Daiichi-Sankyo

Turning Diversity into Power

DAIICHI SANKYO CO., LTD.
Annual Report 2010

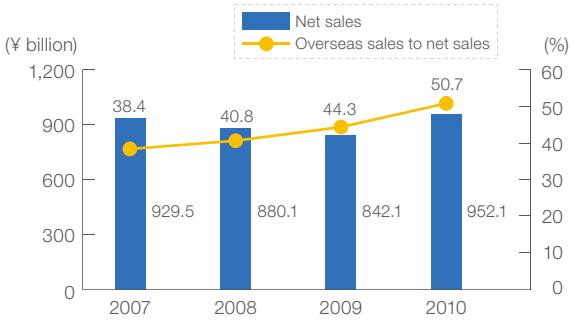
DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries

Years ended March 31, 2010, 2009, 2008 and 2007 (Fiscal years 2009, 2008, 2007 and 2006)

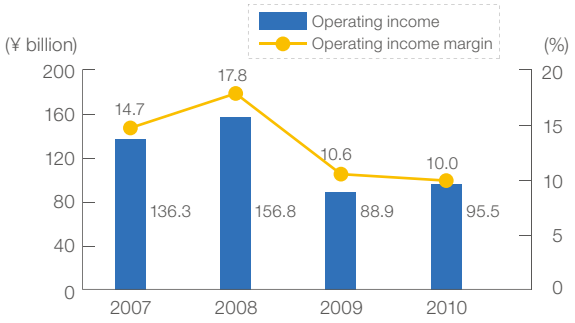
	Millions of yen				Millions of U.S. dollars*
	2010	2009	2008	2007	2010
Net sales	**¥952,106**	¥842,147	¥880,120	¥929,507	**$10,238**
Operating income	**95,509**	88,871	156,827	136,314	**1,027**
Net income (loss)	**41,852**	(215,499)	97,660	78,550	**450**
Overseas sales	**482,337**	373,254	358,639	356,701	**5,186**
Overseas sales to net sales (%)	**50.7**	44.3	40.8	38.4	**50.7**
R&D expenses	**196,803**	184,539	163,472	170,662	**2,116**
R&D expenses to net sales (%)	**20.7**	21.9	18.6	18.4	**20.7**
Expenditures of a capital nature	**45,942**	40,582	38,733	39,987	**494**
Depreciation	**1,489,510**	1,494,600	1,487,889	1,636,835	**16,016**
Total assets	**889,508**	888,617	1,244,513	1,272,148	**9,565**
Net income (loss) per share of common stock (yen and U.S. dollars)	**¥59.45**	¥(304.22)	¥135.35	¥107.75	**$0.64**
Cash dividends per share (yen and U.S. dollars)	**60.00**	80.00	70.00	60.00	**0.65**

* The U.S. dollar amounts represent translations of Japanese yen, solely for convenience, at the rate of ¥93=US$1.00, the approximate exchange rate prevailing on March 31, 2010.

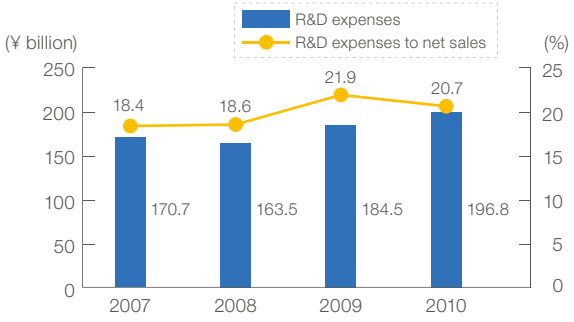
Net Sales / Overseas Sales to Net Sales



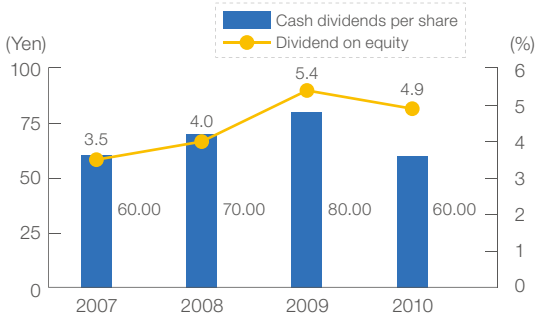
Operating Income / Operating Income Margin



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



Cash Dividends per Share / Dividend on Equity



The Daiichi Sankyo Group is dedicated to our mission of "contributing to the enrichment of quality of life around the world through the creation of innovative pharmaceuticals and through the provision of pharmaceuticals addressing diverse medical needs."

Our initial task for realizing this corporate mission during the period covered by our First Mid-term Business Management Plan (MTP, fiscal 2007 to fiscal 2009) was to construct an organization that is able to constantly evolve and thereby establish the foundation for becoming a **Global Pharma Innovator**.

This annual report will explain in detail the accomplishments of the period covered by our First MTP and the basic strategies of our Second MTP in three sections: Expanding our business reach (Global); Fulfilling unmet medical needs (Pharma) by providing innovative pharmaceutical products; and Building new business models (Innovator).

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.

Special Feature

Accomplishments of the First MTP and Challenges for the Second MTP

Our First Step Toward Becoming a Global Pharma Innovator

Global

Expanding Our Business Reach

Daiichi Sankyo has been broadening its business base and increasing the selection of its global products to establish operations in key areas and strengthen its worldwide presence in emerging markets represented by Brazil, Russia, India and China (BRICs), as well as in developed countries and regions, such as Japan, the United States and Europe.

Accomplishments under the First MTP

More Robust U.S. and European Business Foundations

In the United States, Daiichi Sankyo, Inc. (DSI) fortified its business foundations, primarily focused on increasing the number of medical representatives by fiscal 2009. We successfully established a 1,800-strong sales force, a major step toward our goal of becoming a premier company in cardiovascular diseases. Meanwhile, Luitpold Pharmaceuticals, Inc. (LPI) entered into an exclusive U.S. manufacturing and distribution sublicense agreement for *Venofer* with Fresenius Medical Care AG & Co., the largest provider of dialysis-related products and services in the United States. *Venofer* is LPI's flagship intravenous (IV) iron product. This agreement ensured stable business growth in the dialysis market.

In Europe, the Daiichi Sankyo Europe GmbH (DSE) Group boosted the number of medical representatives in each country in which it operates and enlarged its marketing base by entering Turkey and Ireland. We now maintain local subsidiaries with approximately 1,350 medical representatives in 12 major European countries.

Combination Drugs Containing Olmesartan

Product Name	Status		Combined Active Ingredient	Fiscal 2009 Sales (local currency)
*Benicar HCT**	U.S.	Launched September 2003	Hydrocholorothiazide, Diuretic	¥88.9 billion (US$958 million)
*Olmetec Plus**	Europe	Launched June 2005		¥39.9 billion (€304 million)
AZOR	U.S.	Launched October 2007	Amlodipine, Calcium channel blocker	¥12.8 billion (US$138 million)
Sevikar	Europe	Launched January 2009		¥6.3 billion (€48 million)
Rezaltas	Japan	Launched April 2010	Azelnidipine, Calcium channel blocker	——

* Figures for these products include sales of single agents.

Solid Growth in Olmesartan Sales

Antihypertensive olmesartan is considered to be a best-in-class angiotensin II receptor blocker (ARB) owing to its outstanding efficacy in reducing blood pressure and superior performance in protecting internal organs. The product is now sold in more than 60 countries worldwide and is steadily increasing its market share. We have also introduced drugs to be used in combination with various antihypertensives, such as hydrochlorothiazide (diuretic) and calcium channel blockers. Worldwide sales in the olmesartan franchise have grown from ¥144.7 billion in fiscal 2006, before the start of the First MTP, to ¥238.3 billion in fiscal 2009.

Challenges and Basic Policies for the Second MTP

Further Reinforcing Japanese Business Base

Prescription drug sales in Japan have remained flat over the past three years, largely due to revised drug prices, including an additional price cut for olmesartan in response to market expansion in the wake of the 2008 drug price calculation rules and the government's promotion of generic drugs. With the scheduled release of several new drugs in the Japanese market during the Second MTP, our challenge is to raise our presence by increasing the sales of existing drugs and elevating the contribution of new ones.

Boosting European and U.S. Sales Performance and Extending Our Presence in the ASCA* Region

Having built up our European and U.S. marketing foundations during the period covered by the First MTP, our next challenge is to improve sales productivity per sales representative. We will also intensify and broaden our presence in rapidly growing emerging markets in collaboration with Ranbaxy.

* In-house term for markets outside Japan, the United States and Europe.

Special Feature

Accomplishments of the First MTP and Challenges for the Second MTP

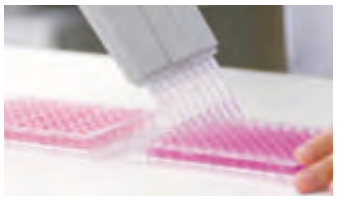
Our First Step Toward Becoming a Global Pharma Innovator

Pharma

Fulfilling Unmet Medical Needs

Daiichi Sankyo has been striving to bolster its R&D system and steadily launch developed products toward its goal of becoming a company dedicated to the creation and provision of innovative pharmaceuticals to address diverse medical needs across the world.



Accomplishments under the First MTP

Steadily Advancing in Applications and Approvals

We filed 22 applications for products, including applications for additional indications, new dosage forms and new combination drugs, for product life-cycle management. A total of 19 applications were approved, including two new active ingredients.

Consistently Accelerating Development Schedules

In fiscal 2009, we completed most of our principal development projects ahead of schedule. This achievement was made possible by the rapid decision-making and efficient progress management of the Global Executive Meeting of Research and Development (GEMRAD), the supreme R&D decision-making entity. Globally, we obtained approval for ten drugs or new uses in fiscal 2009.

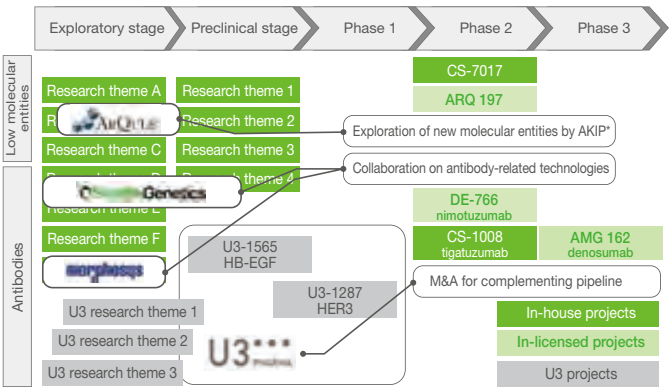
Augmented Development Pipeline for the Oncology Area

To support discovery and development efforts in our priority area of oncology, we acquired the German bio-venture U3 Pharma and introduced anti-RANKL antibody denosumab and c-Met inhibitor ARQ 197. As of the end of fiscal 2009, six development projects are underway, including denosumab. In-house projects are also in progress, as are several other promising initiatives in the exploratory and preclinical stages.

Simultaneously Launching Daiichi Sankyo's Proprietary Oral Factor Xa Inhibitor Edoxaban Worldwide

Edoxaban, developed solely by Daiichi Sankyo, is an oral anticoagulant that directly and specifically inhibits factor Xa, a clotting component in the blood. Global trials are currently underway for two indications—the prevention of stroke and systemic embolic events in patients with arterial fibrillation (ENGAGE AF-TIMI 48) and the acute treatment and long-term secondary prevention of venous thromboembolism (HOKUSAI VTE). These trials are expected to be completed during the period covered by the Second MTP. In Japan, we have already filed an application for the prevention of VTE after major orthopedic surgery, the first such application for an oral factor Xa inhibitor.

Accomplishments in the Oncology Area during the First MTP



* AKIP (ArQule's Kinase Inhibitor Platform) is a proprietary technology developed by ArQule, Inc. for identifying and validating kinase inhibitors. It holds significant promise as a platform for discovering new lead compounds (compounds with the highest potential of becoming a new drug).

Challenges and Basic Policies for the Second MTP

Promoting Oral Antiplatelet Agent Prasugrel

Prasugrel contribution to revenue was limited in fiscal 2009 because of the time required to obtain approval. The challenge going forward will be to highlight its efficacy and establish it as the treatment of first choice for its current indication in ACS-PCI.

Commercialization in the Oncology Area

Although we have augmented our development pipeline for the oncology area, time is still required before sales launch. Our next challenge is to accelerate the process leading up to commercialization and profitability.

Research and Development of First-in-Class Drugs

In April 2010, a system of premiums for the promotion of new drug creation and resolution of unapproved drugs/indications* was introduced in Japan on a pilot basis. Under this policy, new drugs that meet a given set of criteria will not be subject to price cuts during their patent term. At Daiichi Sankyo, 8 ingredients and 16 drugs have been designated under this policy. Public expectations for first-in-class drugs remain high, and we intend to maintain our basic strategy of focusing on innovative pharmaceuticals.

* A system for creating innovative new drugs and developing unapproved drugs. A premium up to a certain rate is added to the price of new drugs for which there are no generic products and that have low discount rates, effectively maintaining their pre-revision prices.

Special Feature

Accomplishments of the First MTP and Challenges for the Second MTP

Our First Step Toward Becoming a Global Pharma Innovator

Innovator

Building a New Business Model

Daiichi Sankyo recognizes that innovation must go beyond science and technology to encompass its business models. Therefore, the Company is further developing its Hybrid Business Model to extend its reach into both developed and emerging markets and provide pharmaceuticals that meet diversified medical needs, such as innovative pharmaceuticals (new drugs), established pharmaceuticals (encompassing generic and Daiichi Sankyo's off-patent, long-sellers with proven marketplace presence), vaccines and OTC products.

Hybrid Business Model in the Second MTP

Market and Customer Diversity

Hybrid Business Model

Operations

Innovative Pharmaceuticals	Established Pharmaceuticals*
Vaccines	OTC Products

Value Chain

Build synergies by taking advantage of the strengths of Daiichi Sankyo and Ranbaxy

R&D	Pharmaceutical Technologies (CMC)	Supply Chain	Quality and Safety Management	Sales and Marketing

* Daiichi Sankyo term encompassing generic drugs and long-sellers with proven marketplace presence.

Accomplishments under the First MTP

Ranbaxy Joins the Daiichi Sankyo Group

In 2008, we converted Ranbaxy Laboratories, Ltd. ("Ranbaxy") based in India into a Group company and launched our Hybrid Business Model. Since launching the sales of antihypertensive agent *Olvance** in India in April 2009, we have sought to extend our global reach in collaboration with Ranbaxy by following up with the sales in Romania of *Evista*, a medication for osteoporosis, preparing to sell olmesartan in six African countries, and establishing a department for marketing Daiichi Sankyo products within the Ranbaxy Group company in Mexico. We have also begun discussions toward setting up a collaborative structure for each link in the value chain, such as for R&D and supply chain.

* Product name under which olmesartan is marketed in India.

Challenges and Basic Policies for the Second MTP

Seizing Opportunities for Growth by Extending our Business Reach and Addressing Diversifying Medical Needs

At the same time developed markets are exhibiting slower growth due to the expiration of patents for major new drugs and the proliferation of generic drugs, emerging markets led by Brazil, Russia, India and China (BRICs) are surging forward on a wave of high economic growth.

Therefore, the key to sustained growth for Daiichi Sankyo is to take into account both developed and emerging markets and respond to diversifying medical needs. In our Second MTP, we will advance our Hybrid Business Model by creating more innovative pharmaceuticals, serving diversifying medical needs and generating synergies with Ranbaxy throughout the value chain.

Strengthening Collaboration with Ranbaxy and Forging Ahead

To efficiently extend its reach in both markets and products, it is essential for Daiichi Sankyo to maximize synergies with Ranbaxy throughout the value chain beyond focusing on marketing, and encompassing the areas of R&D and production.

To this end, our clear challenge is to facilitate the quick lifting of the ban on importation of Ranbaxy products for the U.S. market and resolve the Application Integrity Policy (AIP)* invoked by the U.S. Food and Drug Administration (FDA). Ranbaxy, with the cooperation of Daiichi Sankyo, is continuing its dialogue with the FDA to resolve these issues.

* An AIP is invoked by the U.S. Food & Drug Administration (FDA) against an applicant's facility when concerns are raised about the credibility or reliability of data submitted on a drug application.

Message from the New Chairman

We have spent the past three years under our First Mid-term Business Management Plan (MTP, from fiscal 2007 to fiscal 2009) in a continuous challenge to broaden our foundation for growth to realize our vision for 2015 of becoming a "**Global Pharma Innovator**."

From the perspectives of expanding our business reach (Global), fulfilling unmet medical needs (Pharma), and building new business models (Innovator), we have taken on worthy challenges, such as expanding our overseas business base, further developing our global product olmesartan, pursuing the development, sales and marketing in the United States and Europe of *Effient/Efient*, an antiplatelet agent seen as a driver of future growth, and independently promoting the global development of oral factor Xa inhibitor edoxaban. I feel we have achieved success in each of these arenas. We have endeavored to move beyond the constraints of our conventional business model as a company that creates new drugs geared to developed markets by adopting a new "Hybrid Business Model" that extends our reach in both developed and emerging markets and in the domains of both innovative pharmaceuticals (new drugs) and established pharmaceuticals*. Consequently, we welcomed Ranbaxy Laboratories, a global pharmaceutical company based in India, into the Group. This was a particularly challenging move for Daiichi Sankyo and marked the first major step into the next stage of the Company's evolution.

Once again, I would like to express my heartfelt gratitude to our stakeholders for steadfastly supporting us in breaking through our past experiences of success and conventional business model.

During the period of the Second MTP, we will focus on ensuring the steady budding and nurturing of the seeds sown during the First MTP. Under a new management team led by President Joji Nakayama, who brings extensive experience beyond the pharmaceuticals industry and a global perspective, the Daiichi Sankyo Group will continue on a path of surmounting challenges to realize genuine transformation.

I look forward to the continued understanding and support of all our stakeholders.

August 2010

Takashi Shoda
Representative Director and Chairman

* Daiichi Sankyo term encompassing generic drugs and long-sellers with proven marketplace presence.

Message from the New President

The pharmaceutical industry now faces changes that are utterly different than a simple extension of yesterday's challenges.

The pharmaceutical markets in developed countries are under growing pressure to constrain medical expenses and drug-related expenditures in the midst of the steadily graying population and a slowdown in economic growth. And while economic growth has accompanied the rise in population in emerging markets, less expensive generic drugs are expected to remain at the center of demand for the time being due to the shortcomings of the medical insurance system.

Despite many persistent unmet medical needs, safety regulations around the world are becoming increasingly stringent, further prolonging R&D periods and increasing development expenses, which in turn are raising the hurdle for creating new drugs.

To fulfill our social responsibility as a pharmaceutical company and to continue meeting the expectations of shareholders and investors in this situation, it is vital that, instead of simply responding to change, we proactively change through innovation ahead of the evolving operating environment. Daiichi Sankyo's decision to pursue a new business model by bringing Ranbaxy Laboratories into the Group was indeed our first step toward innovation.

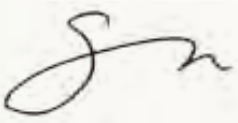
"Innovation" and "quality" are the essence of the 2015 vision of becoming a "**Global Pharma Innovator**," to which the Daiichi Sankyo Group aspires.

I intend to lead the way by fully applying the experiences and perspectives I have gained outside the pharmaceutical industry and to generate innovation by fully leveraging the inherent diversity of the Daiichi Sankyo Group by encouraging in-house dialogue as well as collaboration with outside groups. During this process, I also intend to enhance our corporate value by realizing the potential of our employees to elevate the capabilities of our organization and raise the quality of our overall management, as well as our products.

With passion and integrity, we will continue fulfilling our corporate mission of "contributing to the enrichment of quality of life around the world."

I am confident we can succeed with the continued support of our stakeholders.

August 2010



Joji Nakayama
Representative Director, President and CEO

A Message to Our Stakeholders

Joji Nakayama

Takashi Shoda

Interview with the President

Moving Toward Our Second Mid-term Management Plan

Joji Nakayama

Representative Director, President and CEO

Q1: How well did Daiichi Sankyo perform in fiscal 2009?

Net sales reached ¥952.1 billion, an increase of ¥110.0 billion, or 13.1%, over the previous fiscal year.

The expansion of antihypertensive olmesartan in global markets and *Loxonin* brand anti-inflammatory antipyretic analgesics in Japan provided a boost to sales, although this positive factor was essentially offset by a stronger-than-projected appreciation of the yen, amounting to a negative impact of approximately ¥25.0 billion coupled with a ¥16.3 billion drop in sales of the synthetic antibacterial agent levofloxacin and antihyperlipidemic agent pravastatin. Excluding the ¥108.0 billion in sales from Ranbaxy, representing the first full 12 months of results under consolidated accounting in fiscal 2009, net sales showed only a slight increase of ¥1.9 billion compared with the previous fiscal year.

Operating income rose to ¥95.5 billion, an increase of ¥6.6 billion, or 7.5%. Our efforts to cut back on advertising expenses and reduce costs at Daiichi Sankyo, Inc. (DSI) in the United States were not enough to overcome the negative impact of a rise in the cost of sales of olmesartan and other drugs associated with the strong yen and higher R&D expenses for major development projects, including oral factor Xa inhibitor edoxaban. Once again setting aside the ¥19.0 billion contribution of Ranbaxy, operating income decreased ¥12.4 billion.

Net income, however, reached ¥41.9 billion, a considerable improvement from the previous fiscal year, when we recorded a write-down of goodwill associated with the investment in Ranbaxy.

Q2: What are your thoughts on the changes underway in the operating environment?

We have to diversify our business opportunities and improve cost efficiency to achieve profitable growth in the midst of the ongoing

structural changes in the market, which are constantly draining away profit. Our strategy is to fully deploy our "Hybrid Business Model." In concrete terms, this means accelerating the development of valuable new drugs, selling them in multiple markets, including rapidly growing emerging markets, in conjunction with thorough product life-cycle management in order to maximize profitability before patents expire.

Our challenge, however, does not end there. We have decided to meet diverse medical needs that reflect genuine opportunity by reinforcing our vaccine business in Japan, starting with the fiscal year under review, as well as our innovative pharmaceuticals and OTC pharmaceuticals business lines, and launching an established pharmaceuticals business.

Although it cannot be said that the level of recognition and familiarity associated with the vaccine business is high in Japan, this field is nevertheless very important for protecting our children. Moreover, as the most readily accessible drugs, OTC pharmaceuticals are essential for the daily lives of many people. And the ongoing aging of society will drive even stronger demands for low-priced, high-quality generic drugs. As a representative of the overall healthcare system in Japan, the Daiichi Sankyo Group will provide the finest available lineup of high-quality, low-price products as a pharmaceuticals company set to emerge as the No. 1 company in the nation from every perspective, including volume of sales and market share as well as level of social contribution.

Q3: Do you foresee any change in policy related to innovative pharmaceuticals?

There will be absolutely no change in the vital role of our innovative pharmaceuticals business.

Developing innovative new drugs that address unmet medical needs constitutes the very reason for Daiichi Sankyo's existence and it has always been at the core of my own values.

Interview with the President

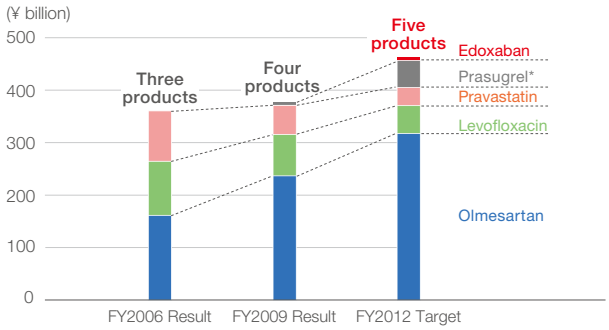
In the Second Mid-term Business Management Plan, we add the antiplatelet agent prasugrel and oral factor Xa inhibitor edoxaban to our established lineup of olmesartan, levofloxacin and pravastatin, and seek to expand these five drugs as global products.

With respect to olmesartan, we intend to quickly boost the sales of *Rezaltas*, a combination drug with a long-acting calcium channel blocker launched in Japan in April 2010. Combined with our life-cycle management of products such as CS-8635 in the United States and Europe, we expect to generate worldwide sales of ¥300.0 billion by fiscal 2012.

