevant operational fields.

■ Auditing

The Company's Board of Corporate Auditors—comprising four corporate auditors, including two outside corporate auditors—audits the legal compliance and soundness of management. In fiscal 2008, the Board of Corporate Auditors met 13 times, and the attendance rate for outside corporate auditors was 96.2%. To contribute to sound

Corporate Governance Structure



and sustainable management, each corporate auditor attends important meetings, including meetings of the Board of Directors and the Management Executive Meetings, and gives opinions at such meetings in accordance with the Corporate Auditor Audit Standards. In addition, each corporate auditor verifies the details of reports received from directors, employees, and others and investigates the state of the operations and property of the Company.

The Internal Audit Department implements internal audits on the compliance system, risk management system, internal control system, and other matters in accordance with the audit plan.

■ Nominations, Compensation, Etc.

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 regarding directors and corporate officers. Outside directors constitute the majority of both committees.

■ Compensation of Directors and Corporate Auditors

The total value of compensation of directors and corporate auditors applicable to fiscal 2008 was ¥632 million, and the breakdown of this figure is as shown in the chart below. With respect to the remuneration of directors and corporate officers, Daiichi Sankyo has introduced a share-remuneration-type stock option program as a means of providing long-term incentives.

Internal Control System

Daiichi Sankyo has developed its internal control system in accordance with the following 11 basic 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 Effective Audits by Corporate Auditors
11. Basic Ideas about and Systems for Eliminating Antisocial Forces

Compliance

Based on the "Daiichi Sankyo Group Corporate Conduct Charter," which provides directors, corporate auditors, and employees with guidance regarding action principles, and after consideration of the special circumstances of each Group company, we have established the "Code of Conduct for Compliance" and other compliance systems. These systems are coordinated as a compliance program by the Company's Compliance Officer, who also chairs the Corporate Ethics Committee (comprised of outside specialists and directors, etc.), a decision-making body for compliance-related matters. In addition, the Company has established the DS-Hotline system to serve as an internal reporting system and is otherwise working to ensure rigorous compliance performance.

Risk Management

Based on its Risk Management Rules, Daiichi Sankyo is promoting autonomous risk management activities by each corporate department and Group unit. Risk management operations center on continuous daily operations by each department and unit aimed at preventing risks before they arise and become apparent. When such risks do become apparent and accidents or other problematic incidents occur, Daiichi Sankyo creates emergency response systems based on its Crisis Management Rules and undertakes crisis management activities aimed at minimizing losses.

Compensation of Directors and Corporate Auditors

(Millions of yen)

	Directors		Corporate Auditors		Total	
	No. of beneficiaries	Payment value	No. of beneficiaries	Payment value	No. of beneficiaries	Payment value
Compensation (annual)	10	424	4	112	14	536
(Portion for outside directors and outside corporate auditors)	(4)	(69)	(2)	(37)	(6)	(106)
Bonuses to directors (excluding outside directors and corporate auditors)	—	—	—	—	—	—
Share-remuneration-type stock option program (excluding outside directors and corporate auditors)	6	96	—	—	6	96
Total	**10**	**520**	**4**	**112**	**14**	**632**
(Portion for outside directors and outside corporate auditors)	**(4)**	**(69)**	**(2)**	**(37)**	**(6)**	**(106)**

Note: Based on consideration of business performance during fiscal 2008 and other factors, the Company has decided not to pay directors' bonuses for the term.

Board of Directors (As of June 26, 2009)

Director
Tsutomu Une

Director
Ryuzo Takada

Director
Hitoshi Matsuda

Director
Takeshi Ogita

Outside Director
Jotaro Yabe

Outside Director
Kunio Nihira

Representative Director and Chairman
Kiyoshi Morita

Representative Director and President & CEO
Takashi Shoda

Outside Director
Yoshifumi Nishikawa

Outside Director
Takashi Okimoto

Outside Directors' Principal Concurrent Employment Positions, Etc., and Reasons for Selection as Directors

Kunio Nihira	President of Japan Traffic Management Technology Association To utilize in the Company's management the expertise and insight concerning law and legal compliance that Mr. Nihira has gained while working for government institutions
Yoshifumi Nishikawa	President of Japan Post Holdings Co., Ltd. To utilize in the Company's management the knowledge and insight concerning financial affairs and corporate management that Mr. Nishikawa has gained based on his long experience at banks, etc.
Jotaro Yabe	(Previously served as Secretary-General of Japan Fair Trade Commission as well as a university professor) To utilize in the Company's management the expertise and insight in laws and enterprises as a whole that Mr. Yabe has gained while working for government institutions and through his experience as a scholar
Takashi Okimoto	Representative Director, Chairman, and Corporate Officer of Orient Corporation To utilize in the Company's management the knowledge and insight concerning financial affairs and corporate management that Mr. Okimoto has gained based on his long experience at banks, etc.

Corporate Officers

Chairman and Corporate Officer	Kiyoshi Morita	
President and CEO, Corporate Officer	Takashi Shoda	
Senior Executive Officer	Ryuzo Takada	Sales & Marketing
Senior Executive Officer	Hitoshi Matsuda	Corporate Business Management
Senior Executive Officer	Tsutomu Une	Corporate Strategy
Senior Executive Officer	Takeshi Ogita	Human Resources / R&D
Executive Officer	Yoshihiko Suzuki	Head of Sales & Marketing Division
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 of Daiichi Sankyo Research Institute
Executive Officer	Kazunori Hirokawa	Head of R&D Division
Executive Officer	Yoshikazu Takano	In charge of CSR and external affairs
Executive Officer	George Nakayama	General Manager of International Business Management Department
Executive Officer	Yuki Sato	Head of Pharmaceutical Technology Division
Corporate Officer	Kyohei Nonose	In charge of Human Resources Department
Corporate Officer	Shinsei Tamai	Deputy Head of Sales & Marketing Division and General Manager, Sales Planning Department
Corporate Officer	Manabu Sakai	General Manager, Corporate Business Management Department
Corporate Officer	Ryouichi Kibushi	General Manager, Tokyo Branch
Corporate Officer	Shuji Handa	General Manager, Corporate Strategy Department
Corporate Officer	Hideyuki Haruyama	General Manager, R&D Planning Department
Corporate Officer	Haruhisa Kubota	General Manager, Pharmacovigilance Department
Corporate Officer	Tomoo Yokoi	In charge of Corporate Finance & Accounting Department
Corporate Officer	Sunao Manabe	General Manager, Global Project Management Department
Corporate Officer	Noriaki Ishida	General Manager, Licensing Department

Auditors

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

CORPORATE SOCIAL RESPONSIBILITY (CSR)

The Daiichi Sankyo Group believes that the optimal way for it to carry out its CSR responsibilities is by executing its corporate mission and thereby increasing its social value, economic value, and humanistic value in a balanced manner. Undertaking corporate activities with emphasis on those three kinds of value contributes to the creation of a sustainable society. In doing this, we are aiming to increase society's trust in the Group and effectively promote our sustained growth and development as a Group whose continued existence is important to society.

Contributing to Society

To contribute to society as a group with expanding global operations, Daiichi Sankyo proactively promotes social contribution activities on the parts of its business units in each country. The Daiichi Sankyo Group Corporate Conduct Charter specifies, "we will carry out corporate activities in compliance with the laws and regulations of each country and region while respecting their various cultures and customs and contributing to their development" and "we will actively engage in social action programs as a 'good corporate citizen'." In accordance with the charter, the Group considers it extremely important to make contributions to the regions and local communities in which it operates.

Specifically, acting as a good corporate citizen of regional society, each Group facility strives to respect the cultures and customs of its region while maintaining rigorous standards of ethics and sound judgment. Based on its region's societal requests and expectations, each facility endeavors to undertake distinctive activities that make a contribution to the region. In addition, through programs to increase employee awareness of societal issues and other activities, we seek to foster a corporate culture that inspires individual employees to make their own autonomous contributions to society.

Daiichi Sankyo is committed to acting as an exemplary corporate citizen that harmoniously coexists with regional societies while contributing to local community prosperity. The Group is seeking to concurrently develop its business operations and social contribution programs.

Japan: Daiichi Sankyo Propharma Co., Ltd., held a Children's Science Classroom event.

U.S.A.: Daiichi Sankyo, Inc., is sponsoring the operational costs of an innovative, eco-friendly mobile medical facility.


Europe: Daiichi Sankyo Italia S.p.A. is supporting an NGO to help construct wells in Africa.


ASCA: Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd., contributed wheelchairs to nursing homes in Shanghai.

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

Environmental Management

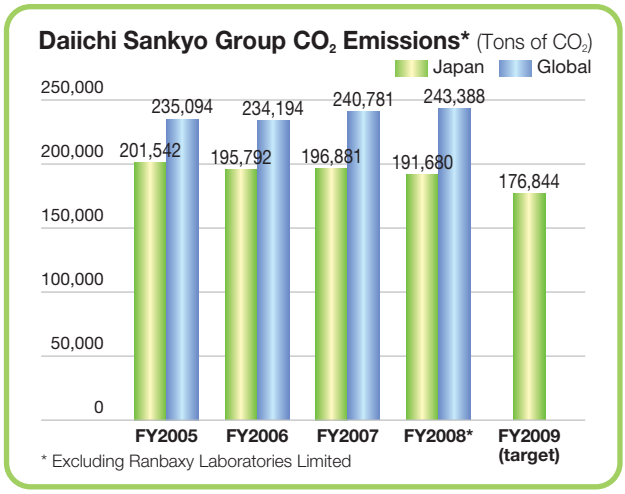
World population growth, economic development in the economies of Brazil, Russia, India, and China (BRICs), and other factors are projected to place an increasingly heavy burden on the global environment in the coming decades. Recognizing that all companies have a responsibility to exercise due consideration for the global environment, Daiichi Sankyo maintains rigorous compliance with all environmental protection laws and regulations and proactively undertakes autonomous initiatives aimed at helping protect and improve the natural environment.

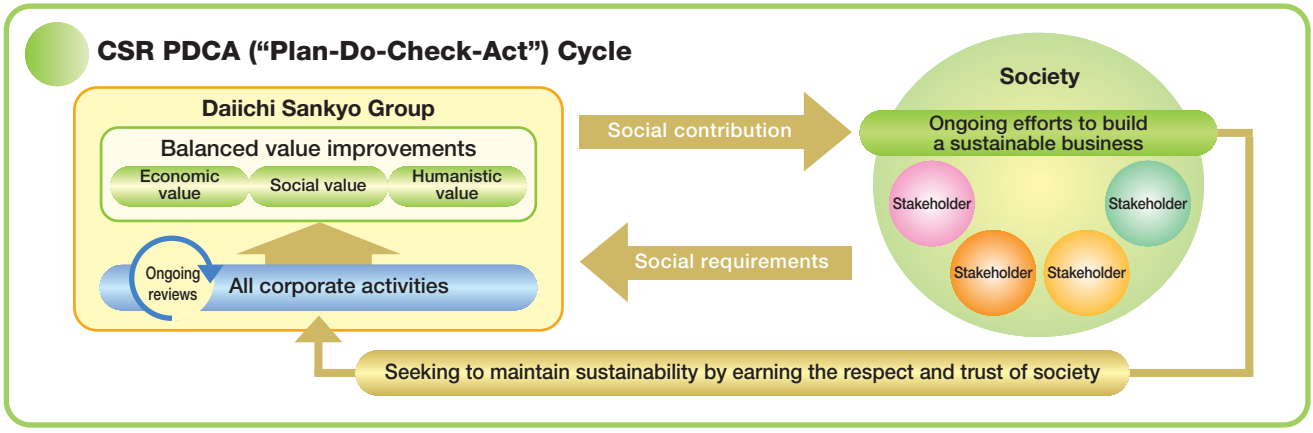
Within the Daiichi Sankyo Group, the executive officer responsible for CSR acts as the Group's chief executive for environmental management, appointing environmental management officers and creating unified systems for promoting environmental management throughout the Group as well as systems for individual environmental management categories tailored to the special characteristics of regional societies and the Group's different operations. The unit for each environmental management category drafts and implements an environmental policy. In this way, the entire Group undertakes activities to increase its resource and energy efficiency and reduce the amount of waste it generates. In addition, systems have been established for executing appropriate and rapid countermeasures in cases where there is a possibility of the Group's operations having a negative impact on the environment. In fiscal 2009, the Group implemented the following environmental management policies:

1. Promote the prevention of global warming
- Reduce CO_2 emissions associated with all operations in Japan and overseas and contribute to the prevention of global warming

2. Promote measures to create a recycling-oriented society
- Ensure rigorous compliance regarding waste product management
- Promote the "three Rs" (reduce, reuse, and recycle), reduce the share of waste products ultimately disposed of in landfills, and contribute to the creation of a recycling-oriented society

An environmental education lecture





Consolidated Financial Summary

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007 (Fiscal years 2008, 2007 and 2006)

	Millions of yen			Thousands of U.S. dollars*
	2009	2008	2007	2009
Operating Results:				
Net sales	¥ 842,147	¥ 880,120	¥ 929,507	$ 8,593,337
Cost of sales	214,397	234,571	265,201	2,187,724
Selling, general and administrative expenses (excluding R&D expenses)	354,340	325,250	357,330	3,615,715
Research and development expenses	184,539	163,472	170,662	1,883,051
R&D expenses to net sales (%)	21.9	18.6	18.4	21.9
Operating income	88,871	156,827	136,314	906,847
Interest expense	1,917	128	252	19,561
Income (loss) before income taxes and minority interests	(308,263)	166,856	126,913	(3,145,541)
Net income (loss)	(215,499)	97,660	78,550	(2,198,969)
Financial Position:				
Total current assets	783,507	926,524	1,015,841	7,994,969
Net property, plant and equipment	250,114	221,266	248,857	2,552,184
Total assets	1,494,600	1,487,889	1,636,835	15,251,020
Total current liabilities	508,536	194,514	281,510	5,189,143
Total long-term liabilities	97,447	48,862	83,177	994,357
Total net assets	888,617	1,244,513	1,272,148	9,067,520
Financial Indicators:				
Pre-tax profit margin (Ratio of net income before income taxes and minority interests to net sales) (%)	—	19.0	13.7	—
Net profit margin (Ratio of net income to net sales) (%)	—	11.1	8.5	—
Net income (loss) per share of common stock (yen and U.S. dollars)	(304.22)	135.35	107.75	(3.10)
Dividends paid per share (yen and U.S. dollars)	80.00	70.00	60.00	0.82
Return on shareholders' equity (%)	(20.5)	7.8	6.3	(20.5)
Equity ratio (%)	57.7	83.6	77.5	57.7
Dividends to net assets	5.4	4.0	3.5	5.4
Capital expenditures	19,644	21,044	31,535	200,449
Number of employees	28,895	15,349	15,358	28,895

* The U.S. dollar amounts represent translations of Japanese yen, solely for convenience, at the rate of ¥98=US$1.00, the approximate exchange rate prevailing on March 31, 2009.

