



Left:  
**Kiyoshi Morita**  
Representative Director  
and Chairman

Right:  
**Takashi Shoda**  
Representative Director,  
President and CEO

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

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

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

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

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

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

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

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

A handwritten signature in black ink that reads "K. Morita".

**Kiyoshi Morita**  
Representative Director and Chairman

A handwritten signature in black ink that reads "T. Shoda".

**Takashi Shoda**  
Representative Director, President and CEO

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

### Fiscal 2008 Performance

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

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

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

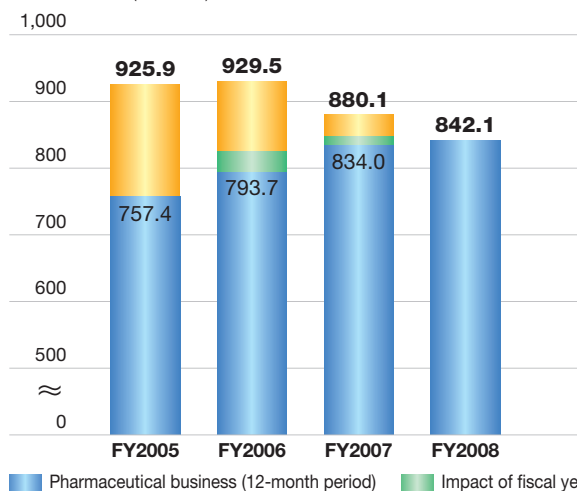
expected currency fluctuation and the aforementioned special factors in fiscal 2007.

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

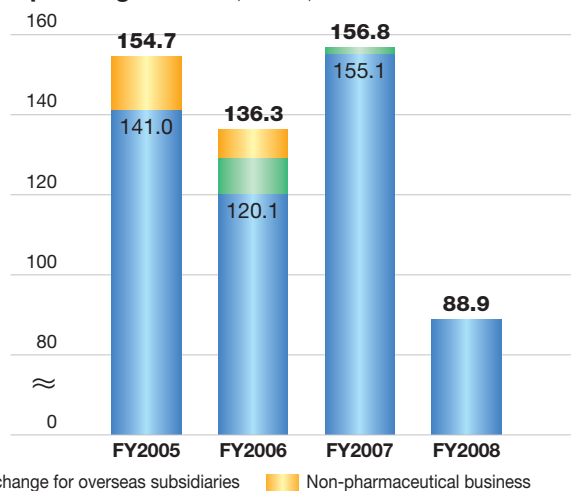
### Developments Regarding Ranbaxy

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

Net Sales (¥ billion)



Operating Income (¥ billion)



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

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



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

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

### Outlook for Fiscal 2009

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

### Key Management Challenges for Fiscal 2009

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

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

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

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

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

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

### Policy on Shareholder Returns

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

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

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

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

August 2009

**Takashi Shoda**

Representative Director, President and CEO