In terms of prasugrel, we plan to position it in the United States as the first-choice drug for its current indication in ACS-PCI by highlighting its efficacy and other advantages while steadily introducing it into other countries as well. We expect these efforts will cultivate the drug into a major product with global total sales exceeding $500 million. At the same time, we are steadfastly conducting TRILOGY trials toward obtaining additional indication.

Forecast Sales of Global Products

Key Message: Maximizing profits from olmesartan franchise and prasugrel and launching edoxaban



* Sales target for prasugrel represents the combined total of joint sales by Daiichi Sankyo and Eli Lilly and Company.

Q4: What is your R&D strategy?

We are contending with an environment in which the bar for new drug approval has been raised and R&D expenses continue to escalate. Our challenge, therefore, is to efficiently conduct clinical trials through such means as global development. Daiichi Sankyo is now involved in the global development of edoxaban on a scale unprecedented for our company, and probably for the entire group of Japanese pharmaceutical companies. I believe we must steadily introduce late-stage products into markets by combining external knowledge and capabilities with the R&D capabilities of the Daiichi Sankyo Group.

We plan to launch four innovative new pharmaceuticals in the Japanese market by 2012, including influenza treatment laninamivir, Alzheimer-type dementia treatment memantine, anti-RANKL antibody denosumab, and edoxaban for the prevention of venous thromboembolism (VTE) after major orthopedic surgery.

In the discovery stage from research to early development, we have narrowed our strategy to two areas—oncology and cardiovascular-metabolics, which contain significant unmet medical needs. In oncology, we intend to steadfastly advance projects developed during the First MTP period, including pre-clinical stage projects, and to attain a world-class drug discovery capability and research organization status by 2015 by actively drawing upon external resources.

Q5: What would you say about the current status and future of the collaboration with Ranbaxy?

The period covered by the Second MTP will be the time for harvesting the fruits of the worldwide business foundation established during the First MTP. The key element in this strategy is maximizing synergies with Ranbaxy.

We are already expanding sales of Daiichi Sankyo products in the ASCA (Asia, South and Central America, etc.) region, and decisions were made during fiscal 2009 to launch *Olvance** in India as well as collaborative efforts in Mexico and Africa. These efforts have been progressing well, as exemplified by the introduction of *Prasita*, antiplatelet agent prasugrel, in India by Ranbaxy in June 2010.

We also plan to utilize Ranbaxy's network to improve the efficiency of our business bases and to realize synergies in the fields of R&D and established pharmaceuticals. The generic drug business requires greater cost efficiency than new drug development, and we will continue working in concert with Ranbaxy to provide high quality at low prices.

* Product name under which olmesartan is marketed in India.

Q6: What are the quantitative targets for the Second MTP?

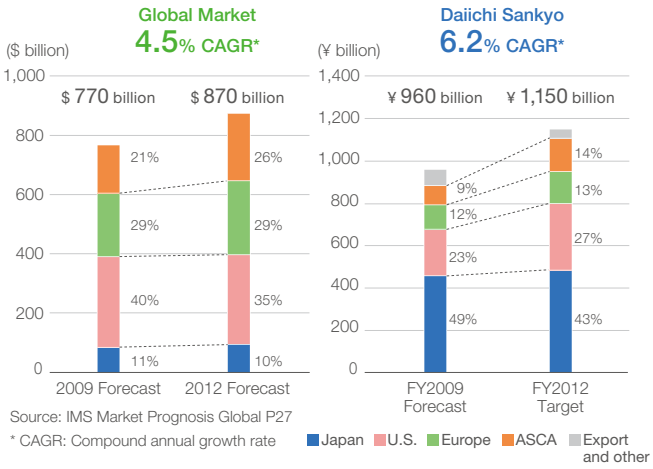
The Group targets for fiscal 2012, the final year of the Second MTP, include net sales of ¥1,150 billion, operating income of ¥180.0 billion, EPS (earnings per share) of over ¥140, and ROE (return on equity) of over 10%.

With respect to sales by region, we are targeting sales of over ¥500.0 billion for Japan. The operating environment in Japan is extremely harsh, with two drug price revisions scheduled during the period of the Second MTP. We intend to achieve consistent growth, however, by maximizing sales in the four domains of innovative pharmaceuticals, OTC pharmaceuticals, vaccines and established pharmaceuticals.

Our targets for overseas sales are sales of ¥650.0 billion compared with ¥482.3 billion in fiscal 2009 and overseas sales to net sales of 56.5% compared with 50.7% in fiscal 2009. With respect

to our ASCA business, we are targeting over ¥150.0 billion in sales by fiscal 2012 by maximizing synergies with Ranbaxy and thereby boosting the ratio of ASCA sales to net sales from 9% in fiscal 2009 to 14% in 2012.

Quantitative Targets for the Second MTP (Announced March 12, 2010)



Source: IMS Market Prognosis Global P27

* CAGR: Compound annual growth rate

Q7: What are your forecasts for fiscal 2010 performance and dividends?

We are likely to experience the impact of drug price revisions in Japan in fiscal 2010. There are concerns in the United States over the yet-undefined impact of healthcare reforms advanced by the current administration, and declining exports of levofloxacin as patents expire suggest that we can expect a severe operating environment. We will, however, seek improved profitability primarily by maximizing the sales of the olmesartan family and new products along with the contribution from Ranbaxy toward achieving consolidated net sales of ¥980.0 billion, an increase of ¥27.9 billion from fiscal 2009.

In terms of income, we must take into consideration the fact that sales promotion activities will focus on global products and new products as R&D expenses reach their peak in line with progress in major development projects. Consequently, we are forecasting consolidated operating income of ¥90.0 billion, down ¥5.5 billion from fiscal 2009.

We plan to pay annual dividends of ¥60 per share in fiscal 2010, the same as the previous fiscal year. Our policy during the period of the Second MTP is to strike the best balance between strengthening our financial constitution, securing funds for investment and providing shareholder returns commensurate with our performance. With respect to dividend payments, we plan to maintain stable dividends on par with fiscal 2009 and will also consider increasing dividends depending upon our level of profit.

Q8: What final words do you have for stakeholders?

The Daiichi Sankyo Group currently has two vectors in its strategy. The first is our further evolution as a maker of innovative pharmaceuticals, which can be stated more concretely as seeking greater efficiency in our value chain while at the same time fulfilling unmet medical needs. The second vector is the pursuit of new pathways for development that transcend the boundaries of a pharmaceuticals maker by maintaining a watchful eye over the entire field of medical services.

Over the next decade, we will channel our energies toward the first vector while seeking to augment and diversify efforts in the second one. We are aware, however, that our short-term tasks will be returning Ranbaxy to a trajectory of growth and raising our presence in the Japanese market.

With respect to Ranbaxy, our top priority continues to be resolving at the earliest possible time the import ban and AIP issue in the United States. In January 2010, we appointed a head of global quality control from DSI's quality management division and continue working together with Ranbaxy toward an early resolution.

The Japan Business, the largest regional segment of the Daiichi Sankyo Group, represents our engine of growth. In my concurrent role as Japan Company President, I will take the lead in securing a more solid footing for our journey toward becoming a **"Global Pharma Innovator."**

Japan Business (Japan Company)

The Japan Company was established within Daiichi Sankyo Co., Ltd. in April 2010 as a virtual company to cover the prescription drug business.

Under the direct control of the Japan Company president, the Sales & Marketing, Administration, and Business Intelligence divisions that comprise the company specialize in three business areas: innovative pharmaceuticals, vaccines, and established pharmaceuticals. From October 2010, Daiichi Sankyo Espha Co., Ltd. will assume responsibility for the sales of established pharmaceuticals. The goal is to achieve over ¥500 billion in sales in fiscal 2012 for the Japan Business as a whole, including sales of over-the-counter (OTC) pharmaceuticals by Daiichi Sankyo Healthcare Co., Ltd.

Innovative Pharmaceuticals Business

Market Trends

The Japanese prescription drug market expanded in fiscal 2009 due to the increasing prevalence of lifestyle-related diseases and the graying of the population with the added impetus of advances in innovative pharmaceuticals, such as molecularly targeted drugs, as well as the H1N1 influenza epidemic. This growth occurred despite the impact of an additional change in prescription format designed to encourage the use of generics and intensified government efforts to restrain drug-related expenditures through systemic reforms. The overall market grew 6.3% over fiscal 2008 to ¥8,896.8 billion (Copyright IMS Japan, Source: JPM 2009, all rights reserved). As part of drug pricing revision, a pilot system of premium for promotion of new drug creation and resolution of unapproved drugs/indications* was introduced in April 2010. A total of 8 Daiichi Sankyo ingredients and 16 products fall under this system.

* A system for creating innovative new drugs and developing unapproved drugs. A premium up to a certain rate is added to the price of new drugs for which there are no generic products and that have low discount rates, effectively maintaining their pre-revision prices.

Overview of Performance in Fiscal 2009 and Basic Strategy of the Second Mid-term Business Management Plan

The Daiichi Sankyo Group intends to secure profits and sustained growth in its core business of innovative pharmaceuticals. Daiichi Sankyo's domestic net sales of prescription drugs amounted to ¥412.3 billion in fiscal 2009, up 1.4% from fiscal 2008 levels, and was boosted by the expanded sales of antihypertensive *Olmetec* and *Calblock*, and *Loxonin* brand, anti-inflammatory analgesics.

We intend to fully leverage our earnings foundations by maximizing sales of high-growth products such as those comprising the olmesartan franchise, which now includes the new product *Rezaltas*, launched in April 2010, in addition to *Olmetec* and *Calblock*. We will also seek to accelerate growth by introducing new products during the course of the Second MTP, including laninamivir, an anti-influenza virus agent, and memantine, an Alzheimer's type dementia treatment for which we have filed applications; oral factor Xa inhibitor edoxaban for the prevention of venous thromboembolism (VTE) after major orthopedic surgery and Anti-RANKL antibody denosumab with an indication for bone metastases.

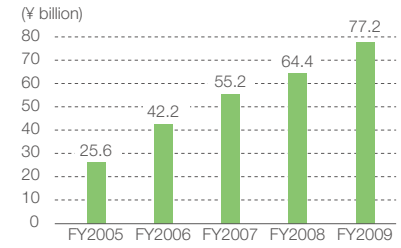
Performance of Principal Products

Cardiovascular Diseases

▸ *Olmetec* (antihypertensive) Generic name: Olmesartan medoxomil

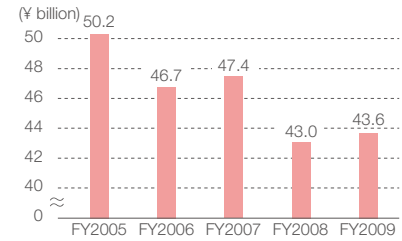
Olmetec is widely recognized as best-in-class for its strong efficacy in reducing blood pressure and superior performance in protecting internal organs. Sales continued rising in fiscal 2009, dramatically outperforming the market for angiotensin II receptor blockers (ARBs), a leading area of growth in the Japanese market. The product sparked a 20.0% leap in sales from fiscal 2008 to ¥77.2 billion, lifting its domestic ARB market share from fourth place to third. We plan to bolster the life-cycle management of *Olmetec*, including the accelerated expansion of combination agent *Rezaltas*, as a key driver for the Second MTP to further boost sales.

***Olmetec* (antihypertensive, ARB)**

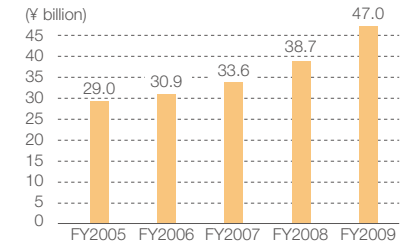


Rezaltas (combination of high-affinity ARB and long-acting calcium channel blocker (CCB))

***Cravit* (synthetic antibacterial agent)**



***Loxonin* (anti-inflammatory analgesic agent)**



▸ *Rezaltas* (combination of high-affinity ARB and long-acting calcium channel blocker (CCB) Generic name: Olmesartan medoxomil, Azelnidipine

Rezaltas was launched in April 2010. We pursue the top share of sales in the ARB/CCB combination pharmaceuticals market and enhance the value of our entire olmesartan franchise by emphasizing the drug's powerful efficacy and stable performance in suppressing blood pressure for up to 24 hours.

▸ *Calblock* (antihypertensive) Generic name: Azelnidipine

Despite slow growth in the CCB market, sales of *Calblock* went up 12.8% from fiscal 2008 levels to ¥13.7 billion in fiscal 2009 as prescriptions grew due to our efforts to promote the long-acting antihypertensive effects and its acclaimed efficacy for renal protection. We will continue to promote its figures and pursue a larger market share by building on the brand power generated by the launch of *Rezaltas*, a combination drug with olmesartan.

▸ *Mevalotin* (antihyperlipidemic agent) Generic name: Pravastatin sodium

The increased prescription of generics and competition from strong statins led to an 8.9% decline in *Mevalotin* sales from fiscal 2008 to ¥46.2 billion. We will steadfastly maintain *Mavalotin's* position as a standard statin through evidence-based marketing, stemming from such activities as MEGA Study large-scale clinical trials.

Infectious Diseases

▸ *Cravit* (synthetic antibacterial agent) Generic name: Levofloxacin hydrate

A marketing campaign calling attention to all facets of *Cravit's* efficacy in controlling drug-resistant bacteria based on PK/PD theory, synchronized with the launch of the high-dosage formulation of *Cravit* in July 2009, increasing sales by 1.5% from fiscal 2008 to ¥43.6 billion. Sales of 100mg formulation of *Cravit* were suspended as of March 31, 2010.

Bone/Joint Diseases

▸ *Loxonin* (anti-inflammatory analgesic agent) Generic name: Loxoprofen sodium hydrate

Loxonin is the leading brand of anti-inflammatory agents. Demand is particularly high for the percutaneous absorption-type *Loxonin Tape* introduced in July 2008. Once supply challenges eased, sales jumped 21.4% from fiscal 2008 levels to ¥47.0 billion in fiscal 2009. With the approval of a gel form of *Loxonin* in June 2010, we project stronger sales of this product line, now consisting of an oral agent and three external use formulations, in fiscal 2010.

Urological Diseases

▸ *Urief* (treatment for dysuria) Generic name: Silodosin

Sales of *Urief* rose 14.3% from fiscal 2008 levels to ¥9.0 billion in fiscal 2009 in the wake of a growing alpha-blocker market and the increasing volume of prescriptions attributable to its reported efficacy in relieving strong urine collection disorders and early subjective symptoms.

Vaccine Business

Key Message

Reinforce and expand prophylactic vaccine business, for which medical needs are strong

Reinforce R&D, production, and sales functions

- Pursue joint research
- Strengthen collaboration with Kitasato Research Institute to bolster production of influenza vaccines

Expand sales of new and existing drugs

- Launch measles and rubella vaccine in fiscal 2010
- Swiftly establish structure for consistently supplying 4 million doses annually of ActHib

Promote development projects

- Quadruple vaccines*, etc.
(for inactivated poliomyelitis and diphtheria-tetanus-pertussis)

* Inactivated poliomyelitis and diphtheria-tetanus-pertussis

Vaccine Business

Concerns over crisis management and preventive healthcare in light of emerging infectious diseases, such as the H1N1 influenza virus, have boosted demand for vaccine treatment. Daiichi Sankyo will therefore pursue vaccines as a major pillar of the Japan Company's core business and develop strategic initiatives to create prophylactic medicines with the initial goal of becoming a top-class vaccine company in Japan.

Vaccine business sales accounted for only a small percentage of the sales of our overall Japanese prescription drug business in fiscal 2009. We will therefore seek growth through the development of new vaccines by strengthening collaboration with the Kitasato Institute and other research institutions in Japan and overseas.

Our immediate task is to build up sales by quickly establishing a structure that makes possible an annual supply of four million doses of ActHib, a vaccine introduced in December 2008 for preventing bacterial meningitis, to meet the demand for inoculating all newborn babies in Japan. Meanwhile, we will bring to market a new measles and rubella (MR) vaccine in fiscal 2010 and then increase momentum through development efforts to provide medical institutions with high-demand vaccines, such as quadruple vaccines (for inactivated poliomyelitis and diphtheria-tetanus-pertussis).

Established Pharmaceuticals

We established Daiichi Sankyo Espha Co., Ltd. in April 2010 as a channel for providing pharmaceuticals for diverse medical needs as well as to seize opportunities in the generic drug market, which is growing on the back of government promotion efforts.

Scheduled to begin operations in October 2010, Daiichi Sankyo Espha will market generics as well as part of Daiichi Sankyo's off-patent, long-sellers with proven marketplace presence under the definition of "established pharmaceuticals" through close collaboration with Daiichi Sankyo in the areas of brand, customer needs, distribution and information.

We plan to transfer a portion of Daiichi Sankyo's established pharmaceuticals to Daiichi Sankyo Espha in October 2010, with the aim of boosting our presence in the generic drug market and leveraging our sales.

Daiichi Sankyo Espha will ensure that the critical roles in the field of pharmaceuticals—quality, information and stable supply—are fulfilled through the coordinated integrity of the Group, combining the economies of scale expected from generics and ultimately enabling patients to enjoy fuller, healthier lives supported by medical institutions and health insurance pharmacies.

Japan Business (OTC Business)

Daiichi Sankyo is positioning its healthcare business as a core business segment, encompassing over-the-counter (OTC) pharmaceuticals, which includes functional foods and functional skincare products. These businesses are undertaken by Daiichi Sankyo Healthcare Co., Ltd.

OTC Pharmaceuticals Business by Daiichi Sankyo Healthcare Co., LTD.

Key Message: **Promote OTC operations by focusing on consumers**

- Reinforce development pipeline capabilities (including in-licensed products)
- Bolster capabilities in first-class drugs (including Rx-to-OTC switch drugs*)
  Loxonin, etc.
- Create functional skincare business

FY2012 Targets

Sales ¥55 billion

Operating income ratio 10%

* Drugs previously designated as prescription drugs but now available as OTC drugs that can be purchased without a prescription at pharmacies because they meet certain requirements, such as lower risks of side effects.

Market Trends

As rising medical expenditures driven by the graying of the Japanese population become a major social issue, self-medication with OTC drugs is being actively promoted. In this context, amendments to Japan's Pharmaceutical Affairs Law were fully enacted in June 2009 and a sales system based on safety risk categories was introduced.

The amended law is expected over the mid-term period to encourage companies in other industries, such as convenience stores and supermarkets, to move into the market. While this will spur the development of Rx-to-OTC switch products*, such movements are still limited. Moreover, the new requirements permit only pharmacists and registered vendors to sell certain OTC drugs. Meanwhile, sales were impacted by a decline in the size of the market for combination cold remedies and a shrinking market for rhinitis and allergy treatments due to reduced levels of airborne pollen. Consequently, the size of the OTC drug market in fiscal 2009 decreased slightly from fiscal 2008.

Overview of Performance in Fiscal 2009 and Basic Strategy of the Second MTP

Anticipating mid- to long-term growth in the market for category 1 medicines, including Rx-to-OTC switch products, Daiichi Sankyo Healthcare has been expanding business by promoting OTC operations by focusing on consumers.

New products launched in fiscal 2009 included *LuLu Attack EX*, *Regain ZERO*, *Minon Amino Moist*, and *Patecs Usupita Shippu*. *LuLu Attack EX* is the first cold remedy in Japan to offer a combination of tranexamic acid and ibuprofen (the maximum daily dosage for an OTC drug) to alleviate the inflammation that causes cold symptoms, making it highly effective against colds accompanied by sore throats and fevers. Sales in this segment, however, fell 7.4% from fiscal 2008 levels to ¥43.7 billion due in part to the decline in sales of category 1 medicines such as *Gaster 10* and amid the temporary confusion that followed the implementation of the revised Pharmaceutical Affairs Law.

In January 2010, *Loxonin* (generic name loxoprofen sodium hydrate), a non-steroid anti-inflammatory analgesic agent, was approved for sale as an Rx-to-OTC switch product. The functional skincare business will also be a focal area of our efforts to achieve our targets of ¥55.0 billion in sales and 10% operating income ratio in fiscal 2012.

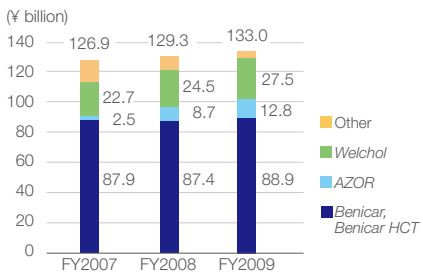
United States

The Daiichi Sankyo Group's U.S. operations include businesses undertaken by Daiichi Sankyo, Inc. (DSI), Luitpold Pharmaceuticals, Inc. (LPI), and U.S. subsidiaries of Ranbaxy Laboratories, Ltd. These companies primarily engage in prescription drug businesses with the exception of some non-pharmaceutical businesses.

We are targeting net sales of US$3.5 billion in fiscal 2012 for U.S. operations as a whole, with market share exceeding 1% of the predicted size of the U.S. pharmaceuticals market for fiscal 2012.

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

Net Sales of DSI Key Products



Market Trends

In 2009, the pharmaceutical market in the United States grew despite difficult economic and regulatory pressures, seeing an increase in prescription volume.

Daiichi Sankyo, Inc. (DSI) achieved net sales of US$1,433 million, up 11.4% from fiscal 2008, and a growth rate considerably greater than that of the U.S. market overall.

Luitpold Pharmaceuticals, Inc. (LPI) also recorded a strong 10.3% growth rate and achieved net sales of US$561 million.

Daiichi Sankyo, Inc. (DSI)

Progress as a Leader in Cardiovascular Therapies

DSI reported a 10.2% increase in net sales of its flagship products, *Benicar* and *Benicar HCT*, and reached strong growth with *AZOR* and *Welchol*.

One of the major 2009 milestones was the successful launch of *Effient*, a groundbreaking therapy for the treatment of acute coronary syndrome (ACS) for patients undergoing percutaneous coronary intervention (PCI). DSI launched *Effient* (prasugrel tablets) in August 2009 with co-development partner Eli Lilly and Company. Only three months after launch, the American Heart Association, American College of Cardiology, and Society for Cardiovascular Angiography and Interventions added *Effient* as a treatment option in two clinical guideline updates. Sales of *Effient* accelerated in 2009, and the company expects that trend to continue.

In fiscal 2009, *Benicar* and *Benicar HCT* were granted approval from the U.S. Food and Drug Administration (FDA) for use in children and achieved strong sales as the fastest growing ARB, ending the year with a nearly 20% prescription share of the market. In addition, the company launched the oral suspension of *Welchol (Welchol OS)*, a treatment for lowering both HbA1C and LDL cholesterol, which exceeded sales expectations in the United States.

New Medications Pave the Way for Future Growth

As one of the first companies to study a small molecule factor Xa inhibitor in humans, DSI is building on its innovation in cardiovascular disease and tackling the need for better and more effective ways to prevent thrombosis. To that end, it is making great strides in the development of edoxaban, the once-daily oral anticoagulant that directly inhibits factor Xa, with two major Phase III trials underway.

Furthermore, as part of the company's product life-cycle management strategy for olmesartan, DSI submitted a New Drug Application for *TRIBENZOR*—a combination of three antihypertensive agents: olmesartan, amlodipine and a diuretic—to the FDA in September 2009, received approval in July 2010, and launched the product in August 2010.

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

DSI Contributes to Overall Company Growth

With the beginning of substantive discussion of healthcare reform legislation, 2009 brought some of the healthcare industry's biggest opportunities and challenges. This legislation will drive sweeping changes for all aspects of healthcare development and delivery, including how physicians care for patients and how payers, pharmaceutical researchers and manufacturers operate.

Although the full impact of healthcare reform remains unknown, legislation will require that all pharmaceutical companies participate in this reform and take on new and broader responsibilities to help Americans access quality, affordable healthcare and drug coverage.

DSI is committed to being the leader in addressing diverse and unmet medical needs in the United States, continuing to improve growth and productivity by harnessing the benefits from its bolstered business infrastructure and focusing efforts on maximizing its cardiovascular franchise and innovative therapies, including *Benicar/Benicar HCT*, *AZOR*, *TRIBENZOR*, *Welchol* and *Effient*.

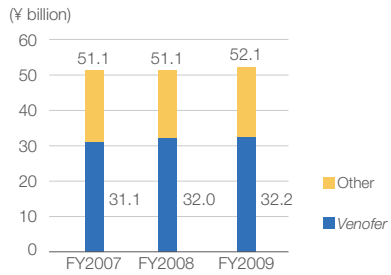
LPI (Luitpold Pharmaceuticals, Inc.)