Operating Results and Financial Analysis

The State of the Daiichi Sankyo Group

The Daiichi Sankyo Group ("the Group") consists of 107 companies, including Daiichi Sankyo Co., Ltd., and its 100 subsidiaries and six affiliates. The Group's principal activity is the manufacture and sales of pharmaceuticals and related products.

Overview of Business Results

Conditions in the global pharmaceutical market continued to be harsh during the fiscal year ended March 31, 2009 (fiscal 2008). Growth in the market for patent-protected pharmaceuticals was slowed by the recent economic crisis and such factors as government efforts to restrain medical expenditures and increase the strictness of regulatory approval standards, while the market share of generic products expanded further in industrialized countries.

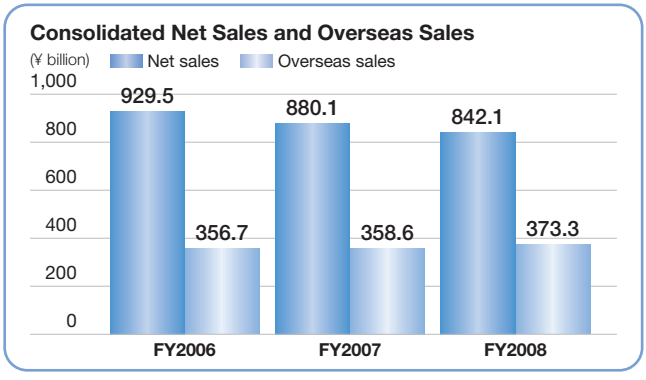
Amid these business conditions, the Group recorded consolidated net sales of ¥842.1 billion in fiscal 2008, down 4.3% from the level in fiscal 2007. While the consolidation of Ranbaxy Laboratories Limited as a subsidiary during the year under review contributed to net sales, this was more than offset by such factors as the impact of currency exchange rate fluctuations as well as the adjustment of the fiscal year-end of European subsidiaries, which caused fiscal 2007 sales to be supplemented with ¥14.1 billion of sales generated in January through March of 2007.

Regarding fiscal 2008 profitability, operating income dropped 43.3%, to ¥88.9 billion. In addition to the decrease in net sales, this decrease reflected such factors as moves to strengthen marketing bases and increase advertising and promotional expenses ahead of new product launches in the United States and Europe as well as to expand R&D investment. Furthermore, because of the fiscal year-end adjustment mentioned above, fiscal 2007 results included an extra three months of earnings from European subsidiaries, which had the effect of increasing operating income by ¥1.9 billion and net income by ¥2.0 billion.

Because of the ¥351.3 billion amortization of goodwill (one-time amortization) associated with the investment in Ranbaxy, the Group posted a net loss of ¥215.5 billion, compared with net income of ¥97.7 billion in the previous year.

Sales

Fiscal 2008 net sales amounted to ¥842.1 billion, down ¥38.0 billion, or 4.3%, from the fiscal 2007 level. However, in real terms—after adjusting for such exceptional factors in fiscal 2007 as the spin-off of non-pharmaceutical businesses and the adjustment of certain overseas subsidiaries' fiscal year periods—sales increased by ¥8.2 billion, or 1.0%. Although decreases were seen in sales of such products as the antihyperlipidemic agent Pravastatin and the synthetic antibacterial agent Levofloxacin following the expiration of patents in major countries, considerable increases were achieved in domestic and overseas sales of the antihypertensive drug Olmesartan (marketed as *Olmetec* in Japan and Europe and as *Benicar* in the United States), while sustained expansion was maintained in sales of such products as the osteoporosis medication *Evista* and *Loxonin* brand anti-inflammatory antipyretic analgesics.

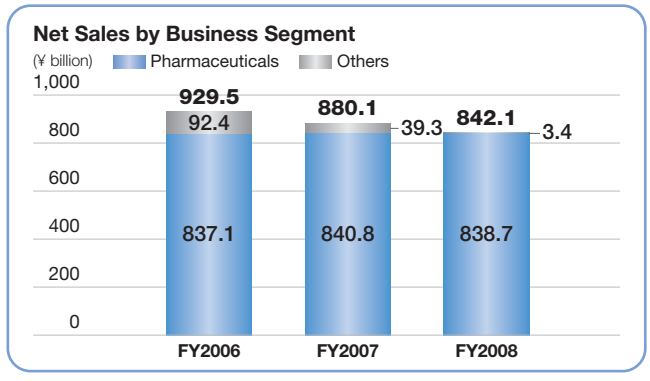


Sales of Key Products (¥ billion)

	FY2006	FY2007	FY2008
Global			
Olmesartan (antihypertensive)	160.3	195.6	**211.1**
Levofloxacin (synthetic antibacterial agent)	104.1	108.7	**97.7**
Pravastatin (antihyperlipidemic agent)	93.5	76.5	**60.8**
Japan			
Artist (antihypertensive)	19.3	21.1	**21.9**
Loxonin (anti-inflammatory analgesic)	30.9	33.6	**38.7**
Omnipaque (contrast agent)	31.5	31.2	**28.3**
U.S.			
Venofer (treatment for iron deficiency anemia)	37.7	31.1	**32.0**
Welchol (antihyperlipidemic agent/ treatment for diabetes)	23.2	22.7	**24.5**

Sales by Business Segment

The Group's business operations fall into the Pharmaceuticals segment and the Other segment. In the Pharmaceuticals segment—comprising the prescription drug business and the healthcare (OTC) business—the Group manufactures and markets prescription drugs, OTC drugs, and quasidrugs (a Japanese classification for regulated, non-prescription drugs). The Other segment encompasses real estate-related and other businesses. Because the Pharmaceuticals segment accounted for more than 90% of total net sales in fiscal 2008, business segment information has been omitted from this report.



Sales by Geographical Segment

Sales by geographical segment, as described as follows, represent sales to outside customers. Because the geographical segments have been redefined since the previous fiscal year, figures for the previous fiscal year have been recalculated based on the new segment definitions to facilitate year-on-year comparisons.

■ Japan

Fiscal 2008 net sales in Japan amounted to ¥529.8 billion, down ¥68.4 billion, or 11.4%, from fiscal 2007.

Sales of prescription drugs totaled ¥416.7 billion, down 4.7%. The rates of sales growth for such products as the antihypertensive agents *Olmetec* and *Calblock,* the dysuria medication *Urief,* and *Loxonin* brand anti-inflammatory analgesics exceeded the growth rates of relevant market segments. However, the benefits of this were more than offset by such factors as the transfer of marketing operations for certain in-licensed products and the impact of the revision of National Health Insurance (NHI) reimbursement prices, as well as by declines in sales of such products as the antihyperlipidemic agent *Mevalotin* and the synthetic antibacterial agent *Cravit.*

Sales associated with royalty income and exports to overseas licensees decreased 19.3%, to ¥60.9 billion, reflecting the impact of yen appreciation and decreased exports of the synthetic antibacterial agent Levofloxacin.

In the healthcare (OTC) business, sales were negatively affected by the sluggishness of consumer spending, which restrained growth in sales of the melasma skin blemish amelioration agent *Transino.* Consequently, net sales of healthcare products declined 6.2%, to ¥47.2 billion.

■ North America

Fiscal 2008 net sales in North America increased ¥12.9 billion, or 7.2%, from the fiscal 2007 level, to ¥190.8 billion.

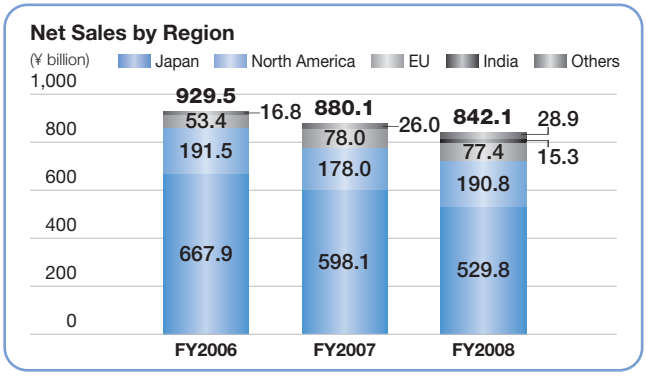
Despite the negative impact of yen appreciation, higher net sales in yen terms were achieved due to continued growth in local currency net sales of such products as the antihypertensive agents *Benicar* and *AZOR;* the antihyperlipidemic agent *Welchol,* which has been approved for the additional indication of type 2 diabetes; and the anemia treatment *Venofer.*

■ Europe

Net sales in Europe edged down ¥0.5 billion, or 0.7%, from the previous year, to ¥77.4 billion, owing to factors that included the impact from adjusting the fiscal year periods of certain subsidiaries. In real terms, excluding the effect of that adjustment, however, net sales surged 21.3% due to contributions from antihypertensive agents *Olmetec* and *Sevikar* and the osteoporosis treatment *Evista.*

■ India and Other Regions

Net sales in India and other regions totaled ¥44.1 billion, up ¥18.1 billion, or 69.4%, from the previous year. Sales of newly consolidated subsidiary Ranbaxy contributed ¥21.2 billion in fiscal 2008. In real terms—excluding the Ranbaxy contribution and the effects of exceptional factors associated with the spin-off of non-pharmaceutical businesses—net sales rose 9.5% due largely to growth in sales of the antihypertensive agent Olmesartan and the synthetic antibacterial agent Levofloxacin.



Gross Profit on Sales

Gross profit on sales declined by ¥17.8 billion, or 2.8%, to ¥627.8 billion. The gross profit on sales ratio improved by 1.2 percentage points, to 74.5%.

■ Cost of Sales

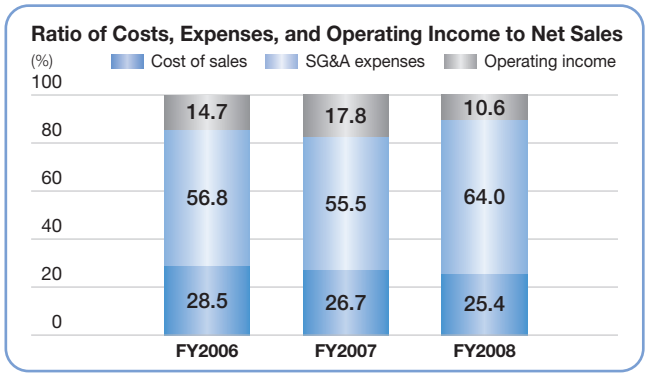
Cost of sales fell ¥20.2 billion, or 8.6%, to ¥214.4 billion. However, in real terms—excluding the effects of exceptional factors associated with the spin-off of non-pharmaceutical businesses and adjustment of subsidiaries' fiscal year periods—cost of sales increased ¥11.4 billion, or 5.6%. The Group continued to implement measures to reduce cost of sales during fiscal 2008.

Operating Income

Operating income decreased ¥68.0 billion, or 43.3%, to ¥88.9 billion, and the operating income ratio was 10.6%.

■ Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses rose ¥50.2 billion, or 10.3%, to ¥538.9 billion, due to such factors as an accounting method change in fiscal 2007 stemming from a revision of retirement benefits and pension policies, moves to strengthen marketing systems and increase advertising and promotional expenses ahead of new product launches in the United States and Europe, and the expansion of R&D investment.



Other Income (Expenses)

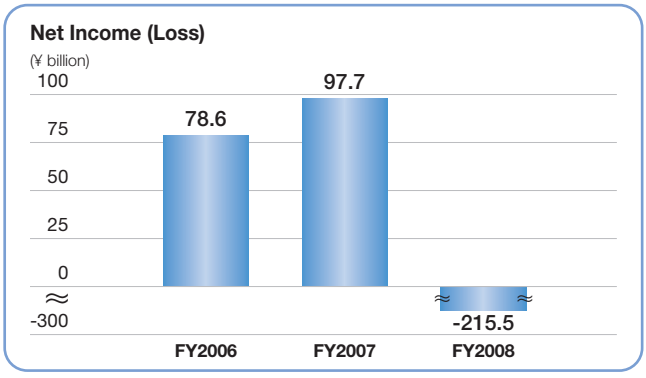
Other income (expenses) deteriorated by ¥407.2 billion. This reflected a ¥19.8 billion deterioration in derivative loss, from ¥0.7 billion in fiscal 2007, and an ¥18.0 billion deterioration in foreign exchange loss, from a foreign exchange gain of ¥0.5 billion in fiscal 2007, as well as a ¥351.3 billion write-down of goodwill associated with the investment in Ranbaxy.

Income (Loss) before Income Taxes and Minority Interests

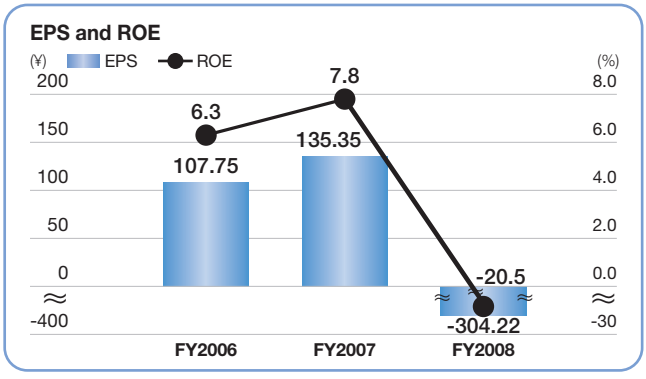
Loss before income taxes and minority interests amounted to ¥308.3 billion, a ¥475.1 billion change from the ¥166.9 billion of net income recorded for fiscal 2007.

Net Income (Loss)

Net loss for fiscal 2008 amounted to ¥215.5 billion, a ¥313.2 billion change from the ¥97.7 billion of net income recorded for fiscal 2007.



Consequently, net income (loss) per share (EPS) was a loss of ¥304.22, compared with net income of ¥135.35 in fiscal 2007. Return on equity (ROE) decreased by 28.3 percentage points, to -20.5%.



■ Income Taxes

The net value of current and deferred income taxes amounted to negative ¥79.2 billion.

Dividends

The Company considers the distribution of profits generated by Group businesses to be a top management priority. Made with emphasis on keeping returns commensurate with performance and increasing capital efficiency, profit distribution decisions are based on a comprehensive assessment of those factors together with such factors as the need to accumulate retained earnings to fund strategic business development measures going forward. The Company has set itself the policy goal of allocating a sum equivalent to all net income earned in the three-year period from fiscal 2007 through fiscal 2009 to dividend payments and share buybacks.

The Company has a basic policy objective of paying dividends from retained earnings twice each year in the form of interim and year-end dividends. 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.

In line with its profit distribution policies, the Company purchased 15 million shares in treasury stock for a total of ¥45.7 billion during fiscal 2008. Regarding dividends applicable to the year, although the Company posted a net loss of ¥215.5 billion after the amortization of goodwill (one-time amortization) associated with the investment in Ranbaxy, the Company paid a dividend of ¥80 per share (including an interim dividend of ¥40 per share), an increase of ¥10 from the fiscal 2007 level.

Plans call for using undistributed retained earnings primarily to fund investments for promoting future corporate growth, including moves to strengthen R&D, augment strategic collaboration, and reinforce the Group's overseas business base.

The Company's Articles of Incorporation specify that interim dividends may be paid with a basis date of September 30.

R&D Activities

The Group has designated four emphasized disease domains—thrombotic disorders, malignant neoplasm, diabetes mellitus, and autoimmune diseases/rheumatoid arthritis diseases—and plans to give priority to the investment of management resources in these domains going forward. The Group has established solid franchises in the domains of hypertension, hyperlipidemia/atherosclerosis, and bacterial infections, and is proactively employing product life-cycle management to maintain and expand revenues from mainstay products.

The antiplatelet agent Prasugrel (*Efient* in Europe/*Effient* in the United States) was granted marketing authorization by the European Commission for the treatment of patients with acute coronary syndromes (ACS) undergoing percutaneous coronary intervention (PCI), and this product has already been launched in the United Kingdom and Germany. The drug was also recommended for approval at the February 2009 session of the FDA advisory committee in the United States.* Phase III clinical trials to obtain approval for the additional indication of ACS patients not undergoing PCI commenced in June 2008.

Phase III clinical trials of the oral factor-Xa inhibitor Edoxaban (DU-176b) for the indication of preventing venous thromboembolism in patients with atrial fibrillation have been proceeding since November 2008 in 46 countries.

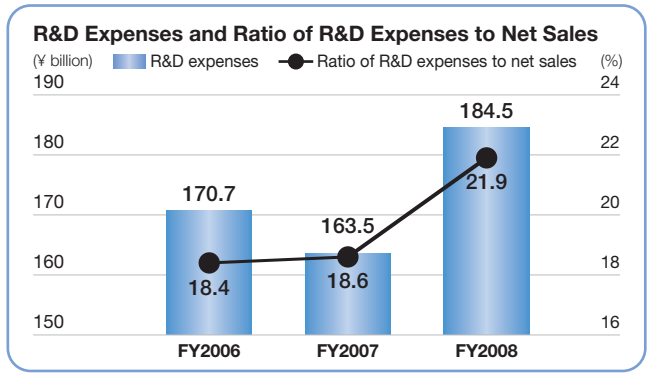
Phase III clinical trials of the anti-RANKL antibody inhibitor Denosumab are under way in Japan for the indication of osteoporosis. A multinational Phase III clinical trial program is also in progress to study the drug's effects on bone metastases of cancer.

In June 2008, as part of efforts to strengthen its presence in the oncology domain, the Group acquired all the shares of German biotech firm U3 Pharma AG (now U3 Pharma GmbH). U3 Pharma's anti-HER-3 antibody U3-1287 is currently undergoing Phase I clinical trials. Moreover, in December 2008, the Group concluded an R&D alliance with U.S.-based ArQule, Inc. That firm's lead compound ARQ 197, an agent for inhibiting malignant tumors, is currently undergoing Phase II clinical trials.

In Japan, Phase III clinical trials of the anti-influenza drug CS-8958 were completed, and plans call for submitting an application for approval during fiscal 2009.

Fiscal 2008 consolidated R&D expenses amounted to ¥184.5 billion, up 12.9% from fiscal 2007.

* Prasugrel was approved by the FDA on July 10, 2009 (U.S. time).

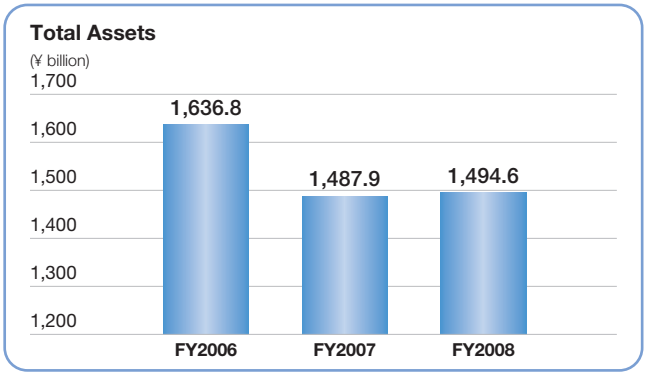


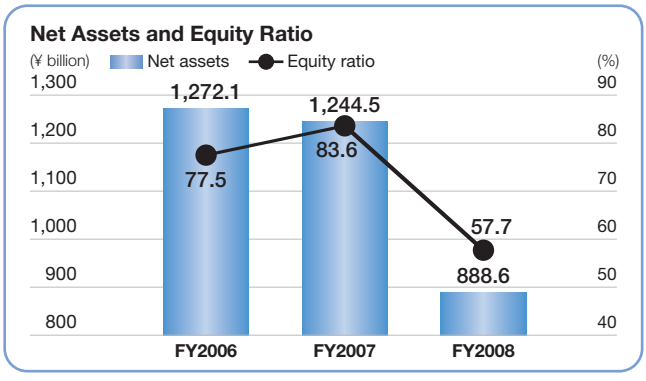
Financial Position

At March 31, 2009, total assets amounted to ¥1,494.6 billion, up ¥6.7 billion from the previous fiscal year-end. Within total assets, current assets were down ¥143.0 billion, or 15.4%, to ¥783.5 billion, while fixed assets were up ¥149.7 billion, or 26.7%, to ¥711.1 billion. Liquidity on hand was decreased in connection with the acquisition of Ranbaxy, but assets owned by Ranbaxy and goodwill of Ranbaxy and U3 Pharma were newly included in total assets.

Current liabilities rose ¥314.0 billion, or 161.4%, to ¥508.5 billion, while long-term liabilities grew ¥48.6 billion, or 99.4%, to ¥97.4 billion. In response to the assumption of Ranbaxy's liabilities and to provide a portion of the cost of acquiring shares in Ranbaxy, the Company obtained ¥240.0 billion in short-term loans from financial institutions.

Net assets at March 31, 2009, amounted to ¥888.6 billion, down ¥355.9 billion, or 28.6%, from the previous fiscal year-end. Net assets per share were ¥1,226.0, down ¥504.1. The decrease in net assets reflected the amortization of Ranbaxy-related goodwill and the share repurchases and dividend payments the Company made in line with its policy regarding shareholder returns. It also reflected write-downs and translation losses associated with the weakening of stock prices against the backdrop of global financial instability and with the trend of yen appreciation. As a result, return on equity (ROE) was -20.5%.





Cash Flows

■ Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥78.4 billion, an increase of ¥11.7 billion compared with fiscal 2007. The ¥308.3 billion loss before income taxes and minority interests represented a decrease of ¥475.1 billion compared with ¥166.9 billion of income before income taxes and minority interests in the previous year, and this was only partly offset on a cash basis by the non-cash item ¥371.8 billion write-down of goodwill. As a result, operating cash inflow was also down on a cash basis, but this was offset by the reduction of retirement benefit expenses in connection with workforce rightsizing and personnel transfers to functional subsidiaries.

■ Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥413.9 billion, an increase of ¥364.4 billion compared with fiscal 2007. This reflected the use of ¥411.3 billion of cash for the acquisition of shares in U3 Pharma and Ranbaxy. Other factors included a ¥22.2 billion decrease in revenue from the sale of shares in subsidiaries in connection with the spin-off of non-pharmaceutical businesses.

■ Cash Flows from Financing Activities

Net cash provided by financing activities amounted to ¥98.1 billion, compared with an outflow of ¥82.9 billion in the previous year. This reflected a ¥196.2 billion net increase in short-term borrowings associated with the acquisition of Ranbaxy shares and other objectives, which was partially offset by ¥53.3 billion in dividends paid and ¥45.8 billion in purchases of treasury stock.

Consequently, cash and cash equivalents at March 31, 2009, amounted to ¥177.8 billion, down ¥266.6 billion from the previous fiscal year-end.

Cash Flow Highlights (¥ billion)

	FY2006	FY2007	FY2008
Net cash provided by operating activities	106.4	66.7	78.4
Net cash provided by (used in) investing activities	45.3	(49.4)	(413.9)
Net cash provided by (used in) financing activities	(40.8)	(82.9)	98.1
Effect of exchange rate changes on cash and cash equivalents	0.4	(4.7)	(29.1)
Net increase (decrease) in cash and cash equivalents	111.4	(70.4)	(266.5)
Cash and cash equivalents, at end of year	513.2	444.3	177.8

Outlook for Fiscal 2009*

During fiscal 2009, although it is not anticipated that Japan's NHI drug reimbursement prices will be revised, the Group expects that the harshness of the global market environment will persist due to the slow growth of the patent-protected-pharmaceutical market against the backdrop of the moves by governments throughout the world to restrain medical spending along with the global economic crisis.

Amid this external environment, the Group projects that its net sales will reach ¥960 billion, up 14.0% from the fiscal 2008 level. This reflects the Group's expectation of factors that included sustained growth in sales of Olmesartan and additional growth in sales of other current mainstay products; a contribution from the newly launched Prasugrel; and a contribution from a full year of sales by Ranbaxy, which has been included within the scope of consolidation since the fourth quarter of fiscal 2008.

This forecast is based on the assumption of average exchange rates of ¥95 against the U.S. dollar and ¥120 against the euro. As a result of this assumption, projected sales were reduced by approximately ¥32.0 billion compared with the level that would be projected based on the assumption that average rates during fiscal 2008 would continue through fiscal 2009.

The Group anticipates that fiscal 2009 profitability will be negatively affected by such factors as a rise in advertising and promotional expenses associated with the launch of Prasugrel and an increase in R&D expenses in connection with the progress of major development projects. However, it is projected that these factors will be more than offset by such positive factors as the increase in net sales and augmented efforts to improve the Group's profit structure. Consequently, the Group is forecasting that it will record operating income of ¥96.0 billion, up 8.0%.

While a net loss of ¥215.5 billion was recorded for fiscal 2008 owing to the amortization of goodwill (one-time amortization) associated with the investment in Ranbaxy, the Group projects that it will generate ¥40.0 billion in net income during fiscal 2009.

* As of June 26, 2009

Factors that Could Have a Major Impact on Business Performance

Forward-looking statements express the Company's judgement as of June 26, 2009.

1. Trends in Sales of Important Products

The Group has positioned the antihypertensive drug Olmesartan as a global strategic product, and it is seeking to increase global sales of this product to ¥200 billion or more during fiscal 2009. The Group has marketed this product in Europe and North America since fiscal 2002 and in Japan since May 2004, and it is thought that sales trends for this product will have a major impact on the business performance of the Group.

2. Trends in R&D Activities and Licensing Activities

Aiming to continuously launch new products and increase sales, the Group is moving forward with global R&D activities and licensing activities, and it is currently placing expectations on such global development products as the antiplatelet agent Prasugrel and the oral factor-Xa inhibitor Edoxaban (DU-176b). Of these, the antiplatelet agent *Efient* has been approved for marketing in the EU for the treatment of patients with acute coronary syndromes (ACS) undergoing percutaneous coronary intervention (PCI), is already being marketed in the United Kingdom and Germany, and was recommended for approval at the February 2009 session of the FDA advisory committee in the United States, but it is possible that trends in the decisions of regulatory bodies may have an impact on future business results regarding this product. Regarding the oral factor-Xa inhibitor Edoxaban (DU-176b) and other global development products, these products will require the investment of considerable funds before they can be marketed. The Group is endeavoring to engage in efficient R&D investments based on due consideration of revenue trends and other factors, but if the amount of investment required exceeds projected amounts, it could have an impact on business performance. In addition, if drug candidates do not demonstrate the expected effects in the course of clinical trials or if there remain doubts concerning the drug candidates' safety, then the development periods may be extended or the development may be interrupted or cancelled, and there is a possibility that such eventualities could have a major effect on business performance.