LPI's *Venofer* is 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 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 dialysis products and services, ensuring a stable, long-term business base. LPI also pursued sales outside the dialysis chain market, and as a result, net sales for *Venofer* in fiscal 2009 rose 8.6% from the previous year to $346 million.

In December 2009, LPI acquired all of the shares of PharmaForce, Inc., a specialized company in the niche domain of developing and marketing generic injectable products, making it a wholly owned subsidiary. The U.S. market for generic injectable pharmaceuticals is expected to expand as patents on branded products expire. LPI will pursue continuous growth in profit, drawing upon PharmaForce's outstanding track record in obtaining ANDA* approval.

* Abbreviated New Drug Application: Simplified FDA approval application required for the sale of generic pharmaceuticals.

Net Sales of LPI Key Products

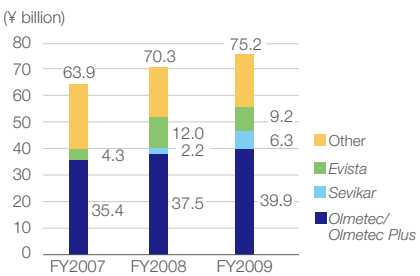


Europe

The Daiichi Sankyo Group's European operations are undertaken by Daiichi Sankyo Europe GmbH (DSE) and other companies in the DSE Group and Ranbaxy Laboratories Ltd.'s European operations. We are expanding our target business regions and boosting the efficiency of our supply chain by collaborating with Ranbaxy to attain our Group goal of 10% average annual growth and net sales of €1.2 billion in fiscal 2012.

Reinhard Bauer
Managing Director and CEO, Daiichi Sankyo Europe GmbH

Net Sales of DSE Key Products



Market Trends

The growth rates of the major European markets in fiscal 2009 reached about 3%, mainly driven by specialty products, while primary care sales declined due to patent expirations. In addition, European governments placed strong emphasis on reducing healthcare spending. Despite these factors, DSE outperformed the market and achieved sales of €574 million, a growth rate of more than 17% in terms of local currencies compared to fiscal 2008. This result is primarily attributable to the outstanding development of the olmesartan franchise*. Net sales of these products rose by more than 27% despite a competitive market environment.

* The DSE olmesartan franchise currently comprises three products: *Olmetec* (active ingredient: olmesartan), *Olmetec Plus* (olmesartan in combination with hydrochlorothiazide) and *Sevikar* (olmesartan and amlodipine).

Daiichi Sankyo Europe GmbH (DSE)

Focus on Patients

The impressive development of the olmesartan portfolio follows DSE's passionate commitment to meeting patient needs. The availability of the three products *Olmetec*, *Olmetec Plus* and *Sevikar* allows doctors to select the best possible therapy for each patient from a significant variety of strengths and fixed-dose combinations. Medical professionals can then build on the highly effective, well-tolerated active ingredient olmesartan while offering their patients tailored hypertension treatment.

Efient, the latest DSE product based on the active ingredient prasugrel, is also being used by more and more patients at a satisfying pace. Launched in the United Kingdom and Germany in spring 2009, *Efient* is a new treatment option for preventing atherothrombotic events in patients with acute coronary syndrome (ACS) undergoing percutaneous coronary intervention (PCI). One year after the product was launched in Germany, nearly 20% of all new patients in this indication are being treated with *Efient*. Similar trends can be observed in the other European markets.

Future Perspectives

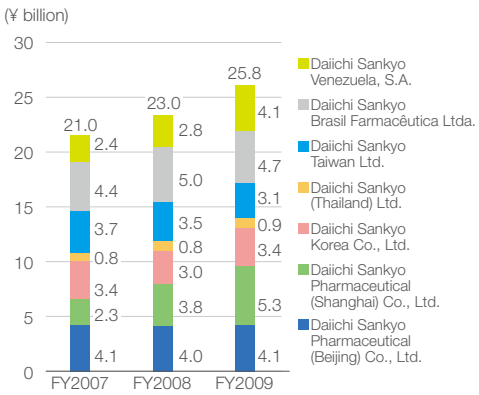
From fiscal 2010 to 2012, the period of the company's Second Mid-term Business Management Plan, DSE will continue to center its business operations on patient needs. For example, an additional dosage form of *Olmetec Plus* comprising 40 milligrams of olmesartan is being launched across Europe to further broaden the choice of customized therapies in hypertension treatment. A triple combination (CS-8635) offering the active ingredients olmesartan, amlodipine and a diuretic in a single pill is awaiting approval. Consequently, new therapies particularly addressing the needs of the most challenging patients are in the pipeline, boosting expectations for growth in the olmesartan franchise. In fact, more than 50% of new patients with ACS undergoing PCI are expected to be treated with *Efient* in the future. This robust portfolio in cardiovascular care will enable DSE to generate double-digit growth.

ASCA Business

While efforts to restrain medical expenses have applied the brakes on the growth of drug markets in developed countries, burgeoning populations and economic expansion have brought a fresh dynamism into the markets of emerging countries such as Brazil, Russia, India and China (BRICs).

Daiichi Sankyo identified the high-growth regions primarily located in Asia and Central and South America (ASCA*) and established the ASCA Company in April 2010 to handle business in these regions. Our sales target for the ASCA business, including the operations of Ranbaxy Laboratories Ltd., is to exceed ¥150 billion in fiscal 2012, which is roughly equivalent to sales in Europe.

Net Sales of ASCA Business



Market Trends and Overview of Performance in Fiscal 2009

IMS Health forecasts published in March 2010 indicate "emerging drug markets**" will expand by $90 billion between 2009 and 2013, accounting for as much as 48% of growth in the global drug market (from 37% in 2009).

In 2009, Daiichi Sankyo Group companies in the ASCA region sought to expand sales centered on antihypertensive olmesartan and synthetic antibacterial agent *Cravit*, with overall sales totaling ¥25.8 billion, up 12.1% from fiscal 2008 levels. Excluding the impact of currency exchange rates, sales rose approximately 25% at a significant pace that exceeded the market growth rate of the ASCA region.

* Acronym for Asia, South and Central America and in-house term for markets outside Japan, the United States and Europe.

** IMS Health expanded its list of emerging countries from 7 (China, Brazil, Mexico, India, Russia, South Korea and Turkey) to 17.

Efforts and Priority Strategies

In China, Daiichi Sankyo Pharmaceutical (Shanghai) Co., Ltd. (DSSH) promoted sales of the antibiotic agents *Cefmetazon* and *Carbenin*, utilizing the human network developed across the area of infectious diseases by Daiichi Sankyo Pharmaceutical (Beijing) Co., Ltd. (DSBJ) in its *Cravit* synthetic antibacterial agent business. As a result, sales more than doubled from fiscal 2008 levels.

Antihypertensive agent *Sevikar*, a combination drug consisting of olmesartan and amlodipine, was introduced in South Korea in June 2009 and Taiwan in August 2009, where it joined mainstay products such as *Cravit* and antihyperlipidemic agent *Mevalotin*, as the nation's government stepped up its efforts to restrain medical expenses. In Thailand, we obtained marketing rights for *Mevalotin* from the licensor. Sales through our own subsidiaries began in January 2010.

Olmesartan is driving improved performance in Brazil and Venezuela. Moreover, a combination drug consisting of olmesartan and amlodipine was launched in Brazil in July 2008 and is scheduled for sale in Venezuela in September 2010.

Preparations are also underway for introducing the antiplatelet agent prasugrel in Venezuela, Brazil and South Korea in fiscal 2010 as the best-in-class drug for indicated diseases, broadening the options for treating patients in these countries.

In the fast-growing ASCA region, Daiichi Sankyo will fully deploy its Hybrid Business Model by collaborating with Ranbaxy and leveraging Ranbaxy's worldwide marketing network of 46 countries.

Comments from the Head of the R&D Division

Our top challenge is to emerge as the leading company in antithrombotic agents. And from there, move on to attain world-class drug discovery capabilities and a correspondingly respected research organization in oncology to set into place an even stronger foundation for growth by 2015.

Steady Progress in Augmenting the Pipeline during the First MTP

During the period covered by the First MTP, we filed new drug applications for 22 products, including those for life-cycle management, and successfully obtained approval for 19 products. Our accomplishments in fiscal 2009, the final year of the MTP, were particularly noteworthy. Not only did we obtain approval for 10 products, but we were also able to complete most of our principal projects ahead of schedule and filed our new drug application for the oral, once-daily direct factor Xa inhibitor edoxaban in Japan on schedule by the end of March 2010. This has led to a real sense that our development efforts during this three-year period are steadily bearing fruit.

I would say this has been the result of a process we established in which each stage was clearly identified during integration of the two companies before a cycle of deliberations by GEMRAD*. This allowed us to focus on projects that were ready for the next stage and then allocate management resources and effectively manage the progress of those projects.

* Global Executive Meeting for Research and Development is the supreme decision-making organization for Daiichi Sankyo research and development.

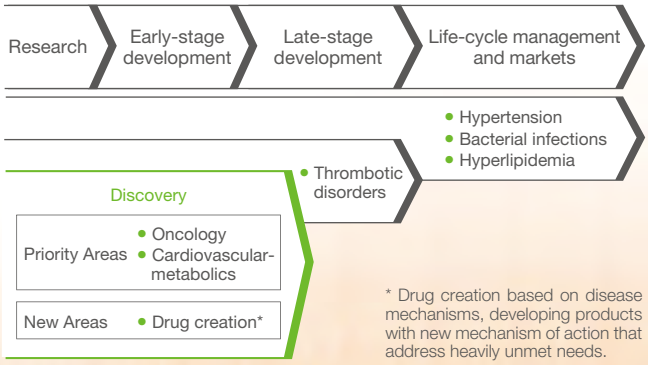
Simultaneous Global Development of Edoxaban in the Four Key Regions

Daiichi Sankyo's principal late-stage development projects include seven projects in Phase III and six pending approval as of the end of July 2010. Our mission during the Second MTP will be to make sure that these projects steadily advance.

Particularly vigorous efforts are underway in the simultaneous global development of edoxaban in the four key regions. With respect to innovative pharmaceuticals, promoting development through multinational clinical studies while at the same time filing new drug applications in as many countries as possible addresses the issue of drug lag. It also facilitates the early recovery of R&D expenses that tend to expand during late-stage development.

We are developing edoxaban in collaboration with Harvard University's TIMI Study Group, a world-renowned research institution, on its indication for preventing stroke and systemic embolic events (AF), and with ICTOM of the Netherlands on its indication for secondary prevention of recurrent VTE in patients with deep vein thrombosis and pulmonary embolism. The interest shown by these researchers clearly indicates their recognition of edoxaban as a promising investigational drug.

Priority Areas in Terms of R&D Stages



* Drug creation based on disease mechanisms, developing products with new mechanism of action that address heavily unmet needs.

Daiichi Sankyo Pharma Development, President
GEMRAD Co-Chairperson

Glenn Gormley

Dr. Glenn Gormley is the Chief Scientific Officer of the Daiichi Sankyo Group and currently serves as Co-Chairperson of GEMRAD with Dr. Hirokawa. He has overseen development at major pharmaceutical companies and has more recently served as president of a bioventure company that develops new treatments for cancer. He is a leader in R&D in the pharmaceuticals industry.

Our Mission is to Fulfill Unmet Medical Needs

Today, we have come close to curing or controlling a wide range of diseases. When it comes to cancer, although more patients can now be cured through surgery and treatment than 20 years ago, many lives are still unfortunately lost. In other words, the level of satisfaction is extremely low for cancer—representing a significant unmet medical need—and patients as well as the general public continue to seek effective medical interventions for this disease. At Daiichi Sankyo we feel we must earnestly respond to this expressed need.

In the exploratory phase, from research to early-stage development, we are concentrating on the priority areas of oncology and cardiovascular-metabolics (existing cardiovascular diseases combined with metabolic diseases), where dissatisfaction with treatment remains high.

Aiming for the Top 10 in Priority Areas Worldwide by 2015

In the cardiovascular-metabolics area, we have revised our earlier approach of alleviating single risk factors, such as blood pressure, to focus on controlling multiple risk factors and protecting internal organs in order to strengthen our foundations in this area. Particularly with respect to thrombosis, we are convinced we could quickly emerge as the world's top enterprise for antithrombotic agents based on two pharmaceuticals that have the potential of becoming best-in-class—antiplatelet agent prasugrel for arterial thrombosis, and oral, once-daily direct factor Xa inhibitor edoxaban for venous thrombosis.

In the oncology area, we intend to obtain world-class drug discovery capabilities with a correspondingly respected research organization by 2015. We believe we can do this by steadfastly pursuing development initiatives that include pre-clinical phase stage projects while actively acquiring external resources during the period covered by the Second MTP.

What we do every day is connected to the entire world. We hope to deliver the fruit of our endeavors to patients everywhere at the earliest possible time through unwavering research and development efforts driven by this desire.

Director, Senior Executive Officer
Head of R&D Division
GEMRAD Co-Chairperson

Kazunori Hirokawa

Late-Stage Development

Satoshi Kunitada
Corporate Officer, in charge of Japan Development for the R&D Division

Comments from the Lead Edoxaban Researcher

More than 25 years have passed since we first began to explore and develop an oral, once-daily direct factor Xa inhibitor. The greatest difficulty was to discover a compound that could be administered orally. It can be stated without exaggeration that 20 of the 25 past years were exclusively dedicated to this research. Development of several compounds had to be aborted because although oral administration was confirmed as effective in tests with animals, evidence of oral absorption by humans was rarely observed. Once we were able to confirm high blood concentration associated with the dosage of edoxaban during Phase I trials, all the faces of my colleagues in synthesis and pharmacology research immediately came to mind. We are convinced that edoxaban, with its outstanding pharmacokinetics, is a promising product that could reasonably emerge as best-in-class.

Development Status for Edoxaban (As of July 2010)

Indication	Phase III clinical trials		
Prevention of thromboembolic event in atrial fibrillation (AF)	U.S., Europe, Asia, including Japan	Multinational trials "ENGAGE AF-TIMI 48"	Started in November 2008
Prevention of thromboembolic event in patients with DVT/PE	U.S., Europe, Asia, including Japan	Multinational trials "HOKUSAI-VTE"	Started in January 2010
Prevention of post-surgical thromboembolic event	Japan	—	Filed in March 2010

Daiichi Sankyo's late-stage development projects include seven in Phase III and six in application as of the end of July 2010. Here are our principal products in this stage.

Spotlight 1: Edoxaban (DU-176b)

Edoxaban's Contribution to Unmet Medical Needs

For half a century, warfarin has maintained its position as the standard oral drug for treating and preventing thromboembolic events in patients with atrial fibrillation (AF), and venous thromboembolism (VTE) such as pulmonary embolism (PE). Satisfaction with treatment, however, is not always high because of the difficulty of controlling dosage and the existence of interactions between the drug and food.

Edoxaban can be administered once-daily and is less affected by food intake. In terms of safety, trials have indicated a lower risk of bleeding and a broader range of treatment applications than warfarin, as well as a lower risk of abnormal liver function than for other anticoagulants. Development is currently underway for indications of preventing stroke and systemic embolic events in patients with AF, treating and preventing PE often associated with "travelers' thrombosis," and preventing VTE after major orthopedic surgery.

Status of Development

We are pursuing simultaneous global development in our four key regions to obtain indications for preventing stroke and systemic embolic events in patients with AF, and the acute treatment and long-term secondary prevention of VTE. Multinational clinical studies are underway in 46 countries for the former indication and in 40 countries for the latter. We anticipate clinical trials will be completed during the period covered by the Second MTP.

In Japan, Phase III clinical trials for the prevention of VTE after major orthopedic surgery have been completed and a new drug application was filed in March 2010.

Spotlight 2: Denosumab (AMG 162)

Denosumab's Contribution to Unmet Medical Needs

The metastases of advanced cancer are commonly found in bones. A safe and effective drug is thus required for the bone metastases of cancer, which can result in bone fractures and severe pain that can significantly lower a patient's life expectancy and quality of life. Furthermore, considerable progress in cancer treatment has been achieved in recent years, leading to extended life expectancies among patients, which in turn has increased the importance of treating bone lesions that have a major impact on quality of life.

Denosumab is a fully human anti-RANKL antibody and the world's first antibody drug that is powerfully effective in inhibiting RANK Ligand by inhibiting osteoclastic cells from dividing and maturing. It is expected to be highly effective for treating bone lesions caused by the bone metastases of cancer, osteoporosis, and rheumatoid arthritis. The convenience of hypodermic injection and reduced frequency of medication offered by denosumab are also expected to shift the paradigm of treatment.

Kiminori Nagao
Director, Group II, Clinical Development Department II

Comments from the Lead Denosumab Researcher

A series of clinical trials targeting bone lesions caused by bone metastases of cancer have shown that denosumab exhibits advantages or positive efficacy compared to the standard drug, zoledronic acid. I hope the day will soon arrive when denosumab is prescribed in standard medical practice. Our Phase III clinical trials for osteoporosis represented the largest-scale trials in Japan, and we set very challenging goals. Thanks to the strong interest shown in the drug by participating doctors and efforts by those involved, we nevertheless managed to complete registration of patients on schedule and are currently in the follow-up stage. We hope to obtain approval as quickly as possible and will continue taking on this challenge so that the Daiichi Sankyo brand will be synonymous with bone treatment.

Development Status of Denosumab (As of July 2010)

Indication	Dosage and administration	Development stage	
		Japan	U.S., Europe
Bone metastases	120mg every 4 weeks Subcutaneous Injection	Phase III	BLA* submitted
Osteoporosis	60mg every 6 months Subcutaneous Injection	Phase III	Approved
Breast cancer adjuvant	120mg every 4 weeks for 6 months, followed by 120mg every 3 months Subcutaneous Injection	Phase III Under preparation	Phase III
Rheumatoid arthritis	Under consideration	To be determined	Phase II

* BLA: Biological License Application
All development in the United States and Europe is handled by Amgen.

Status of Development

Daiichi Sankyo is participating in Phase III multinational clinical studies targeting bone metastases in patients with advanced breast cancer. We have confirmed a decrease in the risk of bone-related events. We plan to file a new drug application in 2010 and start marketing the drug by fiscal 2012. With regard to osteoporosis, patient registration for Phase III clinical trials has been completed in Japan.

Spotlight 3: Laninamivir (CS-8958)

Laninamivir's Contribution to Unmet Medical Needs

Existing drug treatments for influenza require twice daily intake over a five-day period, and some drugs have limited indication for children. Furthermore, a virus that is resistant to existing drugs has been discovered, raising the need for a new influenza drug.

Laninamivir is a long-acting neuraminidase inhibitor. The drug was originally discovered by Daiichi Sankyo. It can be directly inhaled into the respiratory tract, the infected site of the influenza virus, and is retained over a long period, requiring only one administration to complete treatment.

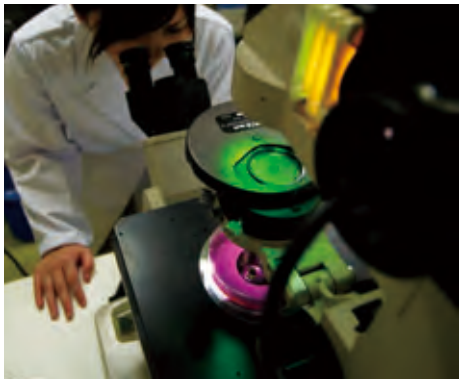
Status of Development

In January 2010, we filed a new drug application for an indication to treat influenza A and B infections for adults and children. We have confirmed its efficacy for this indication at a non-clinical level against the H1N1 influenza as well as the H5N1 influenza, and we expect it will broadly contribute to the treatment of influenza.

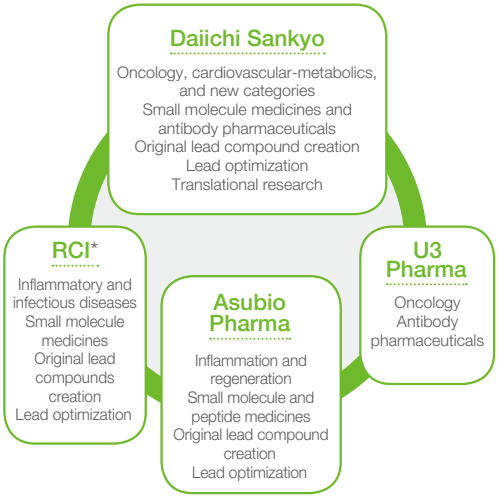
Spotlight 4: *Effient/Efient* (Prasugrel)

We have been conducting TRILOGY trials for the antiplatelet agent *Effient/Efient* since June 2008 toward obtaining an additional indication for the treatment of ACS patients undergoing medication without PCI. In addition, Phase II trials targeting elective PCI patients and stroke patients are underway in Japan.

Research



Global Research Functions



* Daiichi Sankyo Life Science Research Center in India
Initially a new drug research department of Ranbaxy Laboratories, Ltd. Changed its name to Daiichi Sankyo Life Science Research Center in India upon transfer to Daiichi Sankyo India Pharma Private Limited in July 2010.

Development Pipeline Augmented by Focusing on Priority Areas

We have designated oncology and cardiovascular-metabolics as our priority areas for the research to early-stage development (discovery). We also pursue wide-ranging research efforts in new areas to address unmet medical needs.

Steady Enhancement in the Oncology Pipeline

To augment our oncology pipeline, we acquired U3 Pharma AG (presently U3 Pharma GmbH), a German bioventure with numerous promising investigational antibodies, in May 2008.

Since then, antibodies developed by U3 Pharma and small molecule compounds licensed from U.S.-based ArQule, Inc. have entered the clinical phase stage. As of July 2010, three antibodies and two small molecule compounds are in development stages Phase I and beyond.

Looking ahead, we intend to obtain world-class drug discovery capabilities and a respected research organization in oncology by 2015. We will do so by steadfastly pursuing development initiatives, including pre-phase trial stage projects, and actively acquiring external resources.

The Challenge to Achieve Greater Control over Cardiovascular Events in the Cardiovascular-Metabolics Area

In the cardiovascular-metabolics area, we will advance from simply alleviating single risk factors such as blood pressure to managing multiple risk factors and protecting internal organs in the continuing challenge of exercising more control over cardiovascular events.

Strengthening Drug Discovery by Enhancing Our Research Structure

With respect to our research structure, we are vigorously utilizing a centralized system that unifies research and early clinical development functions as well as an external network cultivated through joint research and other activities.

We have divided our responsibilities within the Group to create a system in which Daiichi Sankyo will cover small molecule compounds and antibody pharmaceuticals in the areas of oncology, cardiovascular-metabolics as well as new areas; U3 Pharma will oversee antibody pharmaceuticals in the oncology area; Asubio Pharma Co., Ltd. will manage small molecule and peptide medicines in the inflammation and regeneration areas; and RCI will engage in small molecule medicines in the inflammatory and infectious diseases areas.

In addition, we restructured Asubio Pharma in April 2010 into a company with drug discovery functions manifested by venture businesses dedicated to this area. In October, we will transfer and consolidate our core discovery function** to the Kobe Medical Industry Development Project site, Japan's leading cluster of medical industry companies that includes over 130 bioventures and offers proven medical facilities.

** Discovery research to early-stage development functions

Life-Cycle Management

Combination Drugs Containing Olmesartan (As of July 2010)

Product Name	Status		Combined Active Ingredient
Benicar HCT	U.S.	Launched September 2003	Hydrocholorothiazide, Diuretic
Olmetec Plus	Europe	Launched June 2005	
AZOR	U.S.	Launched October 2007	Amlodipine, Calcium channel blocker
Sevikar	Europe	Launched January 2009	
Rezaltas	Japan	Launched April 2010	Azelnidipine, Calcium channel blocker

We are also focusing on product life-cycle management to further enhance treatment options and improve patient quality of life by developing combination drugs, seeking additional indications, and modifying formulations.

Case-1: Olmesartan Franchise

Developing Combination Drugs to Widen the Choice of Hypertension Treatment

Hypertension develops from several causes, and the treatment combining antihypertensive agents with different action mechanisms is an effective way to reduce blood pressure. A considerable population of patients is unable to control blood pressure using a single agent, and the prescription of combined agents is already becoming the mainstream treatment in the United States and Europe. Similarly, in Japan the combined use of angiotensin II receptor blockers (ARBs) and calcium channel blockers (CCBs) is recommended by clinical guidelines. Daiichi Sankyo is developing combined agents in response to this need.