3. Trends in the Drug Pricing Systems of Japan and Other Countries

Japan, the United States, the EU, and other countries and markets have established pricing standards or official prices for drug products, and the governments of these entities engage in the regulation and protection of these prices and standards. However, there is a possibility that changes in these regulatory or protection systems could have a major effect on business performance.

4. Trends in Ranbaxy's Business Operations

The inclusion of Ranbaxy in the Group represents a step forward in utilizing a hybrid business model to realize the goal of becoming a "**Global Pharma Innovator**," and Ranbaxy is expected to play an important role in the Group's business strategy.

However, the synergies anticipated by the Company from the acquisition of shares in Ranbaxy could fail to be realized if obstacles arise preventing the full implementation of Ranbaxy's original business plans due to changes in the operating environment or the competitive status of Ranbaxy, its relations with drug approval regulatory authorities worldwide, or its legal and regulatory compliance status in these countries. In such a case, there is a possibility that the situation could have an impact on the Group's business plans and performance.

In September 2008, the U.S. FDA issued a warning letter that Ranbaxy's production facilities in India at Paonta Sahib and Dewas were in violation of U.S. current good manufacturing practices and placed a ban on the importation of any products for the U.S. market from these two facilities. In February 2009, the FDA invoked its Application Integrity Policy (AIP) against the Paonta Sahib facility. An AIP is invoked when questions arise concerning the integrity and reliability of data in drug applications, and it requires the facility where the relevant data was obtained to re-apply for approval or to withdraw the application.

These regulatory actions could exert a significantly adverse impact on the Group. Under the direction of top management, the Company has established a joint task force comprising management of Ranbaxy and outside experts to take all steps necessary to resolve these issues.

Currently, the task force is cooperating fully with the FDA to resolve these issues with the assistance of Company representatives. Every effort is being made to take the appropriate corrective measures.

■ Business Risks

The following section provides an overview of the principal risks that could negatively affect the business results and financial condition of the Group. Any forward-looking statements or projections contained in this overview represent the best judgment of management as of the end of the fiscal year ended March 31, 2009.

1) 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. Even if good results are obtained in clinical trials, changes to the regulatory approval criteria during development may result in failure to gain drug approval. In addition, any changes in the terms of agreements related to R&D-related alliances with third parties, or the cancellation thereof, can also adversely affect the outcomes of R&D programs.

2) 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 an adverse effect on the Group's business results and financial position.

3) 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 or the introduction of competing products within the same therapeutic area, could negatively affect 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 also have a material impact on the Group's business results and financial position. In addition, due to ongoing growth in the use of generic products in developed country markets, the launch of any new product may not generate sales and profits commensurate with the investment in its research and development.

4) 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 system and national health insurance, most notably the NHI price revisions, could have a negative impact on the Group's business results and financial position. Similarly, sales of prescription drugs in overseas markets are also subject to various legal and regulatory constraints; the Group's performance in these markets could be adversely affected by regulatory trends.

5) 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 third 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. In particular, due to the increasing use of generic products in developed countries, lawsuits and other challenges to Group-owned intellectual property could increase in prevalence.

6) 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. Any judgment that Group operations pose a risk of serious environmental impact in terms of soil contamination, air pollution, or water pollution could adversely affect the Group's business results and financial position.

7) 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 an adverse effect on the Group's business results and financial position.

8) Financial Markets and Currency Fluctuation Risk

Falls in share prices could lead to write-downs or losses on disposal related to stocks owned by the Group. The Group's retirement benefit expenses could increase depending on trends in interest rates. In addition, fluctuations in foreign currency exchange rates could have 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.

In particular, Ranbaxy is significantly exposed to exchange rate movements between the Indian rupee and the U.S. dollar, which could exert a negative effect on the value of earnings derived from Ranbaxy's business and fund management operations.

9) Risks Related to Operations of Ranbaxy

The entry of Ranbaxy into the Group represents the hybrid business model as part of ongoing efforts to become a "**Global Pharma Innovator**." The investment in Ranbaxy is expected to play an important role in the Group's business strategy.

At the moment, however, Ranbaxy faces restrictions imposed by the U.S. FDA on two of its plants in India, for not complying with FDA standards related to manufacturing management and quality management systems. If the resolution of this issue were to become protracted or the FDA imposed additional restrictions on Ranbaxy, this could have a severe impact on Ranbaxy's business prospects in the U.S. market over the medium and long terms. In turn, this could have a negative impact on the Group's business results and financial position.

Moreover, the synergies anticipated by the Company from the acquisition of shares in Ranbaxy could fail to be realized if obstacles arise preventing the full implementation of Ranbaxy's original business plans due to changes in the operating environment or the competitive status of Ranbaxy, its relations with drug approval regulatory authorities worldwide, or its legal and regulatory compliance status in these countries.

10) Other Risks

Other risks besides those noted above that could have a negative impact on the Group's business results and financial position include the suspension of its business activities due to a major earthquake or other large-scale natural disaster, or to disruption caused by conflict or terrorism; the interruption of the Group's computer systems due to a network-mediated virus or other causes; unauthorized disclosures of confidential information; illegal or improper action by officers and employees; and changes in stock prices and interest rates, or other risks related to funding procurement.

Consolidated Balance Sheets

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
March 31, 2009 and 2008

ASSETS	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2009
Current Assets:			
Cash and time deposits (Note 3)	**¥ 76,551**	¥ 47,335	**$ 781,133**
Marketable securities (Notes 3 and 4)	**235,476**	526,805	**2,402,816**
Trade notes and accounts receivable, net of allowance of ¥1,018 million ($10,388 thousand) and ¥293 million in 2009 and 2008, respectively	**194,495**	166,687	**1,984,643**
Inventories (Note 5)	**139,475**	98,158	**1,423,214**
Deferred tax assets (Note 9)	**76,748**	52,678	**783,143**
Other current assets	**60,762**	34,861	**620,020**
Total current assets	**783,507**	926,524	**7,994,969**
Property, Plant and Equipment (Notes 6 and 10):			
Land	**42,358**	33,117	**432,224**
Buildings and structures	**321,905**	315,626	**3,284,745**
Machinery, equipment and vehicles	**367,952**	324,423	**3,754,612**
Other	**1,521**	—	**15,521**
Construction in progress	**13,316**	2,938	**135,878**
	747,052	676,104	**7,622,980**
Accumulated depreciation	**(496,938)**	(454,838)	**(5,070,796)**
Net property, plant and equipment	**250,114**	221,266	**2,552,184**
Investments and Other Assets (Notes 6 and 14):			
Investment securities (Note 4)	**153,728**	216,039	**1,568,653**
Long-term loans receivable, net of allowance of ¥309 million ($3,153 thousand) and ¥352 million in 2009 and 2008, respectively	**305**	953	**3,112**
Deferred tax assets (Note 9)	**91,601**	5,995	**934,704**
Other	**215,345**	117,112	**2,197,398**
Total investments and other assets	**460,979**	340,099	**4,703,867**
Total assets	**¥1,494,600**	¥1,487,889	**$15,251,020**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2009	Millions of yen 2008	Thousands of U.S. dollars (Note 1) 2009
Current Liabilities:			
Short-term bank loans (Note 7)	**¥ 261,114**	¥ 64	**$ 2,664,429**
Long-term debt due within one year (Note 7)	**3,232**	5	**32,980**
Trade notes and accounts payable	**95,440**	83,185	**973,878**
Income taxes payable (Note 9)	**8,243**	18,682	**84,112**
Accrued expenses	**70,713**	60,936	**721,561**
Other current liabilities (Notes 9 and 11)	**69,794**	31,642	**712,183**
Total current liabilities	**508,536**	194,514	**5,189,143**
Long-Term Liabilities:			
Convertible bond-type bonds with subscription rights to shares (Note 8)	**47,083**	—	**480,439**
Long-term debt (Note 7)	**15,853**	18	**161,765**
Accrued employees' severance and retirement benefits (Note 11)	**10,589**	6,781	**108,051**
Accrued directors' severance and retirement benefits	**178**	115	**1,816**
Deferred tax liabilities (Note 9)	**5,428**	26,725	**55,388**
Other long-term liabilities (Note 11)	**18,316**	15,223	**186,898**
Total long-term liabilities	**97,447**	48,862	**994,357**
Total liabilities	**605,983**	243,376	**6,183,500**
Commitments and Contingencies (Note 13)			
Net Assets (Note 12):			
Common stock:			
Authorized—2,800,000,000 shares in 2009 and 2008			
Issued—709,011,343 shares in 2009			
—735,011,343 shares in 2008	**50,000**	50,000	**510,204**
Capital surplus	**105,194**	179,863	**1,073,408**
Retained earnings	**753,821**	1,025,145	**7,692,051**
Treasury stock, at cost	**(14,556)**	(43,407)	**(148,530)**
Subtotal	**894,459**	1,211,601	**9,127,133**
Net unrealized gain on investment securities	**19,883**	48,540	**202,888**
Deferred gains or losses on hedges	**77**	—	**785**
Foreign currency translation adjustments	**(51,368)**	(16,264)	**(524,163)**
Subscription rights to shares (Note 17)	**2,390**	258	**24,387**
Minority interests	**23,176**	378	**236,490**
Total net assets	**888,617**	1,244,513	**9,067,520**
Total liabilities and net assets	**¥1,494,600**	¥1,487,889	**$15,251,020**

Consolidated Statements of Operations

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Net Sales (Note 15)	**¥ 842,147**	¥880,120	¥929,507	**$ 8,593,337**
Costs and Expenses (Note 15):				
Cost of sales	**214,397**	234,571	265,201	**2,187,724**
Selling, general and administrative expenses	**354,340**	325,250	357,330	**3,615,715**
Research and development expenses	**184,539**	163,472	170,662	**1,883,051**
	753,276	723,293	793,193	**7,686,490**
Operating Income (Note 15)	**88,871**	156,827	136,314	**906,847**
Other Income (Expenses):				
Interest and dividend income	**9,475**	11,863	11,273	**96,684**
Interest expense	**(1,917)**	(128)	(252)	**(19,561)**
Derivative gain (loss)	**(20,501)**	(748)	2,640	**(209,194)**
Foreign exchange gains (losses)	**(17,466)**	536	1,125	**(178,224)**
Gain on sale of property, plant and equipment	**2,239**	6,622	4,315	**22,847**
Gain on sales of investments in affiliates	**—**	8,719	59,347	**—**
Gain on sales of investment securities	**124**	256	8,222	**1,265**
Loss on disposal of property, plant and equipment	**(3,305)**	(2,161)	(3,623)	**(33,724)**
Loss on business integration (Note 10)	**—**	(9,998)	(82,479)	**—**
Loss on impairment of long-lived assets (Note 10)	**(3,062)**	—	(4,916)	**(31,245)**
Amortization of goodwill (one-time amortization) (Note 10)	**(354,390)**	—	—	**(3,616,224)**
Non-recurring depreciation on non-current assets (Note 10)	**(3,233)**	—	—	**(32,990)**
Provision for soil remediation costs	**(93)**	(202)	(2,876)	**(949)**
Loss on business restructuring	**—**	(2,247)	(3,610)	**—**
Other, net	**(5,005)**	(2,483)	1,433	**(51,073)**
	(397,134)	10,029	(9,401)	**(4,052,388)**
Income (Loss) before Income Taxes and Minority Interests	**(308,263)**	166,856	126,913	**(3,145,541)**
Income Taxes (Note 9):				
Income taxes—current	**29,241**	52,355	64,710	**298,377**
Income taxes—deferred	**(108,414)**	16,741	(16,631)	**(1,106,265)**
Income (Loss) before Minority Interests	**(229,090)**	97,760	78,834	**(2,337,653)**
Minority Interests in Net Income (Loss) of Consolidated Subsidiaries	**13,591**	(100)	(284)	**138,684**
Net Income (Loss)	**¥(215,499)**	¥ 97,660	¥ 78,550	**$(2,198,969)**

	Yen			U.S. dollars (Note 1)
Amounts per Share of Common Stock (Note 2):				
Net income (loss)	**¥ (304.22)**	¥ 135.35	¥ 107.75	**$ (3.10)**
Diluted net income	**—**	135.34	—	**—**
Cash dividends applicable to the year	**80.00**	70.00	60.00	**0.82**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Millions of yen										
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gain on investment securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Sub-scription rights to shares	Minority interests	Total net assets
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
Effect of changes in accounting policies applied to foreign subsidiaries		**—**	**—**	**(1,365)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,365)**
Gain on sale of treasury stock		**—**	**(7)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(7)**
Retirement of treasury stock		**—**	**(74,662)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(74,662)**
Net loss		**—**	**—**	**(215,499)**	**—**	**—**	**—**	**—**	**—**	**—**	**(215,499)**
Cash dividends (¥75.00 per share)		**—**	**—**	**(53,322)**	**—**	**—**	**—**	**—**	**—**	**—**	**(53,322)**
Change in scope of equity method		**—**	**—**	**(1,138)**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,138)**
Changes in net unrealized holding gain on securities		**—**	**—**	**—**	**—**	**(28,657)**	**—**	**—**	**—**	**—**	**(28,657)**
Deferred gains or losses on hedges		**—**	**—**	**—**	**—**	**—**	**77**	**—**	**—**	**—**	**77**
Change in translation of foreign currency financial statements		**—**	**—**	**—**	**—**	**—**	**—**	**(35,104)**	**—**	**—**	**(35,104)**
Changes in treasury stock		**—**	**—**	**—**	**28,851**	**—**	**—**	**—**	**—**	**—**	**28,851**
Issuance of subscription rights to shares		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**2,132**	**—**	**2,132**
Changes in minority interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**22,798**	**22,798**
Balance at March 31, 2009	**709,011**	**¥50,000**	**¥105,194**	**¥ 753,821**	**¥(14,556)**	**¥19,883**	**¥77**	**¥(51,368)**	**¥2,390**	**¥23,176**	**¥ 888,617**

	Thousands of U.S. dollars (Note 1)										
	Number of shares of common stock (Thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized gain on investment securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Sub-scription rights to shares	Minority interests	Total net assets
Balance at March 31, 2008	735,011	$510,204	$1,835,336	$10,460,663	$(442,928)	$495,306	$ —	$(165,959)	$ 2,633	$ 3,857	$12,699,112
Effect of changes in accounting policies applied to foreign subsidiaries		**—**	**—**	**(13,929)**	**—**	**—**	**—**	**—**	**—**	**—**	**(13,929)**
Gain on sale of treasury stock		**—**	**(71)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(71)**
Retirement of treasury stock		**—**	**(761,857)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(761,857)**
Net loss		**—**	**—**	**(2,198,969)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,198,969)**
Cash dividends ($0.77 per share)		**—**	**—**	**(544,102)**	**—**	**—**	**—**	**—**	**—**	**—**	**(544,102)**
Change in scope of equity method		**—**	**—**	**(11,612)**	**—**	**—**	**—**	**—**	**—**	**—**	**(11,612)**
Changes in net unrealized holding gain on securities		**—**	**—**	**—**	**—**	**(292,418)**	**—**	**—**	**—**	**—**	**(292,418)**
Deferred gains or losses on hedges		**—**	**—**	**—**	**—**	**—**	**785**	**—**	**—**	**—**	**785**
Change in translation of foreign currency financial statements		**—**	**—**	**—**	**—**	**—**	**—**	**(358,204)**	**—**	**—**	**(358,204)**
Changes in treasury stock		**—**	**—**	**—**	**294,398**	**—**	**—**	**—**	**—**	**—**	**294,398**
Issuance of subscription rights to shares		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**21,754**	**—**	**21,754**
Changes in minority interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**232,633**	**232,633**
Balance at March 31, 2009	**709,011**	**$510,204**	**$1,073,408**	**$ 7,692,051**	**$(148,530)**	**$202,888**	**$785**	**$(524,163)**	**$24,387**	**$236,490**	**$ 9,067,520**

See accompanying notes.

Consolidated Statements of Cash Flows

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interests	¥(308,263)	¥166,856	¥126,913	$(3,145,541)
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	40,582	38,733	39,987	414,102
Loss on impairment of long-lived assets	3,062	—	4,916	31,245
Non-recurring depreciation on non-current assets	3,233	—	—	32,990
Amortization of goodwill	371,760	3,599	3,596	3,793,469
Derivative (gain) loss	20,501	748	(2,640)	209,194
Increase (decrease) in allowance for doubtful accounts	(208)	(394)	5	(2,122)
Increase (decrease) in accrued retirement and severance benefits	888	(26,834)	(28,547)	9,061
(Increase) decrease in prepaid pension costs	1,103	9,947	(714)	11,255
Interest and dividend income	(9,447)	(11,863)	(11,273)	(96,398)
Interest expense	1,922	128	252	19,612
Foreign exchange (gains) losses	10,411	42	(650)	106,235
Gain on sales of investment securities	(124)	(256)	(8,200)	(1,265)
Gain on sales of investments in affiliates	—	(8,719)	(59,347)	—
(Gain) loss on sales and disposal of property, plant and equipment	1,066	(4,461)	(692)	10,878
Equity in net losses of affiliated companies	213	107	18	2,173
Decrease in trade notes and accounts receivable	4,650	7,602	16,795	47,449
(Increase) decrease in inventories	(2,072)	(4,539)	1,684	(21,143)
Increase (decrease) in trade notes and accounts payable	(308)	(260)	3,294	(3,143)
Increase (decrease) in accounts payable and accrued expenses	3,507	(54,056)	56,551	35,786
Other, net	(14,543)	(710)	15,589	(148,398)
Subtotal	127,933	115,670	157,537	1,305,439
Interest and dividends received	9,707	11,646	11,099	99,051
Interest paid	(649)	(128)	(251)	(6,622)
Income taxes paid	(58,608)	(60,521)	(61,955)	(598,041)
Net cash provided by operating activities	78,383	66,667	106,430	799,827
Cash Flows from Investing Activities:				
Purchases of time deposits	(25,000)	(2,053)	(6,621)	(255,102)
Proceeds from maturities in time deposits	2,991	992	5,403	30,520
Purchases of marketable securities	(120,672)	(166,335)	(148,217)	(1,231,347)
Proceeds from sales of marketable securities	169,181	142,973	165,049	1,726,337
Acquisitions of property, plant and equipment	(19,807)	(25,317)	(28,066)	(202,112)
Proceeds from sales of property, plant and equipment	2,946	8,364	11,450	30,061
Acquisitions of intangible assets	(24,796)	(26,269)	(14,886)	(253,020)
Acquisitions of investment securities	(12,742)	(28,392)	(37,483)	(130,020)
Proceeds from sales of investment securities	2,279	26,761	14,157	23,255
Acquisitions of investments in subsidiaries from minority interest	—	(753)	(571)	—
Acquisition of investments in newly consolidated subsidiaries (Note 3)	(411,252)	—	(27,210)	(4,196,449)
Proceeds from sales of investments in consolidated subsidiaries resulting in changes in scope of consolidation (Note 3)	31	22,260	91,020	316
Net decrease in short-term loans receivable	8,084	8,000	16,137	82,490
Payment for loans receivable	(506)	(150)	(1,365)	(5,163)
Proceeds from collection of loans receivable	1,232	858	5,893	12,571
Other, net	14,179	(10,376)	616	144,683
Net cash provided by (used in) investing activities	(413,852)	(49,437)	45,306	(4,222,980)
Cash Flows from Financing Activities:				
Net increase (decrease) in short-term bank loans	196,241	(1,569)	1,312	2,002,459
Proceeds from long-term debt	1,268	—	—	12,939
Repayments of long-term debt	(191)	(809)	(297)	(1,949)
Purchases of treasury stock	(45,847)	(33,420)	(173)	(467,827)
Proceeds from sale of treasury stock	29	13	10	296
Dividends paid	(53,292)	(47,017)	(40,050)	(543,796)
Other, net	(152)	(96)	(1,571)	(1,551)
Net cash provided by (used in) financing activities	98,056	(82,898)	(40,769)	1,000,571
Effect of Exchange Rate Changes on Cash and Cash Equivalents	(29,129)	(4,739)	400	(297,234)
Net Increase (Decrease) in Cash and Cash Equivalents	(266,542)	(70,407)	111,367	(2,719,816)
Cash and Cash Equivalents, Beginning of Year	444,335	513,212	400,967	4,534,031
Increase (Decrease) in Cash and Cash Equivalents due to Changes in Scope of Consolidation	(23)	501	878	(235)
Increase in Cash and Cash Equivalents due to Merger with Unconsolidated Subsidiaries	—	1,029	—	—
Cash and Cash Equivalents, at End of Year (Note 3)	¥ 177,770	¥444,335	¥513,212	$ 1,813,980

See accompanying notes.

Notes to Consolidated Financial Statements

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2009, 2008 and 2007

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.

Prior to the year ended March 31, 2009, the accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. As discussed in Note 2, the accounts of consolidated overseas subsidiaries for the year ended March 31, 2009 are prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable.

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, 2009, which was ¥98 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 subsidiaries except for insignificant 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 to certain immaterial subsidiaries not consolidated.

The goodwill, which is the difference between the investment and the net assets of the subsidiary, has been amortized equally over the estimated effective period not exceeding 20 years.

Daiichi Sankyo, Inc. and Luitpold Pharmaceuticals, Inc. changed their fiscal year-end from December 31 to March 31 effective from the fiscal year ended March 31, 2007. As a result, the consolidated financial statements for the fiscal year ended March 31, 2007 included 15-month results of the two subsidiaries (for the period from January 1, 2006 to March 31, 2007). Due to this change, net sales, operating income, income before income taxes and minority interests, and net income for the fiscal year ended March 31, 2007 increased by ¥31,514 million, ¥9,030 million, ¥9,587 million, and ¥5,830 million, respectively.

DAIICHI SANKYO EUROPE GmbH and its subsidiaries, etc., changed their fiscal year-end from December 31 to March 31 effective from the fiscal year ended March 31, 2008. 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 included 15-month results of these subsidiaries (for the period from January 1, 2007 to March 31, 2008). As a result, net sales, operating income, income before income taxes and minority interests, and net income for the fiscal year ended March 31, 2008 increased by ¥14,129 million, ¥1,886 million, ¥2,161 million, and ¥2,027 million, respectively.

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 that bear insignificant risk of changes in value and whose maturities are within 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 method. 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, interest-rate swaps, currency swaps, and call options on specific stocks, 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 and currency swaps are utilized to manage interest-rate risk and risks arising from fluctuation in foreign currency exchange rates 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.

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. Interest-rate swaps and currency 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. 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 hedges is generally measured by comparing the cumulative change in the fair value of the hedge item with the cumulative change in the fair value of the hedged subject. However, the effectiveness of the forward foreign exchange contracts of the Company as hedges has not been assessed as the conditions of these transactions are principally the same, and the effectiveness of the interest-rate swaps of the Company accounted for by the special method as highly qualified hedges has also not been assessed, as permitted under the accounting standard.

Inventories

Inventories were accounted for at the lower of cost (principally by the weighted-average method) or market until March 31, 2007. Effective from the year ended March 31, 2008, inventories held for sales in the ordinary course of business have been accounted for at the lower of weighted-average cost or net realizable value. Replacement cost may be used in lieu of the net realizable value, if appropriate.

This change in accounting method in the year ended March 31, 2008 was an early adoption of the Accounting Standard for Measurement of Inventories (Accounting Standards Board of Japan Statement No. 9, July 5, 2006) which has been mandatory from the year ended March 31, 2009, by the Company and its domestic consolidated subsidiaries.

As a result, operating income and income before income taxes and minority interests decreased by ¥2,993 million and ¥2,311 million, 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 was from 15 to 50 years for buildings and structures, and from 4 to 7 years for machinery, equipment and vehicles until March 31, 2008. Effective from the year ended March 31, 2009, the range of useful lives for machinery, equipment and vehicles has been changed to 4 to 8 years, which is based on the reassessment of the useful lives in light of the change in the Japanese Corporation Tax Law, although the range of useful lives for buildings and structures remains unchanged. The effects of this change were immaterial.

The Company and its domestic consolidated subsidiaries changed the method of depreciation for all tangible fixed assets acquired on or after April 1, 2007 to the straight-line method or the declining-balance method prescribed in the amendments of the Japanese Corporation Tax Law, the Law to Amend Part of the Income Tax Law (Cabinet Order No. 83, March 30, 2007).

As a result, operating income and income before income taxes and minority interests decreased by ¥1,351 million and ¥1,359 million, 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.

As a result, operating income and income before income taxes and minority interests decreased by ¥1,589 million and ¥1,609 million, respectively.

Directors' and Corporate Auditors' Bonuses

Directors' and Corporate Auditors' bonuses are expensed as incurred on an accrual basis.

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 were 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 Company, Limited ("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.

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 comprised of a defined benefit pension 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.

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 prior service costs of the Company and Asubio Pharma Co., Ltd. has been amortized 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 Pharmaceutical Co., Ltd. ("Daiichi") and Daiichi Asubio Pharmaceutical, Inc., which were the major companies before the corporate reorganization.

As a result, operating income and income before income taxes and minority interests increased by ¥7,957 million and ¥8,189 million, respectively.

Moreover, in conjunction with the integration of the retirement benefit and pension plans, effective from the fiscal year ended March 31, 2008, actuarial gains and losses of the Company has been amortized by 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.

As a result, operating income and income before income taxes and minority interests increased by ¥4,712 million.

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

Certain domestic consolidated subsidiaries have retirement benefits programs to directors and corporate statutory auditors. Such benefits are 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 operations.

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 not transferring ownership were accounted for as operating leases with disclosures of certain "as if capitalized" information until March 31, 2008. From the fiscal year ended March 31, 2009, as the Company has adopted the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13: originally published by the First Subcommittee of the Business Accounting Council on June 17, 1993 and later revised on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16: published by the Accounting Systems Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and later revised on March 30, 2007), such leases are capitalized and depreciated over the estimated useful lives or lease terms, if applicable. However, such leases being effective prior to March 31, 2008 continue to be accounted for as operating leases.

This change has no effect on operating income, ordinary income or the loss before income taxes and minority interests.

Amounts per Share

In computing net income (loss) per share of common stock, the average number of shares issued during each fiscal year is used. For diluted net income per share, both net income and shares outstanding are adjusted to assume the exercise of stock warrants.

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

Accounting Standard for Business Combination

Effective from the fiscal year ended March 31, 2007, the Company has 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).

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries

As described in note 1, effective from the fiscal year ended March 31, 2009, the Company has adopted PITF No. 18 "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" as published by the Accounting Standards Board of Japan (ASBJ) on May 17, 2006.

PITF No. 18 requires that accounting policies and procedures applied by a parent company and its subsidiaries to similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements. PITF No. 18, however, as a tentative measure, allows a parent company to prepare consolidated financial statements using foreign subsidiaries' financial statements prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles. In this case, adjustments for the following six items are required in the consolidation process so that their impact on net income is accounted for in accordance with Japanese GAAP unless the impact is not material.

(a) Goodwill not subject to amortization
(b) Actuarial gains and losses of defined-benefit retirement plans recognized outside profit or loss
(c) Capitalized expenditures for research and development activities
(d) Fair value measurement of investment properties and revaluation of property, plant and equipment and intangible assets
(e) Retrospective treatment of a change in accounting policies
(f) Accounting for net income attributable to minority interests

As a result of adopting PITF No. 18, operating income increased by ¥1,809 million ($18,459 thousand), and loss before income taxes and minority interests decreased by ¥1,865 million ($19,031 thousand).