Combined ARB + Calcium channel blocker agent *Rezaltas*

Rezaltas is a dual combination of ARB olmesartan and CCB azelnidipine, the patents for both of which are owned by our company. It has demonstrated a powerfully effective and consistently stable performance in suppressing blood pressure for up to 24 hours; the product was launched in Japan in April 2010. Offering a new treatment option for patients who could not obtain effective results from the use of a single agent, *Rezaltas* also contributes to improved adherence.

CS-8635

CS-8635 is a triple combination of ARB olmesartan, CCB amlodipine and diuretic hydrochlorothiazide. We are currently developing the agent as a new treatment option for patients who cannot attain their target blood pressures, even through the use of one or even two combination antihypertensive agents, and require further treatment. We filed new drug applications in the United States and Europe in fiscal 2009, and received approval in the United States in July 2010 for CS-8635 to be marketed there under the brand name *TRIBENZOR*.

Obtained U.S. Approval for Additional Indication for Children

The average blood pressure of children in the United States has been rising along with an increase in average weight. To meet the needs of these patients, Daiichi Sankyo obtained approval in February 2010 for an additional indication for children aged six to sixteen years old.

Case-2: Cravit

Contributing to the Treatment of Infectious Diseases through High Dosage Administration

In July 2009, we began marketing a high-dosage *Cravit* product, a synthetic antibacterial agent administered in a 500mg per day dosage, for improving the efficacy of treatment and controlling drug-resistant bacteria. We also filed an application to manufacture and market an injectable agent in October 2009. Based on past clinical trials, we have confirmed that the injectable agent produces superior results against pneumonia and secondary infections of chronic respiratory diseases.

Development Pipeline

Development Code	Generic Name	Dosage Form	Class	Indication
Cardiovascular diseases				
☆CS-747	Prasugrel	Oral	Antiplatelet agent	Acute coronary syndrome (ACS)
				Stroke
DU-176b	Edoxaban	Oral	Factor Xa inhibitor	Atrial fibrillation (AF)
				Venous thromboembolism (VTE)
				Post-Operative Venous Thromboembolism
☆CS-8635	Olmesartan medoxomil Amlodipine Hydrochlorothiazide	Oral	Angiotensin II receptor antagonist Calcium channel blocker Diuretic	Hypertension
DB-772d	—	Oral	Factor Xa inhibitor	—
Diabetes				
CS-1036	—	Oral	Glucose absorption inhibitor	Diabetes
Malignant neoplasm				
ARQ 197	—	Oral	c-Met inhibitor	—
CS-1008	Tigatuzumab	Injection	Anti-DR5 antibody	—
DE-766	Nimotuzumab	Injection	Anti-EGFR antibody	—
CS-7017	—	Oral	PPARγ activator	—
U3-1287	—	Injection	Anti-HER-3 antibody	—
Infectious diseases				
CS-8958	Laninamivir	Inhalant	Neuraminidase inhibitor	Influenza
				Influenza (1) Treatment
				Influenza (2) Prevention
☆Levofloxacin Injection	Levofloxacin	Injection	New quinolone	Bacterial infections
CS-4771	—	—	Sepsis	—
DS-8587	—	—	Broad spectrum antibacterial	—
Bone/joint diseases				
AMG 162	Denosumab	Injection	Anti-RANKL antibody	Osteoporosis
				Bone metastases of cancer
Immunological allergic diseases				
SUN 13834	—	Oral	Chymase inhibitor	Atopic dermatitis
CS-0777	—	Oral	Immunosuppressant	—
Others				
SUN Y7017	Memantine	Oral	NMDA receptor antagonist	Dementia of Alzheimer type
KMD-3213	Silodosin	Oral	Selective alpha 1A blocker	Treatment of dysuria associated with benign prostatic hyperplasia
SUN 11031	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 2010)

Origin	Region	Development	Stage			
			Phase I	Phase II	Phase III	Application
Daiichi Sankyo, Ube Industries	U.S./EU	Co-development (Eli Lilly)	■	■	■	
	Japan	In-house	■	■		
	Japan	In-house	■	■		
Daiichi Sankyo	U.S./EU/Japan/Asia	In-house	■	■	■	
	U.S./EU/Japan/Asia	In-house	■	■	■	
	U.S./EU	In-house	■	■		
	Japan		■	■	■	Mar. 2010
Daiichi Sankyo	EU	In-house	■	■	■	Dec. 2009
Daiichi Sankyo	—	In-house	■			
Daiichi Sankyo	Japan/Asia	In-house	■	■		
ArQule	U.S./EU	Co-development (ArQule)	■	■		
Daiichi Sankyo	U.S./EU	In-house	■	■		
	Japan	In-house	■			
CIMYM BioSciences	Japan	In-house	■	■		
Daiichi Sankyo	U.S./EU	In-house	■	■		
	Japan/Asia	In-house	■			
U3 Pharma	U.S.	Co-development (Amgen)	■			
Daiichi Sankyo	U.S./EU	Co-development (Biota)	■			
	Japan	In-house	■	■	■	Jan. 2010
	Japan	In-house	■	■	■	
Daiichi Sankyo	Japan	In-house	■	■	■	Oct. 2009
Daiichi Sankyo	—	In-house	■			
Daiichi Sankyo	—	In-house	■			
Amgen	Japan	In-house	■	■	■	
	Japan	In-house (multinational trials)	■	■	■	
Asubio Pharma	U.S.	In-house	■	■		
Daiichi Sankyo	—	In-house	■			
Merz	Japan	In-house	■	■	■	Feb. 2010
Kissei	China	In-house	■	■	■	Dec. 2008
Asubio Pharma	U.S./EU	In-house	■	■		
	Japan	In-house	■	■	■	
GE Healthcare	Japan	In-house	■	■		

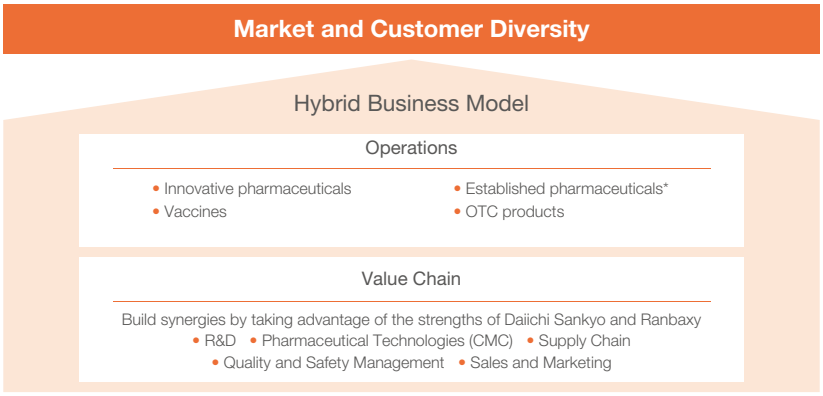
Creating Synergies with Ranbaxy

Daiichi Sankyo is extending innovation beyond science and technology to encompass its own business model in the midst of a dramatically evolving operating environment and pharmaceutical market. We have been achieving solid progress since Ranbaxy Laboratories, Ltd. joined the Group nearly two years ago, particularly in our Hybrid Business Model, which is focused on providing drugs that serve both developed and emerging markets as well as diverse medical needs.

Advances in the Hybrid Business Model

Daiichi Sankyo and Ranbaxy are cultivating synergies across every aspect of business, from the front end to the back end of the pharmaceutical business, from broadening our global reach and expanding our product portfolios to optimizing the research and production capabilities of both companies. Here are a few of the actions we are taking toward fully realizing our business model.

Hybrid Business Model



* Daiichi Sankyo term encompassing generic drugs and long-sellers with proven marketplace presence.

Research and Development

We centralized control over the chain of command and R&D operations by incorporating Ranbaxy's New Drug Discovery Research (presently RCI**) into the global research functions of the Daiichi Sankyo Group. We intend to accelerate the pace of the Daiichi Sankyo Group's research for discovering new drugs, boost the number of new drug candidates, and enhance the efficiency of our global R&D structure from the mid- to long-term perspective by drawing upon India's outstanding researchers and particularly their strengths in medicinal chemistry.

** Daiichi Sankyo Life Science Research Center in India

Marketing & Distribution

Since the April 2009 introduction of *Olvance* in India, we have been expanding our business collaboration by leveraging Ranbaxy's strong global reach. We are also pursuing business collaborations in Europe to achieve greater supply chain efficiencies.

■ April 2009
In the first collaboration between Daiichi Sankyo and Ranbaxy, Ranbaxy started marketing the antihypertensive olmesartan in India as *Olvance*.

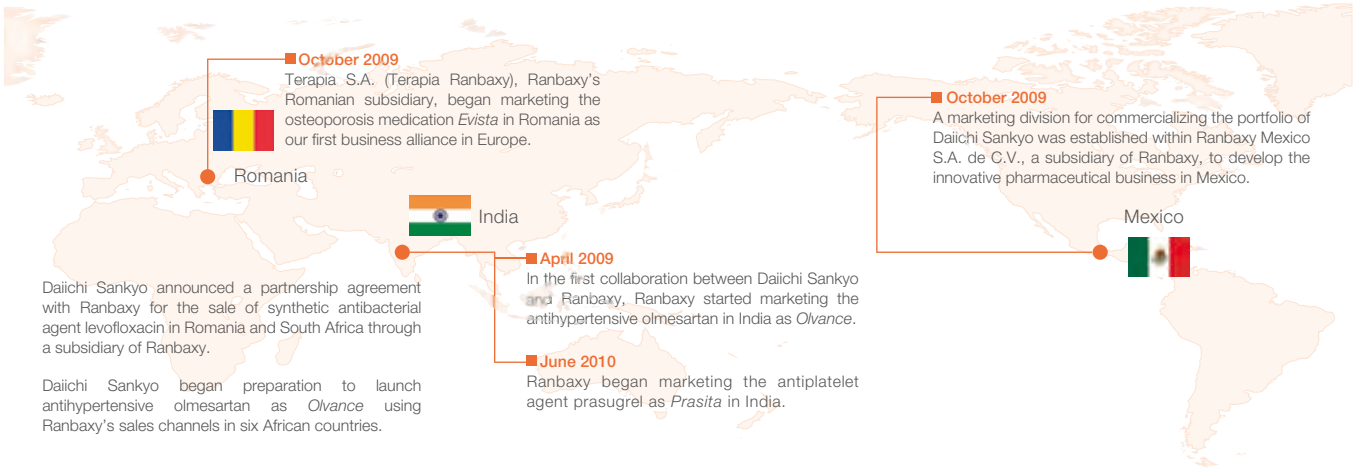
■ October 2009
Terapia S.A. (Terapia Ranbaxy), Ranbaxy's Romanian subsidiary, began marketing the osteoporosis medication *Evista* in Romania as our first business synergy in Europe.

■ October 2009
A marketing division for commercializing the portfolio of Daiichi Sankyo was established within Ranbaxy Mexico S.A. de C.V., a subsidiary of Ranbaxy, to develop the innovative pharmaceutical business in Mexico.

■ December 2009
Daiichi Sankyo began preparation to launch antihypertensive olmesartan as *Olvance* using Ranbaxy's sales channels in six African countries (Nigeria, Kenya, Mozambique, Tanzania, Uganda and Zambia).

■ June 2010
Ranbaxy began marketing the antiplatelet agent prasugrel as *Prasita* in India.

■ July 2010
Daiichi Sankyo announced a partnership agreement with Ranbaxy for the sale of synthetic antibacterial agent levofloxacin in Romania and South Africa through a subsidiary of Ranbaxy.



Addressing Current Challenges

Our collaboration with Ranbaxy, which has significantly raised the expectations of shareholders and investors, will require promptly resolving the import ban of any products into the U.S. market and the Application Integrity Policy (AIP*) invoked by the U.S. Food and Drug Administration (FDA).

Daiichi Sankyo considers this the highest priority for the Group. A joint task force comprising Daiichi Sankyo and outside experts is engaged in dialogue with the FDA.

We are working to strengthen Ranbaxy's quality control system through such actions as appointing a head of global quality control from Daiichi Sankyo, Inc., our U.S. affiliate, in January 2010.

Ranbaxy, with the cooperation of Daiichi Sankyo, is continuing its dialogue with the FDA to resolve these issues.

* An AIP is invoked against a facility by the U.S. Food and Drug Administration (FDA) when questions arise concerning the integrity and reliability of data submitted in its drug applications.

Interview with CSR Top

Pursuing CSR Activities Centered on Our Corporate Mission and Three Corporate Values

The Daiichi Sankyo Group recognizes the vital role of CSR for the continuity of our business activities.

"To contribute to the enrichment of quality of life around the world through the creation of innovative pharmaceuticals, and through the provision of pharmaceuticals addressing diverse medical needs"—We acknowledge this corporate mission as the foundation of our CSR for continuing to be a sustainable company that is trusted by society. We have, therefore, strived to fulfill our mission by upholding the "Daiichi Sankyo Group Corporate Conduct Charter" while intentionally enhancing in a balanced manner our Three Corporate Values of social value, economic value and humanistic value.

Of course, we do not think we can completely fulfill our social responsibility solely through our business operations or the pursuit of our corporate mission. During our First Mid-term Business Management Plan (MTP), we tackled key CSR concerns, such as compliance, environmental management, social contribution and risk management, and we achieved a certain level of external recognition, as evidenced by our inclusion in the FTSE4Good Index* in September 2009.

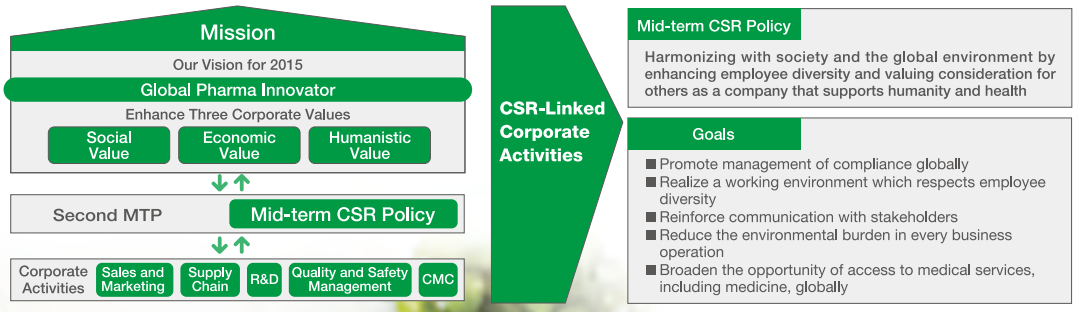
* A representative indicator for socially responsible investment (SRI) provided by an independent firm through the joint capital investment of the *Financial Times*, a British economic newspaper, and the London Stock Exchange. It provides a key standard for investors concerned with corporate social responsibility.

Formulation of the Mid-term Policy to Ensure a Deeper Awareness of CSR on a Global Scale

As we rapidly extended our global reach following the addition of Ranbaxy Laboratories to the Group, we faced the challenge of raising CSR awareness and encouraging action from each of our roughly 30,000 employees in 54 countries around the world. We felt that meeting this challenge required the establishment and dissemination of concrete guidelines and goals in addition to our "Three Corporate Values." And so we formulated the "Mid-Term CSR Policy" and "Five Goals" within our Second MTP. We have therefore clearly declared both internally and externally that the Daiichi Sankyo Group is committed to fully integrating CSR into our corporate operations, that is, affirming the vital role of CSR.

In formulating the Mid-Term CSR Policy, we placed greater emphasis on the process of internal discussion as our first step in enhancing employee awareness while incorporating outside opinions insofar as possible.

Mid-term CSR Policy and Five Goals



Yoshikazu Takano
Senior Executive Officer, Head of Group CSR and in charge of External Affairs

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

The Five Goals—Progress to Date and Plans for the Future

Let me briefly explain our approach and future plan for the Five Goals.

Promoting management compliance globally is critical for corporate management as well as CSR, and our immediate priority is to construct a system for firmly establishing our corporate ethics, encompassing the actual circumstances and customs of each region and thorough compliance with prevailing laws and regulations as they are applied locally.

To realize a working environment which respects employee diversity, we must focus on creating an environment in which employees can demonstrate their diversity and realize their potential. This includes establishing work settings that are responsive to their diverse lifestyles and enabling them to continue working at the company.

To reinforce communication with stakeholders, we will conduct management that is consistently aligned with the common sense and needs of society through proactive external communications.

In our efforts to reduce the environmental impact of every business operation, reducing CO_2 and achieving zero emissions will clearly require the full commitment of every company. Daiichi Sankyo is already engaged in addressing these concerns. We will also begin looking into how we as a pharmaceutical company can best contribute to preserving biodiversity.

Broaden the opportunity of access to medicine globally: In addition to our current business, which has centered on creating innovative pharmaceuticals in developed countries, we will expand our efforts through the provision of pharmaceuticals addressing diverse medical needs in emerging countries by collaborating with Ranbaxy.

Dialogue is the Key to Promote Global CSR

Despite the difficulty in taking on these tasks on a global scale, over the next three years we will proceed step by step, from grasping the current status to commonly identifying the challenges and taking action. Fiscal 2010, the first year of this three-year initiative, will be the time in which we establish the foundation for the global promotion of CSR and develop the required management system. By the end of the fiscal year, the Group will have a shared awareness of the Mid-term CSR Policy and Five Goals and will establish a management system for promoting CSR that is unique to the Daiichi Sankyo Group based on diverse cultures and customs.

Communication is the key to gaining a shared awareness of the challenges. For example, while “diversity” may be a single word, it signifies a very different awareness in Japan than in other countries with differing cultures and customs. These gaps must be closed one by one through direct dialogue. While this will take time and effort, I am confident the process of revitalizing internal communication will enhance the awareness of each individual and afford even greater strength across the Group.

We will spare no effort to create a great company that brings respect to every employee from society at large and their own families, which are the fundamental components of society, and therefore be an enterprise of which every employee is proud to be a part.

COLUMN

Fuel Conversion Further Reduces the Environmental Impact of the Plant

The Onahama Plant of Daiichi Sankyo Propharma manufactures active pharmaceutical ingredients through the culture method and uses a significant amount of water vapor in the manufacturing process. We have recently converted nearly all of the fuel used by the plant from kerosene to natural gas and installed 22 new boilers. These changes are expected to yield an annual reduction in CO_2 emissions of approximately 3,200 tons. Fuel consumption has also decreased as a result of the higher efficiency of the upgraded boilers, which, in turn, is expected to reduce costs as well.

LNG satellite facility ▸

Corporate Governance

Corporate Governance

Basic Policy

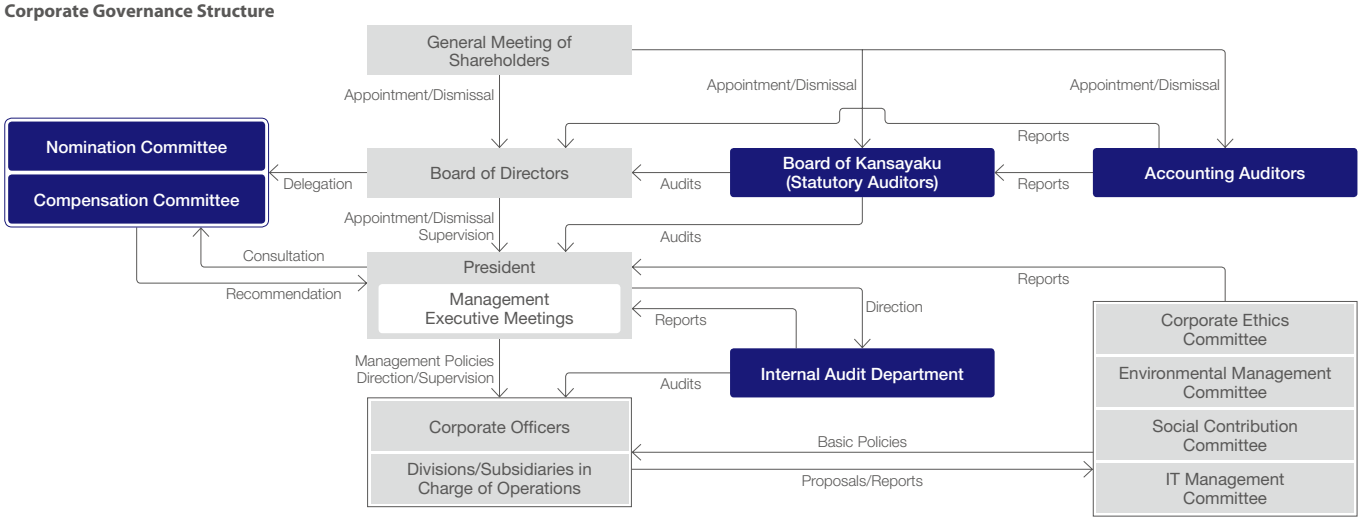
Besides creating a management structure for quickly and flexibly responding to changes in the business environment while ensuring legal compliance and transparency, the Daiichi Sankyo Group has strengthened its oversight of management and operational execution processes. We are committed to maintaining a corporate governance framework that enables us to live up to stakeholder expectations and trust.

Operational Execution Structure

For Quick, Flexible Decision-Making

Daiichi Sankyo has adopted a Kansayaku (Statutory Auditors; hereinafter, auditor) system and a corporate officer system to facilitate rapid management processes. The board of directors meets, in principle, once a month to resolve key operational execution matters and supervises directors as they fulfill their duties. Within the framework of management policy and board resolutions on operational execution, the president of the Company clarifies execution plans through the deliberations of Management Executive Meetings, which are convened at least once a month, and then delegates responsibilities under the plan to the appropriate corporate officers or division/subsidiary heads in charge of specific operations.

Corporate Governance Structure



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

To Safeguard Efficient, Accountable Decision-Making

Term of Office for Board of Directors and Corporate Officer System

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 for swiftly responding to changes in the business environment.

Daiichi Sankyo has adopted a corporate officer system under which personnel with a high level of expertise in their related operational fields are appointed to take responsibility for specific operational execution under the control and supervision of the president. The board of directors appoints corporate officers for one year terms of office.

Nominations and Compensation

The Nomination Committee, a voluntarily established organization, discusses matters pertaining to the selection of candidates for directors and corporate officers. Outside directors constitute the majority of the Committee to further ensure the soundness of decision-making. Nomination of directors and corporate officers is discussed at the voluntarily established Nomination Committee. To reinforce accountability and transparency, the majority of committee members are outside directors. The Compensation Committee, the majority of which are also outside directors, determines compensation for directors and corporate officers. After having considered a compensation system for directors and corporate officers linked to improvement in corporate value, the Company decided not to employ a retirement benefit system and instead introduced a share compensation stock option program, which provides a long-term incentive.

To Ensure Management Transparency

Outside Directors

Daiichi Sankyo currently has 10 directors, of which 4 are appointed from outside the Group to strengthen oversight of all aspects of operational execution and ensure management transparency. These outside directors exercise supervision by expressing their opinions objectively, neutrally and fairly in board of directors meetings, drawing upon their own experience in compliance, financial affairs, corporate management and laws. In fiscal 2009, the board of directors met 13 times, with an outside director attendance rate of 96.2%.

Outside Directors (From June 28, 2010)

Name	Principal Concurrent Employment Positions	Reason for Selection
Takashi Okimoto	Representative Director, Chairman and Corporate Officer of Orient Corporation	To bring his knowledge and insight, based on extensive banking experience, into corporate management
Hiroshi Hirabayashi	President, the Japan-India Association Visiting Professor, Graduate School of Asia-Pacific Studies, Waseda University Vice President of the Japan Forum on International Relations, Inc.	To bring his knowledge and insight, based on international diplomatic experience, into corporate management
Kunio Ishihara	Chairman of the Board, Tokio Marine & Nichido Fire Insurance Co., Ltd. Chairman of the Board, Tokio Marine Holdings, Inc.	To bring his knowledge and insight, based on experience in non-life insurance company and other enterprises, into corporate management
Yuichiro Anzai	Professor, Faculty of Science and Technology, Keio University Professor, School of Science for Open and Environmental Systems, Graduate School of Science and Technology, Keio University Executive Advisor for Academic Affairs at Keio University	To bring his knowledge and insight, as a university professor, into corporate management

Auditing Structure

Auditing

Daiichi Sankyo has adopted an auditor system, and the Company's board of Kansayaku—comprising four auditors, including two outside auditors—audits the legal compliance and soundness of management. In fiscal 2009, the board of Kansayaku met 14 times, and the attendance rate for outside auditors was 100%. To contribute to sound and sustainable management, each auditor attends important meetings, including the board of directors and Management Executive Meetings, and expresses their opinions in accordance with Auditor Audit Standards. In addition, each auditor verifies the details of reports received from directors, employees, and others and investigates the state of corporate operations and property.