Reclassification

Certain prior year amounts have been reclassified to conform to the current year's presentation.
These reclassifications have no impact on previously reported results of operations or retained earnings.

3. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2009, 2008, and 2007 for the consolidated statements of cash flows consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Cash and time deposits	¥ 76,551	¥ 47,335	¥172,615	$ 781,133
Less time deposits with maturities extending over three months	(25,809)	(2,418)	(2,146)	(263,357)
Add short-term investments with maturities within three months	127,028	399,418	342,743	1,296,204
Cash and cash equivalents	¥177,770	¥444,335	¥513,212	$1,813,980

In the year ended March 31, 2009, the Company newly consolidated U3 Pharma AG (now U3 Pharma GmbH) and Ranbaxy Laboratories Ltd.

The relationship between the amounts of assets and liabilities of these companies at the beginning of the consolidation period used for consolidation purposes and the acquisition of investments in newly consolidated subsidiaries were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥244,491	$2,494,806
Non-current assets	151,949	1,550,500
Goodwill	433,737	4,425,888
Current liabilities	(170,195)	(1,736,684)
Long-term liabilities	(98,882)	(1,009,000)
Subscription rights to shares	(6,387)	(65,173)
Minority interests	(46,489)	(474,378)
In-process research and development	6,910	70,510
Purchase price of the subsidiaries	515,134	5,256,469
Cash and cash equivalents owned by the subsidiaries	103,882	1,060,020
Acquisition of investments in newly consolidated subsidiaries	¥411,252	$4,196,449

In the year ended March 31, 2008, the Company excluded Daiichi Fine Chemical Co., Ltd., Nippon Nyukazai Co., Ltd., and three other 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	¥53,886
Non-current assets	22,749
Current liabilities	(36,830)
Long-term liabilities	(4,281)
Net unrealized gain on investment securities	(322)
Foreign currency translation adjustments	268
Minority interests	(3,011)
Gain on sale of investments in affiliate	8,007
Loss on sale of investments in affiliate	(1,439)
The Company's interest in the companies after sale of shares of such companies	(1,204)
Sales price of shares	37,823
Cash and cash equivalents owned by the subsidiaries	(15,563)
Proceeds from sales of investments in consolidated subsidiaries resulting in change in scope of consolidation	¥22,260

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 8 other 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 subsidiaries were 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 subsidiaries	¥27,210

4. Market Value Information for Securities

(1) At March 31, 2009 and 2008, 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
	2009	2008	**2009**
Securities with market values greater than their carrying amounts:			
Carrying amount	**¥93,911**	¥81,818	**$958,276**
Market value	**94,482**	82,648	**964,102**
Difference	**¥ 571**	¥ 830	**$ 5,826**
Securities with fair value not exceeding book value:			
Carrying amount	**¥57,425**	¥96,646	**$585,969**
Market value	**56,688**	96,103	**578,449**
Difference	**¥ (737)**	¥ (543)	**$ (7,520)**

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

	Millions of yen		
	2009		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	¥34,478	¥75,163	¥40,685
Bonds	—	—	—
Others	86	113	27
Total	¥34,564	¥75,276	¥40,712
Securities with carrying amounts at or less than their acquisition costs:			
Stock	¥18,067	¥13,665	¥ (4,402)
Bonds	0	0	—
Others	2,187	1,418	(769)
Total	¥20,254	¥15,083	¥ (5,171)

	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)

	Thousands of U.S. dollars		
	2009		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	$351,816	$766,969	$415,153
Bonds	—	—	—
Others	878	1,153	275
Total	$352,694	$768,122	$415,428
Securities with carrying amounts at or less than their acquisition costs:			
Stock	$184,357	$139,439	$ (44,918)
Bonds	0	0	—
Others	22,316	14,469	(7,847)
Total	$206,673	$153,908	$ (52,765)

The Companies recognized ¥1,078 million ($11,000 thousand) and ¥682 million as impairment losses of available-for-sale securities with determinable market value in the years ended at March 31, 2009 and 2008, respectively.

(2) At March 31, 2009 and 2008, carrying amounts of securities without determinable market values were as follows:

(a) Held-to-Maturity Securities

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Commercial paper	¥61,966	¥213,494	$632,306
Certificates of deposit	49	45,000	500
Mortgage-backed securities	1,000	15,000	10,204
Others	10	10	102

(b) Available-for-Sale Securities

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Money management fund, etc.	¥60,109	¥137,851	$613,357
Unlisted stock	10,297	10,098	105,071
Others	6,140	6,923	62,653

(3) At March 31, 2009 and 2008, available-for-sale securities with maturities and held-to-maturity securities were as follows:

	Millions of yen				
	2009				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	¥ 75,834	¥10,454	¥—	¥—	¥ 86,288
Corporate bonds	36,019	29,029	—	—	65,048
Others	63,025	—	—	—	63,025
Others	—	—	—	—	—
Total	¥174,878	¥39,483	¥—	¥—	¥214,361

	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

	Thousands of U.S. dollars				
	2009				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	$ 773,816	$106,674	$—	$—	$ 880,490
Corporate bonds	367,541	296,214	—	—	663,755
Others	643,112	—	—	—	643,112
Others	—	—	—	—	—
Total	$1,784,469	$402,888	$—	$—	$2,187,357

(4) Available-for-sale securities sold during the years ended March 31, 2009, 2008, and 2007 were as follows:

Millions of yen		
2009		
Sales amount	Total gain	Total loss
¥167	**¥38**	**¥—**

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

Thousands of U.S. dollars		
2009		
Sales amount	Total gain	Total loss
$1,704	**$388**	**$—**

5. Inventories

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Finished goods	**¥ 93,502**	¥48,522	**$ 954,102**
Work in process and semi-finished products	**14,496**	30,930	**147,918**
Raw materials and supplies	**31,477**	18,706	**321,194**
	¥139,475	¥98,158	**$1,423,214**

6. Lease Information

As discussed in Note 2, finance leases commenced prior to April 1, 2008 which do not transfer ownership of leased assets to lessees are accounted for as operating leases.

A summary of assumed amounts of acquisition cost, accumulated depreciation, and net book value at March 31, 2009 and 2008 was as follows:

	Millions of yen		
	2009		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles, and other	**¥1,910**	**¥(1,138)**	**¥772**

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

	Thousands of U.S. dollars		
	2009		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles, and other	**$19,490**	**$(11,612)**	**$7,878**

Future lease payments at March 31, 2009 and 2008, inclusive of interest under such leases, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥297	¥1,155	$3,031
Due after one year	475	2,186	4,847
	¥772	¥3,341	$7,878

Total expenses for finance leases which do not transfer ownership to lessees and assumed depreciation charges for the years ended March 31, 2009, 2008, and 2007 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Total expenses	¥378	¥1,426	¥2,829	$3,857
Assumed depreciation charges	378	1,426	2,829	3,857

7. Short-term Bank Loans and Long-term Debt

The weighted-average interest rates on short-term bank loans outstanding were 1.87% and 28.0% at March 31, 2009 and 2008, respectively.

The weighted-average interest rates on long-term debt were 5.1% for debt due within one year and 2.5% for long-term debt other than debt due within one year. Long-term debt at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Secured loans principally from banks and insurance companies	¥19,085	¥23	$194,745
Less amount due within one year	(3,232)	(5)	(32,980)
	¥15,853	¥18	$161,765

The annual maturities of long-term debt at March 31, 2009 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 4,984	$ 50,857
2012	2,328	23,755
2013	6,048	61,714
2014	2,340	23,878
2015 and thereafter	153	1,561
	¥15,853	$161,765

The Companies entered into lines of credit agreements with the various banks in order to borrow their operating funds efficiently. At March 31, 2009 and 2008, unused lines of credit were ¥30,000 million ($306,122 thousand).

8. Bonds

As a result of the acquisition of Ranbaxy Laboratories Ltd., the Companies recorded convertible bond-type bonds with subscription rights to shares of ¥47,083 million ($480,439 thousand). The maturity date is March 16, 2011 and the interest rate is 4.8%.

9. 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, 2009, 2008, and 2007. 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 operations differ from the aggregate statutory tax rate principally because of the effect of expenses not deductible for tax purposes.

Since the Company reported a loss before income taxes and minority interests, the disclosure for the year ended March 31, 2009 has been omitted.

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 Companies' effective tax rate for financial statement purposes for the year ended March 31, 2007:

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

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Net operating loss carryforwards for income tax purposes	**¥116,746**	¥12,847	**$1,191,286**
Prepaid consigned research and co-development expenses	**26,132**	20,813	**266,653**
Depreciation	**23,996**	24,157	**244,857**
Loss on revaluation of derivatives	**18,828**	—	**192,122**
Unrealized profit on inventories and loss on valuation of inventories	**14,030**	19,091	**143,163**
Accrued bonuses	**6,270**	7,211	**63,980**
Loss on impairment	**2,712**	—	**27,673**
Loss on revaluation of securities	**1,880**	1,625	**19,184**
Accrued payable for the shift to defined contribution pension plan	**1,175**	1,627	**11,990**
Other	**31,919**	18,722	**325,704**
Valuation allowance	**(26,182)**	(19,025)	**(267,163)**
Total deferred tax assets	**217,506**	87,068	**2,219,449**
Deferred tax liabilities:			
Intangible assets	**(17,005)**	(4,408)	**(173,520)**
Net unrealized holding gain on investment securities	**(15,230)**	(33,958)	**(155,408)**
Reserve for reduction in bases of property, plant and equipment for income tax purposes	**(9,418)**	(11,170)	**(96,102)**
Prepaid pension costs	**(1,431)**	(2,348)	**(14,602)**
Other	**(11,502)**	(3,236)	**(117,368)**
Total deferred tax liabilities	**(54,586)**	(55,120)	**(557,000)**
Net deferred tax assets	**¥162,920**	¥31,948	**$1,662,449**

Net deferred tax assets as of March 31, 2009 and 2008 were included in the following accounts of the consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2009	2008	**2009**
Deferred tax assets:			
Current	**¥76,748**	¥52,678	**$783,143**
Non-current	**91,601**	5,995	**934,704**
Deferred tax liabilities:			
Other current liabilities	**1**	—	**10**
Deferred tax liabilities (non-current)	**5,428**	26,725	**55,388**

10. Other Income (Expenses)

(1) Amortization of Goodwill

The Companies recognized a loss related to the write-down of shares in an affiliate in its financial statements in the year ended March 31, 2009 to reflect the fact that the market price at the fiscal year-end for the shares of consolidated subsidiary Ranbaxy Laboratories Ltd. had fallen below 50% of the purchase cost.

As a result, the Companies amortized goodwill at its consolidation in relation to this acquisition.

(2) Non-recurring Depreciation on Non-current Assets

In line with an accounting revision made to the useful lives of fixed assets following a decision to retire certain facilities of the Company and its domestic consolidated subsidiaries, the Companies wrote off the difference in the book value of these assets before and after this revision.

The breakdown of this amount is the following:

Year ending March 31, 2009	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥3,220	$32,857
Machinery, equipment and vehicles	13	133

(3) Loss on Impairment of Long-lived Assets

The Companies categorized their assets for their business operations into groups which are based on 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, 2009 and 2007, the Companies recognized a loss on impairment in the following asset groups:

(Fiscal 2009)

Location	Function	Asset Type	Status
Sapporo, Hokkaido	Former sales office Commercial facility	Buildings, structures, etc.	Idle
Kasukabe, Saitama	Former Tokyo Distribution Center facility	Buildings, land, etc.	Idle
Iwaki, Fukushima, etc.	Onahama Plant, etc. Manufacturing facility	Buildings, machinery, equipment, etc.	Idle

(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	Former Tokyo 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

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 ¥3,062 million ($31,245 thousand) and ¥4,916 million were recorded as a loss on impairment of long-lived assets for the years ended March 31, 2009 and 2007, respectively.

The amounts consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2007	**2009**
Buildings and structures	**¥1,726**	¥2,103	**$17,612**
Machinery, equipment and vehicles	**511**	33	**5,214**
Land	**825**	407	**8,419**
Software	**—**	2,368	**—**
Other	**—**	5	**—**

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 purposes, after making reasonable adjustments.

(4) Loss on Business Integration

In the years ended March 31, 2008 and 2007, the Companies recognized non-recurring loss associated with integration of the pharmaceutical operations of the Companies. The amounts consisted of the following:

	Millions of yen	
	2008	2007
Supplemental retirement benefits, etc.	¥3,913	¥54,212
Expenses associated with the consolidation and closure of operating locations	2,358	3,256
IT systems related expenses	2,219	11,096
Expenses associated with the integration of healthcare business	169	3,353
Expenses associated with the integration of overseas operations	—	3,225
Other research expenses, etc.	1,339	7,337

11. Retirement and Termination Benefits Plans

Retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligation	¥(97,837)	¥(90,003)	$(998,337)
Plan assets at fair value	74,391	81,261	759,092
Under-funded projected benefit obligations in excess of plan assets	(23,446)	(8,742)	(239,245)
Unrecognized actuarial losses	19,778	9,984	201,816
Unrecognized prior service costs	—	—	—
Net pension liabilities recognized in the consolidated balance sheet	(3,668)	1,242	(37,429)
Prepaid pension assets	6,921	8,023	70,622
Accrued employees' severance and retirement benefits	¥(10,589)	¥ (6,781)	$(108,051)

In the fiscal year ended March 31, 2008, the Company and certain domestic consolidated subsidiaries transferred a part of the unfunded lump-sum severance and retirement benefit plan to a defined contribution pension plan. As a result, projected benefit obligation, prior service costs, and accrued employees' severance and retirement benefits decreased by ¥5,440 million, ¥208 million, and ¥5,648 million, respectively.

The transferred amount to a defined contribution pension plan was ¥5,610 million which will be implemented for four years. The outstanding balance to be transferred as of March 31, 2008 was ¥4,033 million 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, 2009, 2008, and 2007 consist of the following:

	Millions of yen			Thousands of U.S. dollars
	2009	2008	2007	2009
Service costs for benefits earned	¥ 4,627	¥5,538	¥10,333	$ 47,214
Interest costs	2,661	1,979	3,172	27,153
Expected return on plan assets	(2,479)	(2,582)	(2,567)	(25,296)
Amortization of actuarial loss (gain)	2,106	552	404	21,490
Amortization of prior service costs	—	(9,469)	(763)	—
Additional retirement benefits and other	—	2,890	53,571	—
Other	3,730	3,901	808	38,061
Total	¥10,645	¥2,809	¥64,958	$108,622

The discount rates for calculating the projected benefit obligation and the rates of expected return on plan assets used by the Companies were as follows:

	%		
	2009	2008	2007
Discount rates for calculating projected benefit obligation	Principally 2.5%	Principally 2.5%	Principally 2.5%
Rates of expected return on plan assets	Principally 3.0%	3.0%	2.5 to 3.0%

12. 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 the legal earnings reserve must be set aside as additional paid-in capital or a legal earnings reserve. The 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 a legal earnings reserve until the total of the legal earnings reserve and additional paid-in capital equaled 25% of common stock.

Under the Code, the 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 the legal earnings reserve may not be distributed as dividends. Under the Code, however, on the condition that the total amount of the 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 reserves 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 26, 2009, the shareholders resolved cash dividends amounting to ¥28,157 million ($287,316 thousand) by using capital surplus. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009 and are recognized in the period in which they are resolved.

13. Commitments and Contingencies

(1) Guarantees on Loans

At March 31, 2009, the Company was contingently liable as guarantors for loans of employees and a certain unconsolidated company in the amount of ¥3,771 million ($38,480 thousand).

(2) Other Contingencies

Contingent liabilities relating to litigation on certain products' price control by the Indian government were estimated as ¥2,858 million ($29,163 thousand).

14. Business Combination

(1) Merger among Sankyo, Daiichi, and the Company; Reorganization of Sankyo and Daiichi Sankyo Propharma

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.

(2) Acquisition of U3 Pharma

(a) Description of the business of acquired company

1) Name and nature of business of acquired company

Name of acquired company: U3 Pharma AG

Nature of business: R&D, mainly in area of therapeutic antibodies for cancer

2) Purpose of acquisition
To develop a continuous stream of promising drug candidates by reinforcing the drug discovery platform in the fields of cancer and therapeutic antibodies
3) Date of acquisition
June 19, 2008
4) Legal form of acquisition
Share purchase by cash
5) Name of the company after acquisition
U3 Pharma AG (now U3 Pharma GmbH)
6) Percentage of voting rights acquired
100%

(b) Period of results of the acquired company included in consolidated financial statements

From July 1, 2008 to March 31, 2009

(c) Purchase cost of the acquired company and related breakdown

Acquisition considerations:

	Millions of yen	Thousands of U.S. dollars
Cash	¥26,695	$272,398
Direct acquisition-related expenditures	85	867
Total purchase cost	¥26,780	$273,265

(d) Description of goodwill

1) Amounts of goodwill
¥25,062 million ($255,735 thousand)
2) Reason for recognizing goodwill
Goodwill was recognized as the excess value of the purchase cost over the net of acquired assets and assumed liabilities at fair value.
3) Goodwill amortization method and period
Amortized in equal amounts over 5 years

(e) Amounts and breakdown of main components of assets acquired and liabilities assumed as of the date of acquisition

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 2,724	$ 27,796
Non-current assets	86	877
Goodwill	25,062	255,735
Current liabilities	(1,092)	(11,143)
Total	¥26,780	$273,265

(3) Acquisition of Ranbaxy

(a) Description of the acquired company

1) Name and nature of business of the acquired company
Name of the acquired company: Ranbaxy Laboratories Ltd.
Nature of the acquired business: Manufacture, sale, and research and development of generic drugs in the therapeutic areas of hyperlipidemia and infection
2) Purpose of acquisition
The Group believes that realizing sustained business growth must involve the expansion of its prescription drug business in advanced country markets while at the same time seizing new growth opportunities in developing countries. In addition to the traditional high-risk/high-return business model employed in developed-country markets, the Group believes it is necessary to anticipate and respond to rapidly changing market needs by adopting a “hybrid business model.” This approach seeks to expand the Group’s global reach by growing in emerging markets while also further expanding the Group’s drug portfolio in developed markets using generic drugs. The entry of Ranbaxy Laboratories Ltd. into the Group is thus an extremely significant step in terms of promoting the sustained long-term growth of the Group.

3) Date of acquisition
November 7, 2008
4) Legal form of acquisition
Share purchase by cash
5) Name of the company after acquisition
Ranbaxy Laboratories Ltd.
6) Percentage of voting rights acquired
63.92%

(b) Period of results of acquired company included in the consolidated financial statements

From October 1, 2008 to December 31, 2008

(c) Acquisition cost of acquired company and related breakdown

Acquisition considerations:

	Millions of yen	Thousands of U.S. dollars
Share purchases by an open offer	¥169,407	$1,728,643
Share purchases from founding family	230,971	2,356,847
Capital increase subscribed by third party	85,002	867,367
Direct acquisition-related costs	2,974	30,347
Total acquisition cost	¥488,354	$4,983,204

(d) Description of goodwill

1) Amount of goodwill
¥408,675 million ($4,170,153 thousand)
2) Reason for recognizing goodwill
Goodwill was recognized as the excess of the acquisition cost over the net of acquired assets and assumed liabilities at fair value.
3) Goodwill amortization method and period
Amortized in equal amounts over 20 years
The Company amortized the goodwill (one-time amortization) of Ranbaxy of ¥351,310 million ($3,584,796 thousand) for the fiscal year ended March 31, 2009.

(e) Amounts and breakdown of main components of assets acquired and liabilities assumed as of the date of acquisition

	Millions of yen	Thousands of U.S. dollars
Current assets	¥241,767	$2,467,010
Non-current assets	151,863	1,549,623
Goodwill, net	408,675	4,170,153
Current liabilities	(169,103)	(1,725,541)
Long-term liabilities	(98,882)	(1,009,000)
Subscription rights to shares	(6,387)	(65,173)
Minority interests	(46,489)	(474,378)
In-process research and development	6,910	70,510
Total	¥488,354	$4,983,204

(f) Amounts of acquisition cost allocated to research and development expenses charged to earnings

In-process research and development expenses: ¥6,910 million ($70,510 thousand)

(g) Amounts of acquisition cost allocated to intangible assets other than goodwill and amortization period

Breakdown by major type	Millions of yen	Thousands of U.S. dollars	Amortization period
Trademarks related	¥40,984	$418,204	10 years
Leasehold right	5,918	60,388	—

15. Segment Information

(1) Business Segments

The Companies' primary business activities consist mainly of 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 years ended March 31, 2009 and 2008 has been omitted.

Net sales, operating expenses, and operating income by segment of business activities for the years ended March 31, 2007 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

(2) Geographic Segments

Geographic segments are classified as Japan, North America, and Other, according to the location of the companies. "Other" includes Europe, Asia, and others until March 31, 2008. Effective from the year ended March 31, 2009, "Europe" and "India" have been presented as a separate segment because net sales in the "Europe" segment, which was previously included in "Other", exceeded 10% of total net sales and also because assets in the "India" segment, which was previously included in "Other", exceeded 10% of total assets. Compared with the previous method, net sales in the "Other" segment decreased by ¥117,536 million ($1,199,347 thousand) (of which, net sales for outside customers decreased by ¥92,690 million ($945,816 thousand)), operating expenses decreased by ¥132,416 million ($1,351,184 thousand), operating income therein increased by ¥14,880 million ($151,837 thousand), and assets decreased by ¥507,631 million ($5,179,908 thousand).

This change has no effect on the Japan segment or the North America segment.

Net sales, operating expenses, and operating income by geographic segment for the years ended March 31, 2009, 2008, and 2007 were as follows:

	Millions of yen						
	2009						
	Japan	North America	Europe	India	Other	Elimination and/or corporate	Consolidated
Sales and operating income (loss)							
Net sales:							
Outside customers	**¥529,754**	**¥190,811**	**¥ 77,436**	**¥ 15,255**	**¥28,891**	**¥ —**	**¥ 842,147**
Inter-segment	**50,103**	**48,673**	**23,763**	**2,941**	**783**	**(126,263)**	**—**
Total sales	**579,857**	**239,484**	**101,199**	**18,196**	**29,674**	**(126,263)**	**842,147**
Operating expenses	**536,418**	**189,185**	**95,408**	**37,103**	**29,288**	**(134,126)**	**753,276**
Operating income (loss)	**¥ 43,439**	**¥ 50,299**	**¥ 5,791**	**¥ (18,907)**	**¥ 386**	**¥ 7,863**	**¥ 88,871**
Assets	**¥920,103**	**¥242,685**	**¥226,956**	**¥280,710**	**¥43,043**	**¥(218,897)**	**¥1,494,600**

	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

	Thousands of U.S. dollars						
	2009						
	Japan	North America	Europe	India	Other	Elimination and/or corporate	Consolidated
Sales and operating income (loss)							
Net sales:							
Outside customers	$5,405,653	$1,947,051	$ 790,163	$ 155,663	$294,807	$ —	$ 8,593,337
Inter-segment	511,255	496,663	242,480	30,010	7,990	(1,288,398)	—
Total sales	5,916,908	2,443,714	1,032,643	185,673	302,797	(1,288,398)	8,593,337
Operating expenses	5,473,653	1,930,459	973,551	378,602	298,858	(1,368,633)	7,686,490
Operating income (loss)	$ 443,255	$ 513,255	$ 59,092	$ (192,929)	$ 3,939	$ 80,235	$ 906,847
Assets	$9,388,806	$2,476,378	$2,315,878	$2,864,388	$439,213	$(2,233,643)	$15,251,020

As described in note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2009, the Company has adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements ("PITF No. 18" issued by the Accounting Standards Board of Japan on May 17, 2006)". As a result, compared with the previous accounting method, net sales and operating expenses in the "Europe" segment decreased by ¥59 million ($602 thousand) and ¥1,773 million ($18,092 thousand), respectively, and operating income increased by ¥1,714 million ($17,490 thousand), and additionally operating expenses in the "Other" segment decreased by ¥95 million ($969 thousand) and operating income increased 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 has adopted "Accounting Standard for Measurement of Inventories" ("Statement No. 9" issued by the Accounting Standards Board of Japan on July 5, 2006). As a result, compared with the previous accounting method, operating expenses in the "Japan" segment increased by ¥2,993 million and operating income decreased 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 have changed the method of depreciation for all tangible fixed assets acquired on or after April 1, 2007 prescribed in the amendments of the Japanese Corporation Tax Law, the Law to Amend Part of the Income Tax Law (Cabinet Order No. 83, March 30, 2007). As a result, as compared with the previous accounting method, operating expenses in the "Japan" segment increased by ¥1,351 million and operating income decreased 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 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. As a result, as compared with the previous accounting method, operating expenses in the "Japan" segment increased by ¥1,589 million and operating income decreased 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 certain domestic consolidated subsidiaries have revised the retirement benefit and pension plans, and prior service cost has been amortized over 12 months since it was incurred. Also, actuarial gains and losses have been amortized by a straight-line method over 10 years. As a result, as compared with the previous accounting method, operating expenses in the "Japan" segment decreased by ¥12,669 million and operating income increased by the same amount.

(3) Overseas Sales

Overseas net sales are the Companies' sales which were consummated in countries or regions outside of Japan.

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, 2009, 2008, and 2007 was as follows:

	Millions of yen			
	2009			
	North America	Europe	Other	Total
Overseas net sales	**¥221,325**	**¥98,170**	**¥53,759**	**¥373,254**
Consolidated net sales				**842,147**
Ratio of overseas net sales on a consolidated basis	**26.3%**	**11.6%**	**6.4%**	**44.3%**

	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 on 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 on a consolidated basis	26.0%	9.1%	3.3%	38.4%

	Thousands of U.S. dollars			
	2009			
	North America	Europe	Other	Total
Overseas net sales	**$2,258,418**	**$1,001,735**	**$548,561**	**$3,808,714**
Consolidated net sales				**8,593,337**

16. Derivatives

The notional amounts and the estimated fair value of derivatives outstanding as of March 31, 2009 and 2008 are summarized as follows:

(1) Currency-related

	Millions of yen			Thousands of U.S. dollars		
	2009			2009		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Buy						
U.S. dollar	¥ 478	¥ 99	¥ 99	$ 4,877	$ 1,010	$ 1,010
Currency option						
Sell						
U.S. dollar	314,485	(45,305)	(45,305)	3,209,031	(462,296)	(462,296)
Buy						
U.S. dollar	127,687	(3,259)	(3,259)	1,302,929	(33,255)	(33,255)
Currency swaps	10,350	768	768	105,612	7,837	7,837
Total	¥453,000	¥(47,697)	¥(47,697)	$4,622,449	$(486,704)	$(486,704)

(2) Interest rate-related

	Millions of yen			Thousands of U.S. dollars		
	2009			2009		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps						
Floating to fixed rate	¥11,800	¥103	¥103	$120,408	$1,051	$1,051

(3) Stock-related

	Millions of yen					
	2009			2008		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Call options on specific stocks						
Buy / Call	¥15,677			¥ 9,941		
	¥ [6,171]	¥[1,492]	¥[(4,679)]	¥[4,156]	¥[4,715]	¥[559]

	Thousands of U.S. dollars		
	2009		
	Notional amount	Fair value	Unrealized gain (loss)
Call options on specific stocks			
Buy / Call	$159,969		
	$ [62,969]	$[15,224]	$[(47,745)]

The amounts in [ ] represent option premium.