Outside Auditors (From June 28, 2010)

Name	Principal Concurrent Employment Positions	Reason for Selection
Akio Yamada	Visiting Professor, Faculty of Law, Doshisha University Visiting Professor, Faculty of Commerce, Waseda University Senior Advisor, for Jones Day Tokyo (Global Law Firm)	To bring his knowledge and insight, based on administrative agency experience, into corporate audits
Shigeaki Ishikawa	Attorney at Honma and Partners	To bring his knowledge and insight, based on administrative agency experience, into corporate audits

The Internal Audit Department implements internal audits on the internal control systems and other matters in accordance with the audit plan.

Compensation of Directors and Auditors

The total value of compensation of directors and auditors applicable to fiscal 2009 was ¥826 million; the portion for outside directors and outside auditors was ¥108 million. The accompanying table summarizes the breakdown of payments.

Compensation of Directors and Auditors (Millions of yen)

	Directors		Auditors		Total	
	No. of beneficiaries	Payment value	No. of beneficiaries	Payment value	No. of beneficiaries	Payment value
Compensation (annual) (portion for outside directors and outside auditors)	11 (4)	427 (72)	4 (2)	111 (36)	15 (6)	538 (108)
Director bonuses (excluding outside directors and outside auditors)	6	154	—	—	6	154
Share-compensation stock option program (excluding outside directors and outside auditors)	6	134	—	—	6	134
Total **(portion for outside directors and outside auditors)**	**11** **(4)**	**715** **(72)**	**4** **(2)**	**111** **(36)**	**15** **(6)**	**826** **(108)**

Note: The number of beneficiaries and payment value for directors includes those applicable to one director who retired at the expiration of his term as of the completion of the regular General Shareholders' Meeting on June 26, 2009.

Internal Control System

Basic Policies for the Internal Control System

Daiichi Sankyo has developed its internal control system according to 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 Employee Assistance Duties of Auditors When Auditors Ask to Appoint Such Employees
8. Matters Regarding the Independence of the Employees Specified in the Preceding Policy (7) from Directors
9. Systems of Reporting to Auditors by Directors and Employees and Other Systems Regarding Reporting to Auditors
10. Other Systems to Ensure Effective Audits by Auditors
11. Basic Ideas about and Systems for Eliminating Antisocial Forces

Internal Controls Related to Financial Reporting

With respect to internal controls related to financial reporting obligations under the Financial Instruments and Exchange Law (so-called J-SOX) since fiscal 2008, Daiichi Sankyo established its Rules on Internal Control over Financial Reporting. The Corporate Finance & Accounting Department set up a system based on these rules under the leadership of the president, who is responsible for evaluating the operational effectiveness of internal controls, which are also reviewed by the Internal Audit Department.

Based on standards generally accepted as being fair and reasonable, assessments are conducted as of the final day of the fiscal year. The scope of the assessment is determined by the relative impact on the reliability of financial reporting with respect to the Company, its consolidated subsidiaries and equity-method affiliates.

Compliance

Basic Policy

The Daiichi Sankyo Group addresses the challenge of managing compliance at a global scale beyond simply complying with prevailing laws and regulations, such as the Pharmaceuticals Affairs Law and industry rules such as Promotion Codes; we seek to conduct business with the highest ethical standards and sound social judgment befitting an enterprise whose activities directly impact people's lives.

We established the "Daiichi Sankyo Group Corporate Conduct Charter" as shared compliance guidelines for all Group companies, and each Group company across the globe has set up a "Code of Conduct for Compliance" based on the Charter to provide a concrete standard of action for corporate officers and employees.

System for Promoting Compliance

The president appointed the Senior Executive Officer in charge of Group CSR, who oversees global CSR functions, to the position of Compliance Officer responsible for Group-wide compliance.

The Compliance Officer oversees compliance programs such as the code of conduct and related rules and implementation plans, and chairs the Corporate Ethics Committee, which is the decision-making organization for compliance.

Risk Management

Based on its Risk Management Rules, Daiichi Sankyo promotes autonomous risk management activities by each corporate department and Group unit. Risk management operations focus on maintaining the continuity of daily operations by each department and unit to prevent risks before they emerge and affect business. To address the actual emergence of risks or the occurrence of accidents or problematic situations, Daiichi Sankyo created emergency response systems based on its Crisis Management Rules and undertakes crisis management to minimize losses.

Board of Directors

(As of June 28, 2010)

Kunio Ishihara
Outside Director

Takashi Okimoto
Outside Director

Takeshi Ogita
Director

Kazunori Hirokawa
Director

Hiroshi Hirabayashi
Outside Director

Yuichiro Anzai
Outside Director

Hitoshi Matsuda
Director

Takashi Shoda
Representative Director and Chairman

Joji Nakayama
Representative Director, President and CEO

Tsutomu Une
Director

Corporate Officers

Chairman and Corporate Officer	Takashi Shoda	
President and CEO, Corporate Officer	Joji Nakayama	President of Japan Company
Senior Executive Officer	Hitoshi Matsuda	Head of Administration Division of Japan Company
Senior Executive Officer	Tsutomu Une	Global Corporate Strategy Officer (Hybrid Business, Intellectual Property)
Senior Executive Officer	Takeshi Ogita	Global Corporate Strategy Officer (HR, IT, Business Development, Global Marketing)
Senior Executive Officer	Kazunori Hirokawa	Head of R&D Division
Senior Executive Officer	Akira Nagano	Head of Quality and Safety Management Division, and Head of Business Intelligence Division of Japan Company
Senior Executive Officer	Yoshikazu Takano	Head of Group CSR and in charge of External Affairs
Executive Officer	Toru Kuroda	Head of Supply Chain Division
Executive Officer	Kazuhiko Tanzawa	External Innovation
Executive Officer	Yuki Sato	Head of Pharmaceutical Technology Division
Executive Officer	Kyohei Nonose	Head of Group HR Strategy
Executive Officer	Manabu Sakai	Global Corporate Finance Officer
Executive Officer	Ryouichi Kibushi	Head of Sales & Marketing Division of Japan Company
Corporate Officer	Shuji Handa	President of ASCA Company
Corporate Officer	Hideyuki Haruyama	In charge of Research of R&D Division
Corporate Officer	Haruhisa Kubota	General Manager of Pharmacovigilance Department, Quality and Safety Management Division
Corporate Officer	Tomoo Yokoi	Head of Group Finance & Accounting
Corporate Officer	Sunao Manabe	General Manager of Global Project Management Department, R&D Division
Corporate Officer	Noriaki Ishida	General Manager of Licensing Department
Corporate Officer	Katsuaki Miyoshi	General Manager of Tokyo Branch, Sales & Marketing Division of Japan Company
Corporate Officer	Satoshi Kunitada	In charge of Japan Development of R&D Division
Corporate Officer	Shinichi Terano	General Manager of Product Marketing Department, Sales & Marketing Division of Japan Company
Corporate Officer	Toshiaki Sai	General Manager of Corporate Communications Department

Kansayaku (Statutory Auditors)

Kansayaku (Statutory Auditor)	Teruo Takayanagi
Kansayaku (Statutory Auditor)	Hikaru Nagata
Outside Kansayaku (Statutory Auditor)	Akio Yamada
Outside Kansayaku (Statutory Auditor)	Shigeaki Ishikawa

Consolidated Financial Summary

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008 (Fiscal years 2009, 2008 and 2007)

	Millions of yen			Thousands of U.S. dollars*
	2010	2009	2008	**2010**
Operating Results:				
Net sales	**¥ 952,106**	¥ 842,147	¥ 880,120	**$10,237,699**
Cost of sales	**278,031**	214,397	234,571	**2,989,581**
Selling, general and administrative expenses (excluding R&D expenses)	**381,763**	354,340	325,250	**4,104,979**
Research and development expenses	**196,803**	184,539	163,472	**2,116,161**
Research and development expenses to net sales (%)	**20.7**	21.9	18.6	**20.7**
Operating income	**95,509**	88,871	156,827	**1,026,978**
Interest expense	**5,720**	1,917	128	**61,505**
Income (loss) before income taxes and minority interests	**97,372**	(308,263)	166,856	**1,047,011**
Net income (loss)	**41,852**	(215,499)	97,660	**450,022**
Financial Position:				
Total current assets	**819,758**	783,507	926,524	**8,814,602**
Net property, plant and equipment	**249,546**	250,114	221,266	**2,683,291**
Total assets	**1,489,510**	1,494,600	1,487,889	**16,016,237**
Total current liabilities	**268,812**	508,536	194,514	**2,890,452**
Total long-term liabilities	**331,190**	97,447	48,862	**3,561,183**
Total net assets	**889,508**	888,617	1,244,513	**9,564,602**
Financial Indicators:				
Pre-tax profit margin (Ratio of net income before income taxes and minority interests to net sales) (%)	**10.2**	—	19.0	**10.2**
Net profit margin (Ratio of net income to net sales) (%)	**4.4**	—	11.1	**4.4**
Net income (loss) per share of common stock (yen and U.S. dollars)	**59.45**	(304.22)	135.35	**0.64**
Dividends paid per share (yen and U.S. dollars)	**60.00**	80.00	70.00	**0.65**
Return on shareholders' equity (%)	**4.9**	(20.5)	7.8	**4.9**
Equity ratio (%)	**57.4**	57.7	83.6	**57.4**
Dividends to net assets	**4.9**	5.4	4.0	**4.9**
Capital expenditures	**29,729**	19,644	21,044	**319,668**
Number of employees	**29,825**	28,895	15,349	**29,825**

* The U.S. dollar amounts represent translations of Japanese yen, solely for convenience, at the rate of ¥93=US$1.00, the approximate exchange rate prevailing on March 31, 2010.

Operating Results and Financial Analysis

The State of the Daiichi Sankyo Group

The Daiichi Sankyo Group ("the Group") consists of 105 companies, including Daiichi Sankyo Co., Ltd., and its 100 subsidiaries and 4 affiliates. The Group's principal activity is the manufacture and sales of pharmaceuticals and related products.

Overview of Business Results

The Group recorded consolidated net sales of ¥952.1 billion in fiscal 2009, up 13.1% from fiscal 2008. While the yen exchange rate remained higher than in the previous year, the impact was more than offset by the contribution of ¥146.6 billion in net sales of Ranbaxy Laboratories, Ltd. ("Ranbaxy"), which was consolidated in November 2008.

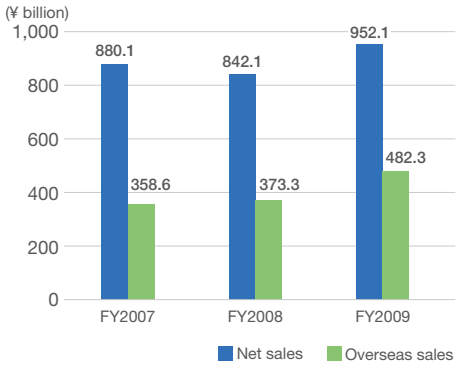
Regarding fiscal 2009 profitability, operating income rose 7.5%, to ¥95.5 billion, with the increase in net sales offsetting expanded R&D investment. Net income was ¥41.9 billion, compared with a net loss of ¥215.5 billion in the previous year, as income taxes soared due to such factors as discontinuation of the tax credit on R&D expenses and prior period income tax adjustments.

During fiscal 2009, the antiplatelet agent prasugrel was gradually introduced in the United States and Europe, as *Effient* and *Efient*, respectively, and a high-dosage form of the synthetic antibacterial agent *Cravit* was launched in the Japanese market.

Sales

Fiscal 2009 net sales amounted to ¥952.1 billion, up ¥110.0 billion, or 13.1%, from fiscal 2008. The negative impact of the yen appreciation and declining sales of synthetic antibacterial agent levofloxacin were more than offset by growing sales of antihypertensive agent olmesartan (marketed as *Olmetec* in Japan and Europe and as *Benicar* in the United States) and sustained expansion in sales of *Loxonin* brand anti-inflammatory antipyretic analgesics along with the contribution of net sales of Ranbaxy.

Consolidated Net Sales and Overseas Sales



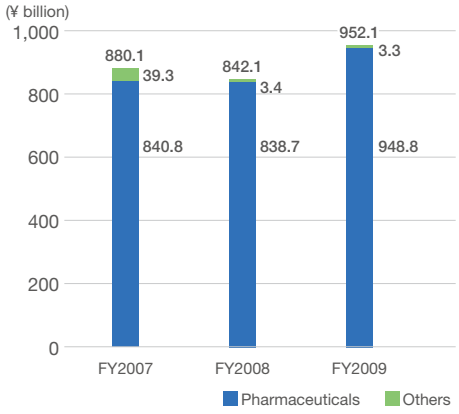
Sales of Key Products (¥ billion)

	FY2007	FY2008	FY2009
Global			
Olmesartan (antihypertensive)	195.6	211.1	**238.3**
Levofloxacin (synthetic antibacterial agent)	108.7	97.7	**87.2**
Pravastatin (antihyperlipidemic agent)	76.5	60.8	**55.0**
Japan			
Artist (antihypertensive)	21.1	21.9	**23.3**
Loxonin (anti-inflammatory analgesic)	33.6	38.7	**47.0**
Omnipaque (contrast agent)	31.2	28.3	**27.3**
U.S.			
Venofer (treatment for iron deficiency anemia)	31.1	32.0	**32.2**
Welchol (antihyperlipidemic agent/ treatment for diabetes)	22.7	24.5	**27.5**

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 quasi-drugs (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 2009, business segment information has been omitted from this report.

Net Sales by Business Segment



Sales by Geographical Segment

Sales by geographical segment, as described as follows, represent sales to outside customers.

Japan

Fiscal 2009 net sales in Japan amounted to ¥519.4 billion, down ¥10.3 billion, or 1.9%, from fiscal 2008.

Sales of prescription drugs totaled ¥421.1 billion, up 1.0%, due to the expanded sales of antihypertensive agents *Olmetec* and *Calblock*, and the *Loxonin* brand anti-inflammatory analgesics.

Sales associated with royalty income and exports to overseas licensees declined 17.5%, to ¥50.3 billion, reflecting the impact of the

yen appreciation and decreased exports of the synthetic antibacterial agent levofloxacin.

In the healthcare (OTC) business, net sales fell 7.4%, to ¥43.7 billion, due in part to the falling sales of Category 1 drugs such as *Gaster 10*.

North America

Fiscal 2009 net sales in North America increased ¥31.7 billion, or 16.6%, to ¥222.5 billion.

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

Europe

Net sales in Europe increased ¥21.8 billion, or 28.2%, from the previous year, to ¥99.3 billion, due in part to growing sales of antihypertensive agents *Olmetec* and *Sevikar*, and the contribution of Ranbaxy sales.

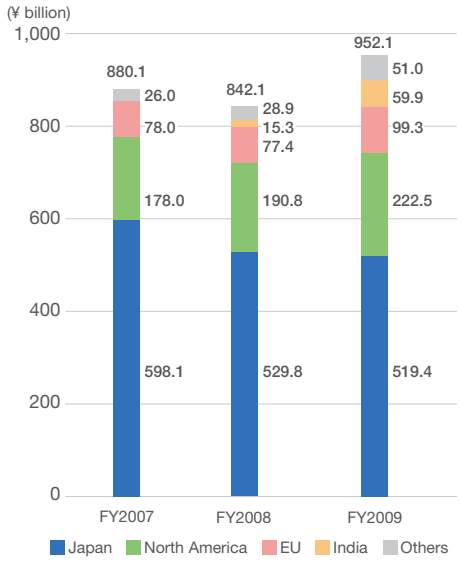
India

Net sales in India increased ¥44.7 billion, or 292.8%, from the previous year, to ¥59.9 billion, due in part to the contribution of Ranbaxy sales.

Other Regions

Net sales in other regions were up ¥22.1 billion, or 76.4%, from the previous year, to ¥51.0 billion, due in part to the contribution of Ranbaxy sales.

Net Sales by Region



Gross Profit on Sales

Gross profit on sales increased by ¥46.3 billion, or 7.4%, to ¥674.1 billion. The gross profit on sales ratio declined by 3.7 percentage points, to 70.8%.

Cost of Sales

Cost of sales rose ¥63.6 billion, or 29.7%, to ¥278.0 billion, owing primarily to the additional costs associated with Ranbaxy sales. The Group continued to implement measures to reduce cost of sales during fiscal 2009.

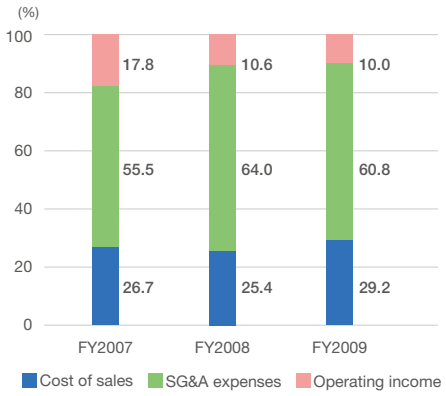
Operating Income

Operating income increased ¥6.6 billion, or 7.5%, to ¥95.5 billion, and the operating income ratio was 10.0%.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses rose ¥39.7 billion, or 7.4%, to ¥578.6 billion. Despite a decrease in promotional expenses in U.S. and European subsidiaries, SG&A expenses increased as a result of such factors as the inclusion of a full 12 months of Ranbaxy's business operations in the consolidated financial statement, compared with 3 months in the previous year, and the expansion of R&D investment.

Ratio of Costs, Expenses, and Operating Income to Net Sales



Other Income (Expenses)

Other income (expenses) improved by ¥399.0 billion. In fiscal 2008, a 351.3 billion write-down of goodwill associated with the investment in Ranbaxy was recorded. In fiscal 2009, derivative gain (loss) rose by ¥37.7 billion from a loss of ¥20.5 billion in the previous year and foreign exchange loss decreased by ¥6.8 billion from a loss of ¥17.5 billion.

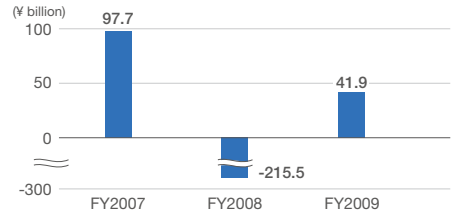
Income Before Income Taxes and Minority Interests

Income before income taxes and minority interests amounted to ¥97.4 billion, a ¥405.6 billion increase from the previous year.

Net Income

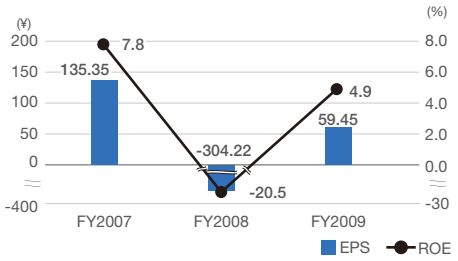
Net income for fiscal 2009 amounted to ¥41.9 billion, a ¥257.4 billion increase from the previous year.

Net Income (Loss)



Consequently, net income per share (EPS) was ¥59.45, compared with a net loss per share of ¥304.22 in fiscal 2008. Return on equity (ROE) rose 25.3 percentage points, to 4.9%.

EPS and ROE



Income Taxes

The net value of current and deferred income taxes amounted to ¥50.0 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. During the first mid-term business management plan covering fiscal 2007 through fiscal 2009, the Company followed its policy goal of allocating a sum equivalent to all net income earned in the three-year period 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.

Based on these factors, the Company paid a year-end dividend of ¥60 per share (including an interim dividend of ¥30 per share) for fiscal 2009.

R&D Activities

The Group undertakes R&D activities as part of its pharmaceuticals business.

The antilplatelet agent *Effient/Efient* is gradually being introduced in the United States and Europe for treating patients with acute coronary syndromes (ACS) undergoing percutaneous coronary intervention (PCI). Phase III clinical trials to obtain approval for the additional indication of ACS in patients not undergoing PCI have been underway since June 2008.

Phase III clinical trials for the oral factor Xa inhibitor edoxaban for the indication of venous thromboembolism prevention in patients with atrial fibrillation have been proceeding since November 2008 in 46 countries. Phase III clinical trials for the indication of preventing venous thromboembolism (VTE) such as deep vein thrombosis (DVT) and pulmonary embolism (PE) were also launched in January 2010. In addition, application for manufacturing and marketing approval was filed in Japan in March 2010 to obtain the indication of VTE prevention in patients undergoing podiatric surgery.

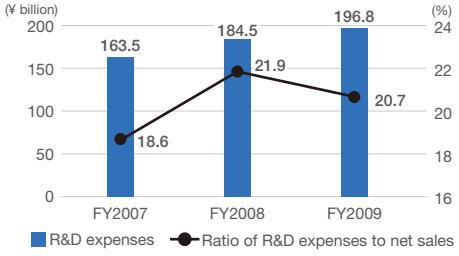
In the area of antihypertensive agents, an application for marketing approval was filed in the United States and Europe for CS-8635, a triple-combination agent comprising ARB (angiotensin II receptor blocker) olmesartan, calcium channel blocker amlodipine, and diuretic hydrochlorothiazide. In July 2010, Daiichi Sankyo, Inc. obtained marketing approval for this agent in the United States.

In January 2010, an application for manufacturing and marketing approval for anti-influenza drug laninamivir was filed in Japan for the treatment of adults and children.

Furthermore, in February 2010, an application for manufacturing and marketing approval for the Alzheimer-type dementia drug memantine was filed in Japan.

Fiscal 2009 consolidated R&D expenses amounted to ¥196.8 billion, up 6.6% from fiscal 2008.

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



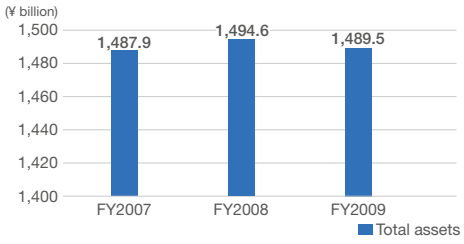
Financial Position

As of March 31, 2010, total assets amounted to ¥1,489.5 billion, down ¥5.1 billion from the previous fiscal year-end. Within total assets, current assets were up ¥36.3 billion, or 4.6%, to ¥819.8 billion, while fixed assets were down ¥41.3 billion, or 5.8%, to ¥669.8 billion. While trade notes and accounts receivable increased in line with business expansion, total assets decreased due to efforts for reducing interest-bearing debt and other factors.

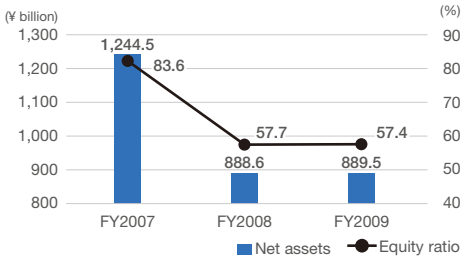
Current liabilities fell ¥239.7 billion, or 47.1%, to ¥268.8 billion, while long-term liabilities grew ¥233.7 billion, or 239.9%, to ¥331.2 billion.

Net assets at March 31, 2010 amounted to ¥889.5 billion, up ¥0.9 billion, or 0.1%, from the previous fiscal year-end. Net assets per share were ¥1,215.6, down ¥10.4. While the Company made dividend payments in line with its policy regarding shareholder returns, the recording of a net income and increase in the net unrealized gain on investment securities that accompanied a recovery in the financial markets led to a slight increase in net assets. As a result, return on equity (ROE) was 4.9%.

Total Assets



Net Assets and Equity Ratio



Cash Flows

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥130.2 billion, an increase of ¥51.9 billion compared with fiscal 2008. The ¥97.4 billion in income before income taxes and minority interests represented an increase of ¥405.6 billion compared with the previous year, while the write-down of goodwill, a non-cash item, decreased ¥362.9 billion from the previous year, to ¥8.9 billion.

Cash Flows from Investing Activities

Net cash provided by investing activities amounted to ¥42.6 billion, compared with a net outflow of ¥413.9 billion in fiscal 2008. Cash used to acquire shares in subsidiaries decreased ¥395.3 billion from the previous year, during which time the Company acquired the shares of U3 Pharma AG (currently U3 Pharma GmbH) and Ranbaxy.