17. Stock Option Plans

The Company and its certain subsidiaries have implemented stock option plans. Stock option expense included in selling, general and administrative expenses for the year ended March 31, 2009 and 2008 amounted to ¥382 million ($3,898 thousand) and ¥258 million, respectively.

(1) Stock Options by the Company

Under the Company's stock option plan, subscription rights to shares were granted to directors and corporate officers of the Company. The outline of stock options provided by the Company as of March 31, 2009 was as follows:

	2007	2008
	Stock option	Stock option
Individuals covered by the plan:		
Directors	6	6
Corporate officers	20	20
Total	26	26
Class and number of stocks (shares)		
Common stock	101,900	172,000
Date of the grant	February 15, 2008	November 17, 2008
Required service period	—	—
Exercise period	February 16, 2008 to February 15, 2038	November 18, 2008 to November 17, 2038

The movement of stock options was as follows:

	2007	2008
	Stock option	Stock option
Subscription rights to shares which have not been vested (shares):		
Outstanding as of March 31, 2008	—	—
Granted	—	172,200
Forfeited/expired	—	—
Vested	—	172,200
Outstanding as of March 31, 2009	—	—
Subscription rights to shares which have been vested (shares):		
Outstanding as of March 31, 2008	101,900	—
Vested	—	172,200
Exercised	—	—
Forfeited/expired	—	—
Outstanding as of March 31, 2009	101,900	172,200

Price information of stock options was as follows:

	Yen	
	2007	2008
	Stock option	Stock option
Exercise price	¥ 1	¥ 1
Average market price of the stock at the time of exercise	—	—
Fair value (date of the grant)	¥2,528	¥1,342

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

	2007 Stock option	2008 Stock option
Expected volatility	29.7%	37.4%
Expected holding period	10 years	10 years
Expected dividend	¥65	¥75
Risk-free rate	1.5%	1.5%

(2) Stock Options by the Subsidiaries

Under the subsidiaries' stock option plan, subscription rights to shares were granted to directors and employees of the subsidiaries. The outline of stock options provided by the subsidiaries as of March 31, 2009 was as follows:

	2001 Stock option (1)	2001 Stock option (2)	2002 Stock option
Individuals covered by the plan:			
Directors	3	3	3
Employees	494	679	862
Total	497	682	865
Class and number of stocks (shares)			
Common stock	434,540	664,500	940,900
Date of the grant	January 12, 2001	December 3, 2001	April 1, 2002
Vesting	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.
Exercise period	10 years from the date of the grant	10 years from the date of the grant	10 years from the date of the grant

	2003 Stock option	2004 Stock option	2005 Stock option
Individuals covered by the plan:			
Directors	3	2	2
Employees	931	1,208	1,605
Total	934	1,210	1,607
Class and number of stocks (shares)			
Common stock	1,861,900	2,565,500	3,013,350
Date of the grant	February 7, 2003	January 22, 2004	January 17, 2005
Vesting	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.
Exercise period	10 years from the date of the grant	10 years from the date of the grant	10 years from the date of the grant

	2006	2007	2008
	Stock option	Stock option	Stock option (1)
Individuals covered by the plan:			
Directors	2	3	2
Employees	1,676	1,815	2,145
Total	1,678	1,818	2,147
Class and number of stocks (shares)			
Common stock	1,221,300	1,331,575	1,559,825
Date of the grant	January 17, 2006	January 17, 2007	January 16, 2008
Vesting	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.
Exercise period	10 years from the date of the grant	10 years from the date of the grant	10 years from the date of the grant

	2008	2008
	Stock option (2)	Stock option (3)
Individuals covered by the plan:		
Directors	—	1
Employees	1	—
Total	1	1
Class and number of stocks (shares)		
Common stock	15,000	200,000
Date of the grant	June 11, 2008	December 19, 2008
Vesting	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.
Exercise period	10 years from the date of the grant	10 years from the date of the grant

The movement of stock options was as follows:

	2001	2001	2002
	Stock option (1)	Stock option (2)	Stock option
Subscription rights to shares which have not been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Granted	—	—	—
Increase upon acquisition	—	—	—
Forfeited/expired	—	—	—
Vested	—	—	—
Outstanding as of March 31, 2009	—	—	—
Subscription rights to shares which have been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Vested	—	—	—
Increase upon acquisition	31,326	64,966	149,194
Exercised	—	—	—
Forfeited/expired	—	—	1,970
Outstanding as of March 31, 2009	31,326	64,966	147,224

	2003 Stock option	2004 Stock option	2005 Stock option
Subscription rights to shares which have not been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Granted	—	—	—
Increase upon acquisition	—	263,570	677,300
Forfeited/expired	—	5,060	16,860
Vested	—	1,970	3,480
Outstanding as of March 31, 2009	—	256,540	656,960
Subscription rights to shares which have been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Vested	—	1,970	3,480
Increase upon acquisition	461,542	1,085,497	1,148,100
Exercised	—	—	—
Forfeited/expired	4,810	15,960	21,750
Outstanding as of March 31, 2009	456,732	1,071,507	1,129,830

	2006 Stock option	2007 Stock option	2008 Stock option (1)
Subscription rights to shares which have not been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Granted	—	—	—
Increase upon acquisition	494,340	844,340	1,443,925
Forfeited/expired	11,760	18,080	48,875
Vested	2,835	2,640	4,275
Outstanding as of March 31, 2009	479,745	823,620	1,390,775
Subscription rights to shares which have been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Vested	2,835	2,640	4,275
Increase upon acquisition	306,748	230,981	11,450
Exercised	—	—	—
Forfeited/expired	5,520	4,785	—
Outstanding as of March 31, 2009	304,063	228,836	15,725

	2008 Stock option (2)	2008 Stock option (3)
Subscription rights to shares which have not been vested (shares):		
Outstanding as of March 31, 2008	—	—
Granted	—	200,000
Increase upon acquisition	15,000	—
Forfeited/expired	—	—
Vested	—	—
Outstanding as of March 31, 2009	15,000	200,000
Subscription rights to shares which have been vested (shares):		
Outstanding as of March 31, 2008	—	—
Vested	—	—
Increase upon acquisition	—	—
Exercised	—	—
Forfeited/expired	—	—
Outstanding as of March 31, 2009	—	—

Price information of stock options was as follows:

	2001 Stock option (1)	2001 Stock option (2)	2002 Stock option
Exercise price (INR)	336.50	297.50	372.50
Average market price of the stock at the time of exercise (INR)	—	—	—
Fair value (date of the grant) (INR)	481.50	486.00	598.50

	2003 Stock option	2004 Stock option	2005 Stock option
Exercise price (INR)	283.50	496.00	538.50
Average market price of the stock at the time of exercise (INR)	—	—	—
Fair value (date of the grant) (INR)	416.00	708.50	754.18

	2006 Stock option	2007 Stock option	2008 Stock option (1)
Exercise price (INR)	392.00	430.00	391.00
Average market price of the stock at the time of exercise (INR)	—	—	—
Fair value (date of the grant) (INR)	586.07	662.57	498.06

	2008 Stock option (2)	2008 Stock option (3)
Exercise price (INR)	561.00	219.00
Average market price of the stock at the time of exercise (INR)	—	—
Fair value (date of the grant) (INR)	733.89	282.31

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

	2008 stock option (3)
Expected volatility	38.15%
Expected holding period	6.5 years
Expected dividend	4.29 INR
Risk-free rate	6.05%

18. Subsequent Events

(1) Proposal for Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2009 were resolved at the annual general meeting of shareholders of the Company held on June 26, 2009.

(a) Year-end dividend

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥40.00 ($0.41) per share	¥28,157	$287,316

(b) Matters relating to disposal of capital surplus

	Millions of yen	Thousands of U.S. dollars
Amounts of capital surplus decreased	¥254,232	$2,594,204
Amounts of retained earnings increased	254,232	2,594,204

(2) Issuance of Unsecured Straight Bonds

Pursuant to the resolution by the Board of Directors on May 28, 2009, the following two series of bonds were issued on June 24, 2009.

(a) Description of bonds

1) Kind and number of bonds
   1st Series Unsecured Straight Bonds
   2nd Series Unsecured Straight Bonds
2) Issue price
   ¥100 per face value of ¥100
3) Total issue amount
   1st Series Unsecured Straight Bonds: ¥60 billion
   2nd Series Unsecured Straight Bonds: ¥40 billion
4) Interest rate
   1st Series Unsecured Straight Bonds: 1.078%
   2nd Series Unsecured Straight Bonds: 1.776%
5) Redemption
   100% of the face value (¥100) will be redeemed at maturity.
   The Company may at any time purchase or cancel each bond from the next date to the payment date.
6) Maturity
   1st Series Unsecured Straight Bonds: 5 years (Maturity date: June 24, 2014)
   2nd Series Unsecured Straight Bonds: 10 years (Maturity date: June 24, 2019)

(b) Issuance date

June 24, 2009 for each bond

(c) Security or guarantee

Each bond is not secured nor is it guaranteed.

(d) Use of bonds

Repayment of loans

(e) Other important covenants

There are no specific financial covenants.

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, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, 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 financial position of DAIICHI SANKYO COMPANY, LIMITED. and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, 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 18 (2) to the consolidated financial statements, the Company issued unsecured bonds on June 24, 2009, pursuant to the resolution by the Board of Directors on May 28, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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 26, 2009

Major Group Companies (Consolidated Subsidiaries)

(As of June 2009)

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 of the Group
DAIICHI SANKYO BUSINESS ASSOCIE CO., LTD.	Japan	¥50,000	100.0	Business support of the Group
DAIICHI SANKYO HAPPINESS CO., LTD.	Japan	¥50,000	100.0	Business support of the Group
DAIICHI SANKYO LOGISTICS CO., LTD.	Japan	¥50,000	100.0	Distribution and related affairs
DAIICHI SANKYO CHEMICAL PHARMA CO., LTD.	Japan	¥50,000	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 equipment, food, and beverages, 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 medicine
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 ESPAÑA 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.	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	EUR51	100.0	Sales of pharmaceuticals
DAIICHI SANKYO FRANCE SAS	France	EUR7,182	100.0	Sales of pharmaceuticals
DAIICHI SANKYO İLAÇ TİCARET Ltd., Şti	Turkey	TL5	100.0	Sales of pharmaceuticals

(As of June 2009)

Company	Country	Paid-in Capital (Thousands)	Equity Owned by the Parent Company (%)	Principal Activities
DAIICHI SANKYO IRELAND LTD.	Ireland	EUR20	100.0	Sales of pharmaceuticals
DAIICHI SANKYO DEVELOPMENT LTD.	U.K.	£400	100.0	Development of pharmaceuticals
U3 Pharma GmbH	Germany	EUR1,126	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 LIMITED	China	HK$3,000	100.0	Marketing of pharmaceuticals
DAIICHI SANKYO TAIWAN LTD.	Taiwan	NT$345,000	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 services of pharmaceuticals and raw materials
DAIICHI SANKYO BRASIL FARMACÊUTICA LTDA.	Brazil	BRL34,000	100.0	Manufacturing and sales of pharmaceuticals
DAIICHI SANKYO VENEZUELA, S.A.	Venezuela	VEB10,000	100.0	Manufacturing and sales of pharmaceuticals
Ranbaxy Laboratories Limited	India	INR2,101,800	63.9	Research, development, manufacturing, and sales of pharmaceuticals

Note: In July 2009, Shanghai Sankyo Pharmaceuticals Co., Ltd., was renamed as Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd., and Daiichi Pharmaceutical (Beijing) Co., Ltd., was renamed as Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd.

Corporate Data

Corporate Profile (As of March 31, 2009)

Company Name: DAIICHI SANKYO COMPANY, LIMITED

Established: September 28, 2005

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

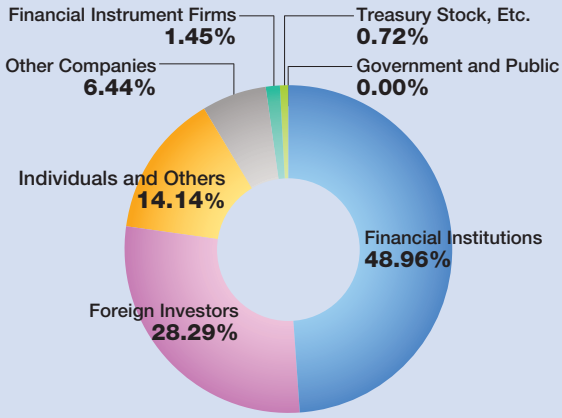
URL: http://www.daiichisankyo.com

Business: Research & development, manufacturing, import, and sales & marketing of pharmaceutical products

Paid-in Capital: ¥50,000 million

Employees: 28,895 (consolidated)

Distribution of Shareholders



Stock Information

Common Stock

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

Number of shares issued: 709,011,343

Number of shareholders: 84,776

Major Shareholders

Name	Number of Shares Held (Thousands of Shares)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	56,550	7.98
Japan Trustee Services Bank, Ltd. (Trust Account)	47,587	6.71
Nippon Life Insurance Company	40,439	5.70
Japan Trustee Services Bank, Ltd. (Trust Account 4)	36,332	5.12
The Chase Manhattan Bank NA, London SL, Omnibus Account	20,724	2.92
Sumitomo Mitsui Banking Corporation	13,413	1.89
Trust & Custody Services Bank, Ltd. (Stock Investment Trust Account)	12,465	1.76
Tokio Marine & Nichido Fire Insurance Co., Ltd.	9,328	1.32
Mizuho Corporate Bank, Ltd.	8,591	1.21
Mizuho Trust & Banking Co., Ltd. (Mizuho Corporate Bank, Ltd., Retirement Benefit Trust Account)	8,497	1.20
Total	**253,930**	**35.81**

Website/IR Information

The latest IR information can be found on our website.

Investor Relations

http://www.daiichisankyo.com/ir/index.html

Daiichi Sankyo's Website Top Page

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