Cash Flows from Financing Activities

Net cash used in financing activities amounted to ¥89.1 billion compared with a net inflow of ¥98.1 billion in fiscal 2008, during which time there was a ¥197.3 billion net increase in short-term borrowings and long-term debt, including short-term borrowings for the acquisition of Ranbaxy and other objectives. In fiscal 2009, there was a net decrease of ¥39.7 billion in short-term borrowings, long-term debt, and bonds for the repayment and refinancing of loans taken out during the previous year. In fiscal 2008, the Company also used ¥45.8 billion to buy back shares. In fiscal 2009, the Company issued unsecured bonds worth ¥100.0 billion and procured long-tem loans totaling ¥110.0 billion from financial institutions in an effort to refinance its debt from short-term borrowings to stable long-term funding.

Consequently, cash and cash equivalents at March 31, 2010 amounted to ¥259.2 billion, up ¥81.4 billion from the previous fiscal year-end.

Cash Flow Highlight (¥ billion)

	FY2007	FY2008	FY2009
Net cash provided by operating activities	66.7	78.4	**130.2**
Net cash provided by (used in) investing activities	(49.4)	(413.9)	**42.6**
Net cash provided by (used in) financing activities	(82.9)	98.1	**(89.1)**
Effect of exchange rate changes on cash and cash equivalents	(4.7)	(29.1)	**(2.3)**
Net increase (decrease) in cash and cash equivalents	(70.4)	(266.5)	**81.4**
Cash and cash equivalents, at end of year	444.3	177.8	**259.2**

Outlook for Fiscal 2010*

During fiscal 2010, the Group expects the harshness of the global market environment to persist due to the impact of drug price revision in Japan and healthcare system reform in the United States.

Within this environment, expanded global sales of olmesartan including antihypertensive agent *Rezaltas*, which was newly launched in Japan in April 2010, the spread of antiplatelet agent *Effient/Efient* in the United States and Europe, and the increased sales in emerging country markets centered on Ranbaxy in India will more than offset the negative effects on revenues, such as those mentioned above, as well as the decline in exports of synthetic antibacterial agent levofloxacin. Consequently, the Group projects its net sales will reach ¥980.0 billion, up 2.9% from the fiscal 2009 level.

This forecast is based on the assumption of average exchange rates of ¥90 against the U.S. dollar and ¥120 against the euro.

The Group anticipates that fiscal 2010 profitability will be negatively affected by such factors as an increase in R&D expenses accompanying progress in development projects, centered on oral factor Xa inhibitor edoxaban, and higher promotional expenses for the launch of new products, in addition to the impact of drug price revision. Consequently, the Group is forecasting that it will record operating income of ¥90.0 billion, down 5.8%.

While fluctuations in the rupee's exchange rate against the U.S. dollar led to a derivative gain at Ranbaxy in fiscal 2009, the Group does not anticipate such an income in fiscal 2010. Furthermore, tax expenses are expected to decrease due in part to prior period adjustments made in fiscal 2009. Consequently, the Group projects that it will generate ¥45.0 billion in net income during fiscal 2010, up 7.5% from fiscal 2009.

* As of June 28, 2010

Factors that Could Have a Major Impact on Business Performance

Forward-looking statements express the Company's judgement as of June 28, 2010.

1. Trends in Sales of Important Products

The Group has positioned the antihypertensive drug olmesartan franchise as a global strategic product and is seeking further expansion by quickly developing *Rezaltas* (a combination drug of the ARB olmesartan with the calcium channel blocker azelnidipine) in the Japanese market, and CS-8635, primarily in the United States and Europe, while also encouraging collaboration and synergies between Daiichi Sankyo and Ranbaxy. The goal is to increase global sales of olmesartan to ¥300 billion within the period covered by the second mid-term business management plan. Sales trends for this product are believed to have a major impact on the business performance of the Group.

2. Trends in R&D Activities and Licensing Activities

The Group is moving forward with global R&D and licensing activities to continuously launch new products and increase sales, with high expectations for such global development products as the antiplatelet agent *Effient/Efient* and the oral factor Xa inhibitor edoxaban. Of these, gradual sales of *Effient/Efient* have already begun in Europe and the United States for the treatment of patients with acute coronary syndromes (ACS) undergoing percutaneous coronary intervention (PCI). Phase III clinical trials to obtain approval for the additional indication of ACS in patients not undergoing PCI have been underway since June 2008. Meanwhile, Phase III clinical trials for edoxaban for the indication of preventing venous thromboembolism in patients with atrial fibrillation (AF) have been proceeding since November 2008 in 46 countries. Phase III clinical trials aimed at obtaining the indication of preventing venous thromboembolism (VTE) such as deep vein thrombosis (DVT) and pulmonary embolism (PE) were also launched in January 2010. In addition, an application was filed in Japan in March 2010 for manufacturing and marketing approval for the use of edoxaban in preventing VTE in patients undergoing podiatric surgery. Decisions by regulatory authorities may have an impact on future business performance. These products will also require the investment of considerable funds before they are marketed. The Group is striving to efficiently invest in R&D, however, with due consideration for revenue trends and other factors. Nevertheless, if the investment required exceeds projections, it could have an impact on business performance. In addition, if drug candidates do not demonstrate expected results in the course of clinical trials or if any doubts remain concerning the drug candidates' safety, then the development periods may be extended or development itself may be interrupted or canceled, and there is a possibility that such eventualities could have a major effect on business performance.

3. Trends in the Drug Pricing Systems in 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 regulate and protect these prices and standards. However, there is a possibility that changes in these regulatory or protection systems could have an effect on the Group's 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 by 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. Under any of these circumstances, 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 stating 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, requiring 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 position of the Group.

Any forward-looking statements or projections contained in this overview represent the best judgment of management of the Group (Daiichi Sankyo Co., Ltd. and its consolidated subsidiaries) as of the end of the fiscal year ended March 31, 2010, and there is a possibility that they may differ from actual results due to known or unknown risks, uncertainties, and other factors.

1) Risks Related to Operations of Ranbaxy

The entry of Ranbaxy into the Group represents a 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 the management of manufacturing and quality systems. If the resolution of this issue were to become protracted or if the FDA were to impose additional restrictions on Ranbaxy, there could be a negative impact on Ranbaxy's business prospects over the medium and long terms and, in turn, adversely affect the Group's business results and financial position.

Moreover, the synergies anticipated by the Company by 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. Under these circumstances, there is a potential adverse effect on the Group's business plans, results and financial position.

2) Financial Markets and Currency Fluctuation Risks

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 and, in turn, on the Group's business results and financial position.

3) Research and Development, Corporate Alliance Risks

Research and development of new drug candidates is a costly process that requires many years to complete successfully, during which time there is an ever-present risk that R&D activities on a particular compound may be terminated due to failure to demonstrate the expected clinical efficacy. Even if clinical trials obtain good results, changes to the regulatory approval criteria during development may result in failure to gain drug approval. In addition, any changes in the terms of agreement related to R&D-related alliances with third parties, or the cancellation thereof, can also adversely affect the outcome of R&D programs.

4) Manufacturing and Procurement Risk

While the Group manufactures some of its products at its own production facilities using original technology, it also depends on specific suppliers for 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 regulations as stipulated in the Pharmaceuticals Affairs Law and other relevant laws and regulations. Any quality assurance problem that necessitated a product recall could have an adverse effect on the Group's business results and financial position.

5) Product Sales-Related Risks Such as Side Effects and Competing Products

Any decline in sales due to the emergence of unanticipated side effects of a drug, 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 the 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.

6) Legal and Regulatory Risks Such as Restraints on Medical Expenditures

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 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 legal and regulatory trends.

7) Intellectual Property Risk

The business activities of the Group could be subject to the risk of termination, change in content or dispute in the event of an 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 litigation and other 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 become more prevalent.

8) Environmental Risk

Certain chemicals used in research and manufacturing include substances that have a potentially harmful 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.

9) Litigation-Related Risk

Besides potential antitrust issues, the Group could also face other forms of litigation 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.

10) Other Risks

Besides the risks noted above, suspension of business activities due to a major earthquake or other large-scale natural disaster, or due to disruption caused by conflict or terrorism, interruption of the Group's computer systems due to a network-transmitted virus or other causes, unauthorized disclosure of confidential information, illegal or improper actions by officers and employees, changes in stock prices and interest rates, funding procurement risk, and various other factors of a similar nature, could adversely affect the Group's business results and financial position.

Consolidated Balance Sheets

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2010**	2009	**2010**
Current Assets:			
Cash and deposits (Note 3)	**¥ 100,997**	¥ 76,551	**$ 1,085,989**
Marketable securities (Notes 3, 4 and 5)	**236,541**	235,476	**2,543,452**
Trade notes and accounts receivable, net of allowance of ¥1,668 million ($17,935 thousand) and ¥1,018 million in 2010 and 2009, respectively	**210,221**	194,495	**2,260,441**
Inventories (Note 6)	**143,226**	139,475	**1,540,065**
Deferred tax assets (Note 10)	**86,971**	76,748	**935,172**
Other current assets	**41,802**	60,762	**449,483**
Total current assets	**819,758**	783,507	**8,814,602**
Property, Plant and Equipment (Notes 7 and 11)**:**			
Land	**42,619**	42,358	**458,269**
Buildings and structures	**322,700**	321,905	**3,469,892**
Machinery, equipment and vehicles	**372,712**	367,952	**4,007,656**
Other	**1,540**	1,521	**16,559**
Construction in progress	**22,295**	13,316	**239,731**
	761,866	747,052	**8,192,107**
Accumulated depreciation	**(512,320)**	(496,938)	**(5,508,816)**
Net property, plant and equipment	**249,546**	250,114	**2,683,291**
Investments and Other Assets (Notes 7 and 15)**:**			
Investment securities (Notes 4 and 5)	**137,043**	153,728	**1,473,581**
Deferred tax assets (Note 10)	**81,759**	91,601	**879,129**
Other	**201,404**	215,650	**2,165,634**
Total investments and other assets	**420,206**	460,979	**4,518,344**
Total assets	**¥1,489,510**	¥1,494,600	**$16,016,237**

See accompanying notes.

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
Current Liabilities:			
Short-term bank loans (Note 8)	**¥ 15,019**	¥ 261,114	**$ 161,495**
Long-term debt due within one year (Note 8)	**4,969**	3,232	**53,430**
Trade notes and accounts payable	**103,377**	95,440	**1,111,581**
Income taxes payable (Note 10)	**10,643**	8,243	**114,441**
Accrued expenses	**74,141**	70,713	**797,215**
Other current liabilities (Notes 10)	**60,663**	69,794	**652,290**
Total current liabilities	**268,812**	508,536	**2,890,452**
Long-Term Liabilities:			
Bonds payable	**100,000**	—	**1,075,269**
Convertible bond-type bonds with subscription rights to shares (Notes 4 and 9)	**49,535**	47,083	**532,634**
Long-term debt (Notes 4 and 8)	**121,390**	15,853	**1,305,269**
Accrued employees' severance and retirement benefits (Note 12)	**12,320**	10,589	**132,473**
Accrued directors' severance and retirement benefits	**132**	178	**1,419**
Deferred tax liabilities (Note 10)	**29,238**	5,428	**314,387**
Other long-term liabilities	**18,575**	18,316	**199,732**
Total long-term liabilities	**331,190**	97,447	**3,561,183**
Total liabilities	**600,002**	605,983	**6,451,635**
Commitments and Contingencies (Note 14)			
Net Assets (Note 13)**:**			
Common stock:			
Authorized—2,800,000,000 shares in 2010 and 2009			
Issued—709,011,343 shares in 2010			
—709,011,343 shares in 2009	**50,000**	50,000	**537,634**
Capital surplus	**105,194**	105,194	**1,131,118**
Retained earnings	**746,393**	753,821	**8,025,731**
Treasury stock, at cost	**(14,566)**	(14,556)	**(156,623)**
Subtotal	**887,021**	894,459	**9,537,860**
Net unrealized gain on investment securities	**27,462**	19,883	**295,290**
Deferred gains or losses on hedges	**1,003**	77	**10,785**
Foreign currency translation adjustments	**(59,779)**	(51,368)	**(642,785)**
Subscription rights to shares (Note 18)	**3,295**	2,390	**35,430**
Minority interests	**30,506**	23,176	**328,022**
Total net assets	**889,508**	888,617	**9,564,602**
Total liabilities and net assets	**¥1,489,510**	¥1,494,600	**$16,016,237**

See accompanying notes.

Consolidated Statements of Operations

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Net Sales (Note 16)	**¥952,106**	¥ 842,147	¥880,120	**$10,237,699**
Costs and Expenses (Note 16)**:**				
Cost of sales	**278,031**	214,397	234,571	**2,989,581**
Selling, general and administrative expenses	**381,763**	354,340	325,250	**4,104,979**
Research and development expenses	**196,803**	184,539	163,472	**2,116,161**
	856,597	753,276	723,293	**9,210,721**
Operating Income (Note 16)	**95,509**	88,871	156,827	**1,026,978**
Other Income (Expenses):				
Interest and dividend income	**6,191**	9,475	11,863	**66,570**
Interest expense	**(5,720)**	(1,917)	(128)	**(61,505)**
Derivative gain (loss)	**17,155**	(20,501)	(748)	**184,462**
Foreign exchange gains (losses)	**(10,690)**	(17,466)	536	**(114,946)**
Gain on sale of property, plant and equipment	**2,948**	2,239	6,622	**31,699**
Gain on sales of investments in affiliates	**1,061**	—	8,719	**11,409**
Gain on sales of investment securities	**1,874**	124	256	**20,151**
Loss on disposal of property, plant and equipment	**(1,656)**	(3,305)	(2,161)	**(17,806)**
Loss on business integration (Note 11)	**—**	—	(9,998)	**—**
Loss on impairment of long-lived assets (Note 11)	**(2,103)**	(3,062)	—	**(22,613)**
Amortization of goodwill (one-time amortization) (Note 11)	**—**	(354,390)	—	**—**
Non-recurring depreciation on non-current assets (Note 11)	**(261)**	(3,233)	—	**(2,806)**
Restructuring loss (Note 11)	**(2,578)**	—	(2,247)	**(27,720)**
Loss on Penalty	**(2,544)**	(393)	—	**(27,355)**
Other, net	**(1,814)**	(4,705)	(2,685)	**(19,507)**
	1,863	(397,134)	10,029	**20,033**
Income (Loss) before Income Taxes and Minority Interests	**97,372**	(308,263)	166,856	**1,047,011**
Income Taxes (Note 10)**:**				
Income taxes–current	**31,422**	29,241	52,355	**337,872**
Income taxes–deferred	**18,594**	(108,414)	16,741	**199,935**
Income (Loss) before Minority Interests	**47,356**	(229,090)	97,760	**509,204**
Minority Interests in Net Loss (Income) of Consolidated Subsidiaries	**(5,504)**	13,591	(100)	**(59,182)**
Net Income (Loss)	**¥ 41,852**	¥(215,499)	¥ 97,660	**$ 450,022**

	Yen			U.S. dollars (Note 1)
Amounts per Share of Common Stock (Note 2)**:**				
Net income (loss)	**¥ 59.45**	¥ (304.22)	¥ 135.35	**$ 0.64**
Diluted net income	**59.42**	—	135.34	**0.64**
Cash dividends applicable to the year	**60.00**	80.00	70.00	**0.65**

See accompanying notes.

Consolidated Statements of Changes in Net Assets

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Number of shares of common stock (Thousands)	Millions of yen									
		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	Subscription rights to shares	Minority interests	Total net assets
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)
Bonuses to directors		—	—	—	—	—	—	—	—	—	—
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 adjustments 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)
Loss 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 adjustments 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
Loss on sale of treasury stock		**—**	**(5)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5)**
Transfer of loss on sale of treasury stock		**—**	**5**	**(5)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net Income		**—**	**—**	**41,852**	**—**	**—**	**—**	**—**	**—**	**—**	**41,852**
Cash dividends (¥70.00 per share)		**—**	**—**	**(49,275)**	**—**	**—**	**—**	**—**	**—**	**—**	**(49,275)**
Changes in net unrealized holding gain on securities		**—**	**—**	**—**	**—**	**7,579**	**—**	**—**	**—**	**—**	**7,579**
Deferred gains or losses on hedges		**—**	**—**	**—**	**—**	**—**	**926**	**—**	**—**	**—**	**926**
Change in translation adjustments of foreign currency financial statements		**—**	**—**	**—**	**—**	**—**	**—**	**(8,411)**	**—**	**—**	**(8,411)**
Changes in treasury stock		**—**	**—**	**—**	**(10)**	**—**	**—**	**—**	**—**	**—**	**(10)**
Issuance of subscription rights to shares		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**905**	**—**	**905**
Changes in minority interests		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**7,330**	**7,330**
Balance at March 31, 2010	**709,011**	**¥ 50,000**	**¥ 105,194**	**¥ 746,393**	**¥ (14,566)**	**¥ 27,462**	**¥ 1,003**	**¥ (59,779)**	**¥ 3,295**	**¥ 30,506**	**¥ 889,508**

	Number of shares of common stock (Thousands)	Thousands of U.S. dollars (Note 1)									
		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	Subscription rights to shares	Minority interests	Total net assets
Balance at March 31, 2009	709,011	$537,634	$1,131,118	$8,105,602	$(156,516)	$213,796	$ 828	$(552,344)	$25,699	$249,205	$9,555,022
Loss on sale of treasury stock		**—**	**(54)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(54)**
Transfer of loss on sale of treasury stock		**—**	**54**	**(54)**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net Income		**—**	**—**	**450,022**	**—**	**—**	**—**	**—**	**—**	**—**	**450,022**
Cash dividends ($0.75 per share)		**—**	**—**	**(529,839)**	**—**	**—**	**—**	**—**	**—**	**—**	**(529,839)**
Changes in net unrealized holding gain on securities		**—**	**—**	**—**	**—**	**81,494**	**—**	**—**	**—**	**—**	**81,494**
Deferred gains or losses on hedges		**—**	**—**	**—**	**—**	**—**	**9,957**	**—**	**—**	**—**	**9,957**
Change in translation adjustments of foreign currency financial statements		**—**	**—**	**—**	**(107)**	**—**	**—**	**(90,441)**	**—**	**—**	**(90,441)**
Changes in treasury stock		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(107)**
Issuance of subscription rights to shares		**—**	**—**	**—**	**—**	**—**	**—**	**—**	**9,731**	**—**	**9,731**
Changes in minority interests		**—**				**—**	**—**	**—**	**—**	**78,817**	**78,817**
Balance at March 31, 2010	**709,011**	**$537,634**	**$1,131,118**	**$8,025,731**	**$(156,623)**	**$295,290**	**$10,785**	**$(642,785)**	**$35,430**	**$328,022**	**$9,564,602**

See accompanying notes.

Consolidated Statements of Cash Flows

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2010	2009	2008	**2010**
Cash Flows from Operating Activities:				
Income (loss) before income taxes and minority interests	**¥ 97,372**	¥(308,263)	¥ 166,856	**$ 1,047,011**
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash provided by operating activities:				
Depreciation	**45,943**	40,582	38,733	**494,011**
Loss on impairment of long–lived assets	**2,103**	3,062	—	**22,613**
Non–recurring depreciation on non–current assets	**261**	3,233	—	**2,806**
Amortization of goodwill	**8,883**	371,760	3,599	**95,516**
Derivative (gain) loss	**(17,155)**	20,501	748	**(184,462)**
Increase (decrease) in allowance for doubtful accounts	**601**	(208)	(394)	**6,462**
Increase (decrease) in accrued retirement and severance benefits	**1,436**	888	(26,834)	**15,441**
Decrease in prepaid pension costs	**3,031**	1,103	9,947	**32,591**
Interest and dividend income	**(6,191)**	(9,447)	(11,863)	**(66,570)**
Interest expense	**5,720**	1,922	128	**61,505**
Foreign exchange (gains) losses	**(2,637)**	10,411	42	**(28,355)**
Gain on sales of investment securities	**(1,874)**	(124)	(256)	**(20,151)**
(Gain) loss on sales of investments in affiliates	**(1,061)**	16	(8,719)	**(11,409)**
(Gain) loss on sales and disposal of property, plant and equipment	**(1,292)**	1,066	(4,461)	**(13,892)**
Equity in net losses of affiliated companies	**176**	213	107	**1,892**
(Increase) decrease in trade notes and accounts receivable	**(15,356)**	4,650	7,602	**(165,118)**
Increase in inventories	**(2,806)**	(2,072)	(4,539)	**(30,172)**
Increase (decrease) in trade notes and accounts payable	**6,437**	(308)	(260)	**69,215**
Increase (decrease) in accounts payable and accrued expenses	**6,236**	3,507	(54,056)	**67,054**
Other, net	**27,205**	(14,559)	(710)	**292,528**
Subtotal	**157,032**	127,933	115,670	**1,688,516**
Interest and dividends received	**7,261**	9,707	11,646	**78,075**
Interest paid	**(3,644)**	(649)	(128)	**(39,183)**
Income taxes paid	**(30,413)**	(58,608)	(60,521)	**(327,021)**
Net cash provided by operating activities	**130,236**	78,383	66,667	**1,400,387**
Cash Flows from Investing Activities:				
Purchases of time deposits	**(31,358)**	(25,000)	(2,053)	**(337,183)**
Proceeds from maturities in time deposits	**36,190**	2,991	992	**389,140**
Purchases of marketable securities	**(51,007)**	(120,672)	(166,335)	**(548,462)**
Proceeds from sales of marketable securities	**128,826**	169,181	142,973	**1,385,226**
Acquisitions of property, plant and equipment	**(28,871)**	(19,807)	(25,317)	**(310,441)**
Proceeds from sales of property, plant and equipment	**4,563**	2,946	8,364	**49,065**
Acquisitions of intangible assets	**(2,287)**	(24,796)	(26,269)	**(24,591)**
Acquisitions of investment securities	**(6,747)**	(12,742)	(28,392)	**(72,548)**
Proceeds from sales of investment securities	**6,607**	2,279	26,761	**71,043**
Acquisitions of investments in subsidiaries	**(1,499)**	—	(753)	**(16,118)**
Acquisition of investments in newly consolidated subsidiaries (Note 3)	**(14,446)**	(411,252)	—	**(155,333)**
Proceeds from sales of investments in consolidated subsidiaries resulting in changes in scope of consolidation (Note 3)	**2,975**	31	22,260	**31,989**
Net (increase) decrease in short-term loans receivable	**(99)**	8,084	8,000	**(1,065)**
Payment for loans receivable	**(428)**	(506)	(150)	**(4,602)**
Proceeds from collection of loans receivable	**39**	1,232	858	**419**
Other, net	**170**	14,179	(10,376)	**1,827**
Net cash provided by (used in) investing activities	**42,628**	(413,852)	(49,437)	**458,366**
Cash Flows from Financing Activities:				
Net increase (decrease) in short–term bank loans	**(246,772)**	196,241	(1,569)	**(2,653,462)**
Proceeds from long–term debt	**111,832**	1,268	—	**1,202,495**
Repayments of long–term debt	**(4,412)**	(191)	(809)	**(47,441)**
Proceeds from issuance of bonds	**99,688**	—	—	**1,071,914**
Purchases of treasury stock	**(29)**	(45,847)	(33,420)	**(312)**
Proceeds from sale of treasury stock	**6**	29	13	**65**
Dividends paid	**(49,257)**	(53,292)	(47,017)	**(529,645)**
Other, net	**(177)**	(152)	(96)	**(1,904)**
Net cash provided by (used in) financing activities	**(89,121)**	98,056	(82,898)	**(958,290)**
Effect of Exchange Rate Changes on Cash and Cash Equivalents	**(2,297)**	(29,129)	(4,739)	**(24,699)**
Net Increase (Decrease) in Cash and Cash Equivalents	**81,446**	(266,542)	(70,407)	**875,764**
Cash and Cash Equivalents, Beginning of Year	**177,770**	444,335	513,212	**1,911,505**
Increase (Decrease) in Cash and Cash Equivalents due to Changes in Scope of Consolidation	**—**	(23)	501	**—**
Increase in Cash and Cash Equivalents due to Merger with Unconsolidated Subsidiaries	**—**	—	1,029	**—**
Cash and Cash Equivalents, at End of Year (Note 3)	**¥ 259,216**	¥ 177,770	¥ 444,335	**$ 2,787,269**

See accompanying notes.

Notes to Consolidated Financial Statements

DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries
Years ended March 31, 2010, 2009 and 2008

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 fiscal 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 and from the fiscal 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, 2010, which was ¥93 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, is amortized equally over the estimated effective period not exceeding 20 years.

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, 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). 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, 2008, increased by ¥14,129 million, ¥1,886 million, ¥2,161 million, and ¥2,027 million, respectively.

Cash and cash equivalents and statements of cash flows

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 have maturities that are within three months from the date of acquisition 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 that 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, net of applicable income taxes, are reported 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 related 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 that 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. The Company and its consolidated subsidiaries that 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.

Inventories

Inventories held for sales in the ordinary course of business are 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.

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 fiscal 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 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.

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.

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 fund.

Prior service costs are principally amortized over 12 months, and actuarial gains and losses are principally amortized by a straight-line method over 10 years.

Certain domestic consolidated subsidiaries have retirement benefits programs for 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, net assets 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, as 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 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 are presented on an accrual basis and include dividends to be approved after the balance sheet date, but applicable to the year then ended.

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries

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," 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, and loss before income taxes and minority interests decreased by ¥1,865 million for the fiscal year ended March 31, 2009.

Implementation Guidance on Determining a Subsidiary and an Affiliate

Effective from the fiscal year ended March 31, 2010, the Company has adopted the provisions of "Implementation Guidance on Determining a Subsidiary and an Affiliate" (Implementation Guidance No. 22), published by the ASBJ on May 13, 2008.

This adoption has no effect on operating income or the income before income taxes and minority interests.

Revised Accounting Standard for Financial Instruments and its Implementation Guidance on Disclosures about Fair Value of Financial Instruments

Effective from the fiscal year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted the revised Accounting Standard "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, revised on March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, revised on March 10, 2008).

The effect of this adoption on the income before income taxes and minority interests was immaterial.

Information on financial instruments for the year ended March 31, 2010 required pursuant to the revised accounting standards is described in Note 4.

Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)

Effective from the fiscal year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have adopted the provisions of "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (ASBJ Statement No. 19), published by the ASBJ on July 31, 2008.

This adoption has no effect on operating income or the income before income taxes and minority interests.

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, 2010, 2009 and 2008 for the consolidated statements of cash flows consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Cash and deposits	**¥100,997**	¥ 76,551	¥ 47,335	**$1,085,989**
Less time deposits with maturities extending over three months	**(22,831)**	(25,809)	(2,418)	**(245,495)**
Add short-term investments with maturities within three months	**181,050**	127,028	399,418	**1,946,775**
Cash and cash equivalents	**¥259,216**	¥177,770	¥444,335	**$2,787,269**

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
Current assets	¥244,491
Non-current assets	151,949
Goodwill	433,737
Current liabilities	(170,195)
Long-term liabilities	(98,882)
Subscription rights to shares	(6,387)
Minority interests	(46,489)
In-process research and development	6,910
Purchase price of the subsidiaries	515,134
Cash and cash equivalents owned by the subsidiaries	103,882
Acquisition of investments in newly consolidated subsidiaries in 2009	¥411,252

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 in 2008	¥22,260

4. Financial Instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

The Companies have obtained short-term bank loans for financing short-term working capital, and have financed acquisition of companies, mainly with bank loans and issuance of unsecured straight bonds. The Companies have been investing temporary surplus funds in highly-secure financial assets. The Company and certain consolidated subsidiaries enter into derivative agreements in order to manage the risks described in the following section (b). The Companies have a policy not to enter into derivative transactions for speculative trading purposes.

(b) Details of financial instruments used and the related risks

The Companies are exposed to customers' credit risk on trade notes and accounts receivable. Foreign currency receivables incurred by the global business are exposed to currency rate fluctuation risk. In principle, forward foreign exchange contracts and currency options are utilized to hedge the currency rate fluctuation risk in relation to the net position of foreign currency receivables and payables.

Marketable securities and investment securities are principally held-to-maturity debt securities and shares issued by business partners, and are exposed to market price fluctuation risk.

Trade notes and accounts payable are due within one year. A part of the payables includes foreign currency payable in relation to imports of raw materials.

Long-term debt and unsecured straight bonds were utilized for financing acquisition of companies, and the maximum period of their maturities is within ten years. They include foreign currency convertible bond-type bonds with subscription rights to shares issued and long-term bank loans in foreign currency obtained by the Company's subsidiary, Ranbaxy Laboratories Limited. Such foreign currency debts are exposed to currency rate and interest-rate fluctuation risk and are hedged using currency swaps and interest-rate swaps.

Derivatives consist of forward foreign exchange contracts, currency options (zero cost option to offset option premium on sell option and on buy option), currency swaps, interest-rate swaps, and call options on specific stocks. Forward foreign exchange contracts, currency options, and currency swaps are utilized to hedge risks arising from changes in foreign currency exchange rates applied to foreign currency receivables, payables, and debts. Interest-rate swaps are utilized to manage interest-rate risk. Call options on specific stocks are utilized to avoid the risk of fluctuation in stock prices relating to stock appreciation rights. Among them, currency options and call options on specific stocks include options whose maturities are more than one year and foreign exchange and share price fluctuations could have a material impact on the results of operations. Hedge accounting policy is described in Note 2.

(c) Policies and processes for risk management

1) Management of credit risk (risk associated with nonfulfillment of contracts by counterparties)

In terms of receivables, the Company manages the credit risk according to the internal credit policy. Its sales management department monitors business and financial conditions of major customers regularly and controls their payment dates and credit balances by customer so that the Company can recognize risks of incurrence of uncollectible accounts promptly. Through these processes, the Company is managing to mitigate the credit risk. The consolidated subsidiaries also manage their credit risks through the similar management systems according to their own policies on protection of receivables in line with the Company's policy.

In terms of held-to-maturity securities, the Company invests only in high-grade bonds according to the fund management policy. Therefore, the related credit risk is immaterial.

In terms of derivative transactions, the Company deals with selected financial institutions with high credit rating in order to mitigate the counterparty risk.

The book values of financial assets exposed to credit-related losses represent the maximum amounts of credit risk exposure as of March 31, 2010.

2) Management of market risk (risks associated with changes in foreign currency exchange rate, interest rates, etc.)

The Company and certain consolidated subsidiaries principally utilize forward foreign exchange contracts and currency options to hedge the currency rate fluctuation risks arising from changes in each foreign currency exchange rates in relation to foreign currency receivables and payables. In particular, the Companies enter into forward foreign exchange contracts to hedge the currency fluctuation risks in relation to foreign currency receivables and payables that are certainly scheduled to be incurred through import/export transactions within one year.

In terms of marketable securities and investment securities, the Companies regularly capture fair value and issuers' financial conditions. In addition, the Company continuously reviews its stock portfolio.

Also, certain subsidiaries utilize currency swaps and interest-rate swaps to reduce the risk of change in currency exchange rate and interest rate in relation to loans.

In terms of derivatives, the Company has established a Derivatives Management Policy, which stipulates transaction rules such as trading limit and authority. Derivative transactions are executed and controlled according to the policy, and reported to its board of directors. The subsidiaries other than Ranbaxy control derivative transactions based on their policy, which is in line with the Company's policy.

The Company continues to conduct the risk-exposure controls of Ranbaxy's currency options and currency swaps.

3) Management of liquidity risk associated with funding (risk of inability to make payments on due date)

The Company manages liquidity risk through processes where its Finance & Accounting Department formulates and updates cash-flow plans based on the reports from operational departments on a timely basis and through a policy to maintain liquidity in hand at an equivalent amount of three months' sales.

(d) Supplemental information on fair values

Fair value of financial instruments is measured through quoted market prices when available. When quoted market prices are not available, fair values are estimated by using reasonable valuation methods. The assumptions of such estimation include variation factors and, accordingly, if different assumptions are adopted, estimated fair values could be changed. The notional amounts described in Note 17 should not be construed as representations that such amounts show the market risk exposure in relation to derivative transactions.

(2) Fair values of financial instruments

Carrying values and fair values of the financial assets and liabilities at March 31, 2010 are as follows.

	Millions of yen		
	2010		
	Carrying amount	Fair value	Differences
Cash and deposits	¥100,997	¥100,997	¥ —
Trade notes and accounts receivable	211,889	211,889	—
Marketable securities and Investment securities	358,347	361,046	2,699
Assets total	¥671,233	¥673,932	¥2,699
Trade notes and accounts payable	¥ 66,540	¥ 66,540	¥ —
Short-term bank loans	19,988	19,988	—
Bonds payable	100,000	101,680	1,680
Convertible bond-type bonds with subscription rights to shares	49,535	47,600	(1,935)
Long-term debt	121,390	121,478	88
Liabilities total	¥357,453	¥357,286	¥ (167)
Derivatives	¥ [30,829]	¥ [30,829]	¥ —

	Thousands of U.S. dollars		
	2010		
	Carrying amount	Fair value	Differences
Cash and deposits	$1,085,989	$1,085,989	$ —
Trade notes and accounts receivable	2,278,376	2,278,376	—
Marketable securities and Investment securities	3,853,194	3,882,216	29,022
Assets total	$7,217,559	$7,246,581	$29,022
Trade notes and accounts payable	$ 715,484	$ 715,484	$ —
Short-term bank loans	214,925	214,925	—
Bonds payable	1,075,269	1,093,333	18,064
Convertible bond-type bonds with subscription rights to shares	532,634	511,828	(20,806)
Long-term debt	1,305,269	1,306,215	946
Liabilities total	$3,843,581	$3,841,785	$ (1,796)
Derivatives	$ [331,495]	$ [331,495]	$ —

Net receivables and payables incurred through derivative transactions are presented on a net basis, and net payables are presented in "[ ]."

(a) Valuation methodology of fair value of financial instruments, and information on marketable securities and derivatives

Assets

1) Cash and deposits, and 2) Trade notes receivables and accounts receivable

Cash and deposits, trade notes receivables and accounts receivable are presented at the carrying values because they are settled in short-term and their fair value approximates the carrying amounts. Certain foreign currency accounts receivables are subject to the allocation method, which requires that recognized foreign currency receivables or payables be translated at the underlying exchange rates in the corresponding forward foreign exchange contracts.

3) Marketable securities and investment securities

Fair values of listed stocks are based on the quoted market price, and fair values of bonds are based on the quoted market price or the price that the counterparty financial institutes estimated. Fair values of investment funds are based on published market price. In terms of fair values of investments in partnership, the Company's share of the entity's net assets revaluated at fair value is regarded as fair value of such investments, where its assets can be valued at fair value. Fair value information for securities, classified by intent of holding, is described in Note 5.

Liabilities

1) Trade notes and accounts payable
Trade notes and accounts payables are presented at the carrying value because they are settled in short-term and their fair value reasonably approximates the carrying amounts.

2) Short-term loans
Short-term bank loans are presented at the carrying values because they are matured in short-term, their interest rates have reflected the short-term market interest rate, and their fair value reasonably approximates the carrying amounts.

3) Bonds payable
Fair value of bonds payable is based on the quoted market price.

4) Convertible bond-type bonds with subscription rights to shares
Fair value of convertible bond-type bonds with subscription rights to shares is based on the quoted price in the over-the-counter market.

5) Long-term debt
Fair value of long-term debt with variable interest rates is based on the carrying value because the applied interest rates have reflected short-term market interest rates and the fair value approximates the carrying amount. Fair value of long-term debt with fixed interest rate is based on the discounted amount of future repayments of the interest and principal by using the current interest rate assumed for similar types of debts with similar terms.

6) Derivatives financial instruments
Fair value of derivatives is estimated based on the market price offered by the financial institutions as the counterparty.

(b) Financial instrument whose fair value estimation is extremely difficult

	Millions of yen	Thousands of U.S. dollars
Stocks of unlisted companies	¥15,236	$163,839

Stocks of unlisted companies are not included in the section of Marketable securities and investment securities in the above table because their market price is not available and their future cash flow cannot be estimated, and, accordingly, it is extremely difficult to estimate their fair value.

(c) Expected amount of cash-in at March 31, 2010

	Millions of yen				
	2010				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Cash and deposits	**¥100,997**	**¥ —**	**¥ —**	**¥ —**	**¥100,997**
Trade notes and accounts receivable	**211,889**	**—**	**—**	**—**	**211,889**
Held-to-maturity securities:					
Government bonds	**54,201**	**2,411**	**—**	**—**	**56,612**
Corporate bonds	**19,009**	**5,004**	**1,000**	**—**	**25,013**
Others	**97,185**	**10**	**—**	**—**	**97,195**
Available-for-sale securities:					
Corporate bonds	**0**	**23**	**—**	**—**	**23**
Others	**—**	**—**	**—**	**—**	**—**
Total	**¥483,281**	**¥7,448**	**¥1,000**	**¥ —**	**¥491,729**

	Thousands of U.S. dollars				
	2010				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Cash and deposits	$1,085,989	$ —	$ —	$ —	$1,085,989
Trade notes and accounts receivable	2,278,376	—	—	—	2,278,376
Held-to-maturity securities:					
Government bonds	582,806	25,925	—	—	608,731
Corporate bonds	204,398	53,806	10,753	—	268,957
Others	1,045,001	108	—	—	1,045,109
Available-for-sale securities:					
Corporate bonds	0	247	—	—	247
Others	—	—	—	—	—
Total	$5,196,570	$80,086	$10,753	$ —	$5,287,409

(d) Expected amount of repayment and redemption at March 31, 2010

	Millions of yen					
	2010					
	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	Over five years
Bonds payable	¥ —	¥ —	¥ —	¥ —	¥60,000	¥40,000
Convertible bond-type bonds with subscription rights to shares	—	49,534	—	—	—	—
Long-term debt	—	3,671	26,716	20,806	30,039	40,158
Total	¥ —	¥53,205	¥26,716	¥20,806	¥90,039	¥80,158

	Thousands of U.S. dollars					
	2010					
	Within one year	Between one and two years	Between two and three years	Between three and four years	Between four and five years	Over five years
Bonds payable	$ —	$ —	$ —	$ —	$645,161	$430,108
Convertible bond-type bonds with subscription rights to shares	—	532,634	—	—	—	—
Long-term debt	—	39,473	287,269	223,720	323,000	431,807
Total	$ —	$572,107	$287,269	$223,720	$968,161	$861,915

5. Fair Value Information for Securities

(1) At March 31, 2010 and 2009, 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
	2010	2009	2010
Securities with market values greater than their carrying amounts:			
Carrying amount	¥ 64,323	¥93,911	$ 691,645
Market value	64,486	94,482	693,398
Difference	¥ 163	¥ 571	$ 1,753
Securities with fair value not exceeding book value:			
Carrying amount	¥114,497	¥57,425	$1,231,151
Market value	114,390	56,688	1,230,000
Difference	¥ (107)	¥ (737)	$ (1,151)

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

	Millions of yen		
	2010		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	**¥38,645**	**¥92,041**	**¥53,396**
Bonds	**22**	**23**	**1**
Others	**564**	**760**	**196**
Total	**¥39,231**	**¥92,824**	**¥53,593**
Securities with carrying amounts at or less than their acquisition costs:			
Stock	**¥14,942**	**¥12,604**	**¥ (2,338)**
Bonds	**0**	**0**	**—**
Others	**73,584**	**73,096**	**(488)**
Total	**¥88,526**	**¥85,700**	**¥ (2,826)**

	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)

	Thousands of U.S. dollars		
	2010		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	**$415,538**	**$989,688**	**$574,150**
Bonds	**237**	**247**	**10**
Others	**6,064**	**8,173**	**2,109**
Total	**$421,839**	**$998,108**	**$576,269**
Securities with carrying amounts at or less than their acquisition costs:			
Stock	**$160,667**	**$135,527**	**$ (25,140)**
Bonds	**0**	**0**	**—**
Others	**791,225**	**785,978**	**(5,247)**
Total	**$951,892**	**$921,505**	**$ (30,387)**

The Companies recognized ¥82 million ($882 thousand) and ¥1,078 million as impairment losses of available-for-sale securities with determinable market value in the years ended March 31, 2010 and 2009, respectively.

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

(a) Held-to-maturity securities

	Millions of yen
	2009
Commercial paper	¥61,966
Certificates of deposit	49
Mortgage-backed securities	1,000
Others	10

(b) Available-for-sale securities

	Millions of yen
	2009
Money management fund, etc.	¥60,109
Unlisted stock	10,297
Others	6,140

(3) At March 31, 2009, 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

(4) Available-for-sale securities sold during the years ended March 31, 2010 and 2009 were as follows:

Millions of yen			Millions of yen			Thousands of U.S. dollars		
2010			2009			**2010**		
Sales amount	Total gain	Total loss	Sales amount	Total gain	Total loss	Sales amount	Total gain	Total loss
¥2,504	**¥1,874**	**¥ —**	¥167	¥38	¥ —	**$26,925**	**$20,151**	**$ —**

6. Inventories

Inventories at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Merchandise and Finished goods	**¥ 91,709**	¥ 93,502	**$ 986,118**
Work in process	**16,783**	14,496	**180,463**
Raw materials and supplies	**34,734**	31,477	**373,484**
	¥143,226	¥139,475	**$1,540,065**

7. Lease Information

As discussed in Note 2, finance leases commenced prior to April 1, 2008 that 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, 2010 and 2009 was as follows:

	Millions of yen		
	2010		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles, and other	**¥1,535**	**¥(1,071)**	**¥464**

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

	Thousands of U.S. dollars		
	2010		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles, and other	**$16,505**	**$(11,516)**	**$4,989**

Future lease payments at March 31, 2010 and 2009, inclusive of interest under such leases, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥188**	¥297	**$2,021**
Due after one year	**276**	475	**2,968**
	¥464	¥772	**$4,989**

Total expenses for finance leases that do not transfer ownership to lessees and assumed depreciation charges for the years ended March 31, 2010, 2009 and 2008 were as follows:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Total expenses	**¥290**	¥378	¥1,426	**$3,118**
Assumed depreciation charges	**290**	378	1,426	**3,118**

8. Short-Term Bank Loans and Long-Term Debt

The weighted-average interest rates on short-term bank loans outstanding were 7.91% and 1.87% at March 31, 2010 and 2009, respectively.

The weighted-average interest rates on long-term debt were 1.68% for debt due within one year and 0.70% for long-term debt other than debt due within one year. Long-term debt at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Secured loans principally from banks and insurance companies	**¥126,359**	¥19,085	**$1,358,699**
Less amount due within one year	**(4,969)**	(3,232)	**(53,430)**
	¥121,390	¥15,853	**$1,305,269**

The annual maturities of long-term debt at March 31, 2010 were as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	**¥ 3,671**	**$ 39,473**
2013	**26,716**	**287,269**
2014	**20,806**	**223,720**
2015	**30,039**	**323,000**
2016 and thereafter	**40,158**	**431,807**
	¥121,390	**$1,305,269**

The Company entered into lines of credit agreements with the various banks in order to borrow their operating funds efficiently. At March 31, 2010 and 2009, unused lines of credit were ¥30,000 million ($322,581 thousand).

9. Bonds

(1) Bonds payable

The Company has issued the bonds as follows:

	Issuance date	Interest rate	Security	Maturity date	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
1st series unsecured Straight Bond	June 24, 2009	1.1%	Unsecured	June 24, 2014	**¥60,000**	—	**$645,161**
2nd series unsecured Straight Bond	June 24, 2009	1.8%	Unsecured	June 24, 2019	**¥40,000**	—	**$430,108**

(2) Convertible bond-type bonds with subscription rights to shares

A consolidated subsidiary has issued the bonds as follows:

	Issuance date	Interest rate	Security	Maturity date	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars 2010
Convertible bond-type bonds with subscription rights to shares	March 17, 2006	4.8%	Unsecured	March 16, 2011	**¥49,534**	¥47,082	**$532,634**

10. 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, 2010, 2009 and 2008. 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.

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, 2010:

	2010
Statutory tax rate	**40.5%**
Expenses not deductible for income tax purposes	**7.8**
Non-taxable income	**(0.6)**
Decrease in valuation allowance	**(7.6)**
Unrealized deferred tax asset on intercompany profits	**8.2**
Amortization of goodwill	**3.7**
Differences in effective overseas tax rates	**(4.6)**
Other	**4.0**
Effective tax rate	**51.4%**

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.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Net operating loss carryforwards for income tax purposes	**¥ 86,958**	¥116,746	**$ 935,032**
Prepaid consigned research and co-development expenses	**38,214**	26,132	**410,903**
Depreciation	**22,664**	23,996	**243,699**
Accrued bonuses	**6,672**	6,270	**71,742**
Unrealized profit on inventories and loss on valuation of inventories	**6,388**	14,030	**68,688**
Loss on impairment	**3,085**	2,712	**33,172**
Accrued employees' severance and retirement benefits	**1,930**	—	**20,753**
Loss on revaluation of securities	**1,921**	1,880	**20,656**
Other	**49,264**	51,922	**529,721**
Valuation allowance	**(17,886)**	(26,182)	**(192,323)**
Total deferred tax assets	**199,210**	217,506	**2,142,043**
Deferred tax liabilities:			
Net unrealized holding gain on investment securities	**(18,730)**	(15,230)	**(201,398)**
Intangible assets	**(18,531)**	(17,005)	**(199,258)**
Reserve for reduction in bases of property, plant and equipment for income tax purposes	**(9,532)**	(9,418)	**(102,495)**
Prepaid pension costs	**(1,575)**	(1,431)	**(16,935)**
Other	**(11,352)**	(11,502)	**(122,065)**
Total deferred tax liabilities	**(59,720)**	(54,586)	**(642,151)**
Net deferred tax assets	**¥139,490**	¥162,920	**$1,499,892**

Net deferred tax assets as of March 31, 2010 and 2009 were included in the following accounts of the consolidated balance sheets.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets:			
Current	**¥86,971**	¥76,748	**$935,172**
Non-current	**81,759**	91,601	**879,129**
Deferred tax liabilities:			
Other current liabilities	**2**	1	**22**
Deferred tax liabilities (non-current)	**29,238**	5,428	**314,387**

11. Other Income (Expenses)

(1) Restructuring Loss

In the year ended March 31, 2010, the Companies recognized a non-recurring loss associated with the reorganization of consolidated subsidiary Asubio Pharma Co., Ltd., the sale and transfer of the Shizuoka factory of Daiichi Sankyo Propharma Co., Ltd. and others. The amounts consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2010	2010
Additional retirement benefits, etc.	¥1,867	$20,075
Expenses associated with the removal, consolidation and closure of operating locations	60	645
Provision for losses of sale of shares	315	3,387
Other	336	3,613

In the year ended March 31, 2008, the Companies recognized a non-recurring loss, which mainly consisted of the advisory fees, associated with the sales of shares in consolidated subsidiaries as a part of business restructuring to focus on the pharmaceutical business.

(2) Loss on Impairment of Long-lived Assets

The Companies categorized their assets for their business operations into groups, which are based on profit control unit for management purposes, 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, 2010 and 2009, the Companies recognized a loss on impairment in the following asset groups:

Fiscal 2010

Location	Function	Asset Type	Status
Shimada, Shizuoka, etc.	Shizuoka Plant, etc. Manufacturing facility	Buildings, machinery, equipment, etc.	Idle
Bunkyo-ku, Tokyo	Office for rent	Buildings, structures, etc.	Rental

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

Because the above asset groups are idle and have uncertain prospects for future utilization, or planned sales price has become lower than the book value, their book values have been written down to a recoverable amount, and such reductions in the amount of ¥2,103 million ($22,613 thousand) and ¥3,062 million were recorded as a loss on impairment of long-lived assets for the years ended March 31, 2010 and 2009, respectively.

The amounts consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥1,297	¥1,726	$13,946
Machinery, equipment and vehicles	608	511	6,538
Land	198	825	2,129

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.

(3) 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:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Buildings and structures	**¥261**	¥3,220	**$2,806**
Machinery, equipment and vehicles	**—**	13	**—**

(4) 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.

(5) Loss on Business Integration

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

	Millions of yen
	2008
Additional retirement benefits, etc.	¥3,913
Expenses associated with the consolidation and closure of operating locations	2,358
IT systems related expenses	2,219
Expenses associated with the integration of healthcare business	169
Expenses associated with the integration of overseas operations	—
Other research expenses, etc.	1,339

12. Retirement and Termination Benefits Plans

Retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Projected benefit obligation	**¥(102,408)**	¥(97,837)	**$(1,101,161)**
Plan assets at fair value	**79,906**	74,391	**859,204**
Under-funded projected benefit obligations in excess of plan assets	**(22,502)**	(23,446)	**(241,957)**
Unrecognized actuarial losses	**14,072**	19,778	**151,312**
Unrecognized prior service costs	**—**	—	**—**
Net pension liabilities recognized in the consolidated balance sheet	**(8,430)**	(3,668)	**(90,645)**
Prepaid pension assets	**3,890**	6,921	**41,828**
Accrued employees' severance and retirement benefits	**¥ (12,320)**	¥(10,589)	**$ (132,473)**

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, 2010, 2009, and 2008 consisted of the following:

	Millions of yen			Thousands of U.S. dollars
	2010	2009	2008	**2010**
Service costs for benefits earned	**¥ 4,199**	¥ 4,627	¥5,538	**$ 45,151**
Interest costs	**2,920**	2,661	1,979	**31,398**
Expected return on plan assets	**(2,333)**	(2,479)	(2,582)	**(25,086)**
Amortization of actuarial loss	**3,757**	2,106	552	**40,398**
Amortization of prior service costs	**198**	—	(9,469)	**2,129**
Additional retirement benefits and other	**1,883**	—	2,890	**20,247**
Other	**7,249**	3,730	3,901	**77,946**
Total	**¥17,873**	¥10,645	¥2,809	**$192,183**

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:

	%		
	2010	2009	2008
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%**	Principally 3.0%	3.0%

13. Net Assets

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 Japanese Corporate Law ("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 Law, the legal earnings reserve and additional paid-in capital generally could be used to eliminate or reduce a deficit by a 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 28, 2010, the shareholders resolved cash dividends amounting to ¥21,118 million ($227,075 thousand). Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2010 and are recognized in the period in which they are resolved.

14. Commitments and Contingencies

(1) Guarantees on Loans

At March 31, 2010, the Company was contingently liable as guarantors for loans of employees and a certain unconsolidated company in the amount of ¥3,230 million ($34,731 thousand).

(2) Other Contingencies

Contingent liabilities relating to litigation on certain products' price control by the Indian government were estimated as ¥3,373 million ($36,269 thousand).

15. Business Combination

(1) 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 for the year ended March 31, 2009

(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

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

(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 for the year ended 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) 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 effect on the consolidated statements of the fiscal year ended March 31, 2008.

16. Segment Information

(1) Business Segments

The Companies' primary business activities consist mainly of pharmaceuticals.

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, 2010, 2009 and 2008 has been omitted.

(2) Geographic Segments

Geographic segments are classified as Japan, North America, and Other, according to the location of the Companies. "Other" included 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 (of which, net sales for outside customers decreased by ¥92,690 million), operating expenses

decreased by ¥132,416 million, operating income therein increased by ¥14,880 million, and assets decreased by ¥507,631 million.

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, 2010, 2009, and 2008 were as follows:

	Millions of yen						
	2010						
	Japan	North America	Europe	India	Other	Elimination and/or corporate	Consolidated
Sales and operating income							
Net sales:							
Outside customers	**¥519,444**	**¥222,518**	**¥ 99,250**	**¥ 59,916**	**¥50,978**	**¥ —**	**¥ 952,106**
Inter-segment	**65,392**	**48,587**	**33,694**	**36,085**	**1,796**	**(185,554)**	**—**
Total sales	**584,836**	**271,105**	**132,944**	**96,001**	**52,774**	**(185,554)**	**952,106**
Operating expenses	**544,362**	**224,030**	**123,803**	**91,470**	**49,458**	**(176,526)**	**856,597**
Operating income	**¥ 40,474**	**¥ 47,075**	**¥ 9,141**	**¥4,531**	**¥ 3,316**	**¥ (9,028)**	**¥ 95,509**
Assets	**¥913,050**	**¥242,256**	**¥212,434**	**¥298,805**	**¥50,331**	**¥(227,366)**	**¥1,489,510**

	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

	Thousands of U.S. dollars						
	2010						
	Japan	North America	Europe	India	Other	Elimination and/or corporate	Consolidated
Sales and operating income							
Net sales:							
Outside customers	**$5,585,419**	**$2,392,667**	**$1,067,204**	**$ 644,258**	**$548,151**	**$ —**	**$10,237,699**
Inter-segment	**703,140**	**522,441**	**362,301**	**388,011**	**19,311**	**(1,995,204)**	**—**
Total sales	**6,288,559**	**2,915,108**	**1,429,505**	**1,032,269**	**567,462**	**(1,995,204)**	**10,237,699**
Operating expenses	**5,853,355**	**2,408,925**	**1,331,215**	**983,549**	**531,806**	**(1,898,129)**	**9,210,721**
Operating income	**$ 435,204**	**$ 506,183**	**$ 98,290**	**$ 48,720**	**35,656**	**$ (97,075)**	**$ 1,026,978**
Assets	**$9,817,742**	**$2,604,903**	**$2,284,237**	**$3,212,957**	**$541,194**	**$(2,444,796)**	**$16,016,237**

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 and ¥1,773 million, respectively, and operating income increased by ¥1,714 million, and additionally operating expenses in the "Other" segment decreased by ¥95 million and operating income increased by the same amount.

(3) Overseas Sales

Overseas net sales are the Companies' sales that 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, 2010, 2009, and 2008 was as follows:

	Millions of yen			
	2010			
	North America	Europe	Other	Total
Overseas net sales	¥247,226	¥117,521	¥117,591	¥482,338
Consolidated net sales				952,106
Ratio of overseas net sales on a consolidated basis	**26.0%**	**12.3%**	**12.4%**	**50.7%**

	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%

	Thousands of U.S. dollars			
	2010			
	North America	Europe	Other	Total
Overseas net sales	**$2,658,344**	**$1,263,667**	**$1,264,419**	**$ 5,186,430**
Consolidated net sales				**10,237,699**

17. Derivatives

The notional amounts and the estimated fair value of derivatives outstanding as of March 31, 2010 and 2009 are summarized as follows:

(1) Currency-related

	Millions of yen					
	2010			2009		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts						
Buy						
U.S. dollar	**¥ 132**	**¥ 1**	**¥ 1**	¥ 478	¥ 99	¥ 99
Currency option						
Sell						
U.S. dollar	**235,354**	**(30,078)**	**(30,078)**	314,485	(45,305)	(45,305)
Buy						
U.S. dollar	**95,615**	**(2,892)**	**(2,892)**	127,687	(3,259)	(3,259)
Currency swaps	**10,350**	**1,363**	**1,363**	10,350	768	768
Total	**¥341,451**	**¥(31,606)**	**¥(31,606)**	¥453,000	¥(47,697)	¥(47,697)

	Thousands of U.S. dollars		
	2010		
	Notional amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts			
Buy			
U.S. dollar	**$ 1,420**	**$ 11**	**$ 11**
Currency option			
Sell			
U.S. dollar	**2,530,688**	**(323,419)**	**(323,419)**
Buy			
U.S. dollar	**1,028,118**	**(31,097)**	**(31,097)**
Currency swaps	**111,290**	**14,656**	**14,656**
Total	**$3,671,516**	**$(339,849)**	**$(339,849)**

(2) Interest rate-related

	Millions of yen					
	2010			2009		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps						
Floating to fixed rate	**¥11,800**	**¥111**	**¥111**	¥11,800	¥103	¥103

	Thousands of U.S. dollars		
	2010		
	Notional amount	Fair value	Unrealized gain (loss)
Interest-rate swaps			
Floating to fixed rate	**$126,882**	**$(1,194)**	**$(1,194)**

(3) Stock-related

	Millions of yen					
	2010			2009		
	Notional amount	Fair value	Unrealized gain (loss)	Notional amount	Fair value	Unrealized gain (loss)
Call options on specific stocks						
Buy / Call	**¥14,802**			¥15,677		
	¥ [5,806]	**¥[974]**	**¥[(4,832)]**	¥ [6,171]	¥[1,492]	¥[(4,679)]

	Thousands of U.S. dollars		
	2010		
	Notional amount	Fair value	Unrealized gain (loss)
Call options on specific stocks			
Buy / Call	**$159,161**		
	$ [62,430]	**$[10,473]**	**$[(51,957)]**

The amounts in [ ] represent option premium.

(4) Currency-related

	2010			
	Millions of yen		Thousands of U.S. dollars	
	Notional amount	Fair value	Notional amount	Fair value
Forward foreign exchange contracts				
Sell				
U.S. dollar Account receivable-trade				
Principle method	**¥1,842**	**¥ (86)**	**$19,806**	**$ (925)**
Allocation method for forward foreign exchange contract	**1,089**	**27**	**11,710**	**(290)**
Total	**¥2,931**	**¥(113)**	**$31,516**	**$(1,215)**

18. 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 years ended March 31, 2010 and 2009 amounted to ¥836 million ($8,989 thousand) and ¥382 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, 2010 was as follows:

	2007	2008	2009
	Stock option	Stock option	Stock option
Individuals covered by the plan:			
Directors	6	6	6
Corporate officers	20	20	18
Total	26	26	24
Class and number of stocks (shares):			
Common stock	101,900	172,200	230,800
Date of the grant	February 15, 2008	November 17, 2008	August 17, 2009
Required service period	—	—	—
Exercise period	February 16, 2008 to February 15, 2038	November 18, 2008 to November 17, 2038	August 18, 2009 to August 17, 2039

The movement of stock options was as follows:

	2007	2008	2009
	Stock option	Stock option	Stock option
Subscription rights to shares that have not been vested (shares):			
Outstanding as of March 31, 2009	—	—	—
Granted	—	—	230,800
Forfeited/expired	—	—	—
Vested	—	—	230,800
Outstanding as of March 31, 2010	—	—	—
Subscription rights to shares that have been vested (shares):			
Outstanding as of March 31, 2009	101,900	172,200	—
Vested	—	—	230,800
Exercised	3,000	—	—
Forfeited/expired	—	—	—
Outstanding as of March 31, 2010	98,900	172,200	230,800

Price information of stock options was as follows:

	2007	2008	2009
	Stock option	Stock option	Stock option
Exercise price (yen)	¥ 1	¥ 1	¥ 1
Average market price of the stock at the time of exercise (yen)	¥1,673	—	—
Fair value (date of the grant) (yen)	¥2,528	¥1,342	¥1,338

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

	2007	2008	2009
	Stock option	Stock option	Stock option
Expected volatility	29.7%	37.4%	38.2%
Expected holding period	10 years	10 years	10 years
Expected dividend	¥65	¥75	¥80
Risk-free rate	1.5%	1.5%	1.3%

(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, 2010 was as follows:

	2001	2001	2002
	Stock option (1)	Stock option (2)	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	2004	2005
	Stock option	Stock option	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	2009
	Stock option (2)	Stock option (3)	Stock option
Individuals covered by the plan:			
Directors	—	1	1
Employees	1	—	2,178
Total	1	1	2,179
Class and number of stocks (shares)			
Common stock	15,000	200,000	1,472,725
Date of the grant	June 11, 2008	December 19, 2008	January 21, 2009
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

The movement of stock options was as follows:

	2001	2001	2002
	Stock option (1)	Stock option (2)	Stock option
Subscription rights to shares that have not been vested (shares):			
Outstanding as of March 31, 2009	—	—	—
Granted	—	—	—
Forfeited/expired	—	—	—
Vested	—	—	—
Outstanding as of March 31, 2010	—	—	—
Subscription rights to shares that have been vested (shares):			
Outstanding as of March 31, 2009	31,326	64,966	147,224
Vested	—	—	—
Exercised	1,000	6,228	10,742
Forfeited/expired	2,580	6,268	9,514
Outstanding as of March 31, 2010	27,746	52,470	126,968

	2003	2004	2005
	Stock option	Stock option	Stock option
Subscription rights to shares that have not been vested (shares):			
Outstanding as of March 31, 2009	—	256,540	656,960
Granted	—	—	—
Forfeited/expired	—	860	31,850
Vested	—	255,680	331,600
Outstanding as of March 31, 2010	—	—	293,510
Subscription rights to shares that have been vested (shares):			
Outstanding as of March 31, 2009	456,732	1,071,507	1,129,830
Vested	—	255,680	331,600
Exercised	18,180	—	—
Forfeited/expired	36,500	222,300	269,400
Outstanding as of March 31, 2010	402,052	1,104,887	1,192,030

	2006	2007	2008
	Stock option	Stock option	Stock option (1)
Subscription rights to shares that have not been vested (shares):			
Outstanding as of March 31, 2009	479,745	823,620	1,390,775
Granted	—	—	—
Forfeited/expired	30,430	57,945	122,675
Vested	162,685	212,910	287,980
Outstanding as of March 31, 2010	286,630	552,765	980,120
Subscription rights to shares that have been vested (shares):			
Outstanding as of March 31, 2009	304,063	228,836	15,725
Vested	162,685	212,910	287,980
Exercised	—	—	—
Forfeited/expired	85,965	92,446	40,000
Outstanding as of March 31, 2010	380,783	349,300	263,705

	2008	2008	2009
	Stock option (2)	Stock option (3)	Stock option
Subscription rights to shares that have not been vested (shares):			
Outstanding as of March 31, 2009	15,000	200,000	—
Granted	—	—	1,472,725
Forfeited/expired	—	200,000	87,000
Vested	3,000	—	3,825
Outstanding as of March 31, 2010	12,000	—	1,381,900
Subscription rights to shares that have been vested (shares):			
Outstanding as of March 31, 2009	—	—	—
Vested	3,000	—	3,825
Exercised	—	—	675
Forfeited/expired	—	—	—
Outstanding as of March 31, 2010	3,000	—	3,150

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)	394.70	394.70	375.30
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)	394.70	—	—
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)	2009 Stock option
Exercise price (INR)	561.00	219.00	216.00
Average market price of the stock at the time of exercise (INR)	—	—	394.70
Fair value (date of the grant) (INR)	733.89	282.31	308.97

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

	2008 Stock option (3)	2009 Stock option
Expected volatility	38.15%	38.6%
Expected holding period	6.5 years	6.5 years
Expected dividend	4.29 INR	3.21 INR
Risk-free rate	6.05%	6.22%

19. Subsequent Events

Proposal for Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2010 were resolved at the annual general meeting of shareholders of the Company held on June 28, 2010.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥30.00 ($0.32) per share	¥21,118	$227,075

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, 2010 and 2009, 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, 2010, 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, 2010 and 2009, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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 28, 2010

Corporate Data

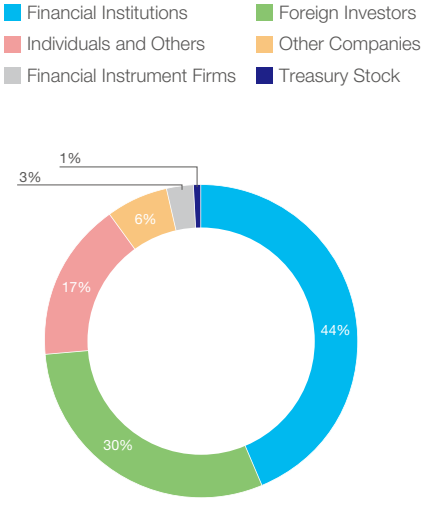
Corporate Profile (As of March 31, 2010)

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	29,825 (consolidated)

Stock Information

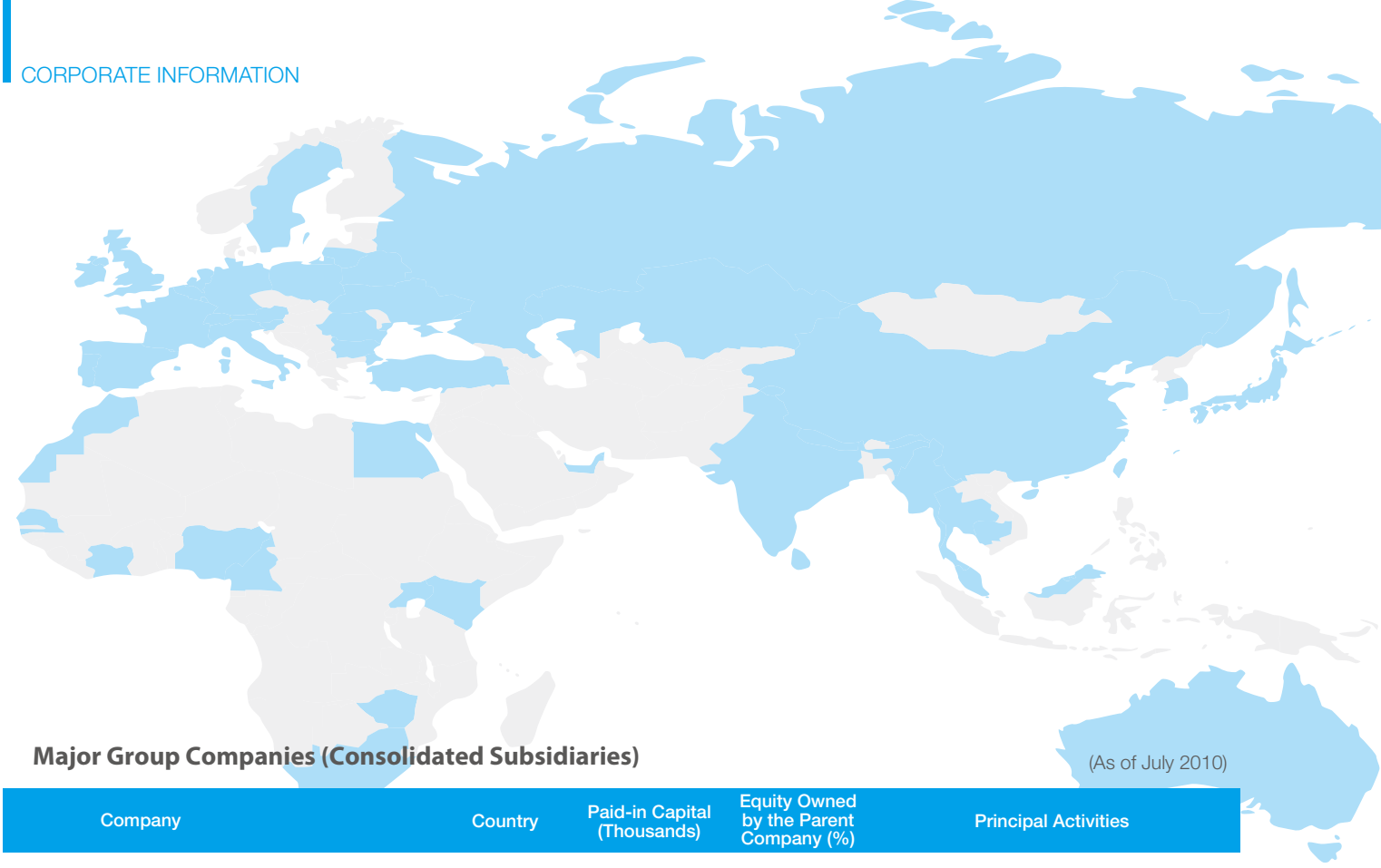
Common Stock	
Number of shares authorized	2,800,000,000
Number of shares issued	709,011,343
Number of shareholders	108,216

Distribution of Shareholders



Major Shareholders

Name	Number of Shares Held (Thousands of Shares)	Ratio (%)
The Master Trust Bank of Japan, Ltd. (Trust Account)	48,624	6.86
Japan Trustee Services Bank, Ltd. (Trust Account)	40,662	5.74
Nippon Life Insurance Company	37,659	5.31
State Street Bank and Trust Company	17,696	2.50
Sumitomo Mitsui Banking Corporation	13,413	1.89
JP Morgan Chase Bank 385147	12,251	1.73
Tokio Marine & Nichido Fire Insurance Co., Ltd.	9,172	1.29
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
SSBT OD05 Omnibus Account China Treaty Clients	8,234	1.16
Total	**204,804**	**28.89**



Major Group Companies (Consolidated Subsidiaries)

(As of July 2010)

Company	Country	Paid-in Capital (Thousands)	Equity Owned by the Parent Company (%)	Principal Activities
DAIICHI SANKYO ESPHA CO., LTD.	Japan	JPY450,000	100.0	Manufacturing and sales of pharmaceuticals
DAIICHI SANKYO HEALTHCARE CO., LTD.	Japan	JPY100,000	100.0	Manufacturing and sales of OTC drugs, cosmetics, medical equipment, food, and beverages, among others
DAIICHI SANKYO PROPHARMA CO., LTD.	Japan	JPY100,000	100.0	Manufacturing of pharmaceuticals
DAIICHI SANKYO CHEMICAL PHARMA CO., LTD.	Japan	JPY50,000	100.0	Manufacturing of active pharmaceutical ingredients and intermediates
DAIICHI SANKYO LOGISTICS CO., LTD.	Japan	JPY50,000	100.0	Distribution and related affairs
ASUBIO PHARMA CO., LTD.	Japan	JPY50,000	100.0	Research and development of pharmaceuticals
DAIICHI SANKYO RD ASSOCIE CO., LTD.	Japan	JPY50,000	100.0	Support of research and development of the Group
DAIICHI SANKYO BUSINESS ASSOCIE CO., LTD.	Japan	JPY50,000	100.0	Business support of the Group
DAIICHI SANKYO HAPPINESS CO., LTD.	Japan	JPY50,000	100.0	Business support of the Group
DAIICHI SANKYO, INC.	U.S.A.	USD24,900	100.0	Research, development, and sales of pharmaceuticals
Luitpold Pharmaceuticals, Inc.	U.S.A.	USD200	100.0	Manufacturing and sales of pharmaceuticals and veterinary medicine
DAIICHI SANKYO EUROPE GmbH	Germany	EUR16,000	100.0	Development and manufacturing of pharmaceuticals
DAIICHI SANKYO FRANCE S.A.S.	France	EUR12,482	100.0	Sales of pharmaceuticals
DAIICHI SANKYO DEUTSCHLAND GmbH	Germany	EUR51	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ITALIA S.p.A.	Italy	EUR120	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ESPAÑA, S.A.	Spain	EUR120	100.0	Sales of pharmaceuticals
DAIICHI SANKYO UK LIMITED	U.K.	GPB19,500	100.0	Sales of pharmaceuticals
DAIICHI SANKYO (SCHWEIZ) AG	Switzerland	CHF3,000	100.0	Sales of pharmaceuticals

Global Network

Company	Country	Paid-in Capital (Thousands)	Equity Owned by the Parent Company (%)	Principal Activities
DAIICHI SANKYO PORTUGAL, LDA.	Portugal	EUR349	100.0	Sales of pharmaceuticals
DAIICHI SANKYO AUSTRIA GmbH	Austria	EUR18	100.0	Sales of pharmaceuticals
DAIICHI SANKYO BELGIUM N.V.-S.A.	Belgium	EUR62	100.0	Sales of pharmaceuticals
DAIICHI SANKYO NEDERLAND B.V.	Netherlands	EUR18	100.0	Sales of pharmaceuticals
DAIICHI SANKYO İLAÇ TİCARET Ltd. Şti	Turkey	TL5	100.0	Sales of pharmaceuticals
DAIICHI SANKYO IRELAND LTD.	Ireland	EUR20	100.0	Sales of pharmaceuticals
DAIICHI SANKYO ALTKIRCH SARL	France	EUR457	100.0	Manufacturing of materials, etc. for pharmaceuticals
U3 Pharma GmbH	Germany	EUR1,126	100.0	Ethical pharmaceutical research
DAIICHI SANKYO DEVELOPMENT LTD.	U.K.	GPB400	100.0	Ethical pharmaceutical development
DAIICHI SANKYO PHARMACEUTICAL (BEIJING) CO., LTD.	China	USD63,800	100.0	Development, manufacturing, and sales of pharmaceuticals
DAIICHI SANKYO PHARMACEUTICAL (SHANGHAI) CO., LTD.	China	USD53,000	100.0	Development, manufacturing, and sales of pharmaceuticals
DAIICHI SANKYO TAIWAN LTD.	Taiwan	NTD345,000	100.0	Sales of pharmaceuticals
DAIICHI SANKYO KOREA CO., LTD.	Korea	KRW3,000,000	100.0	Sales of pharmaceuticals
DAIICHI SANKYO (THAILAND) LTD.	Thailand	THB10,000	100.0	Import, sales, and agency services of pharmaceuticals
DAIICHI SANKYO HONG KONG LIMITED	China	HKD3,000	100.0	Marketing of pharmaceuticals
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

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