

FINANCIAL SECTION

Consolidated Financial Summary

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

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

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

Operating Results and Financial Analysis

The State of the Daiichi Sankyo Group

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

Overview of Business Results

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

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

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

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

Sales

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

while sustained expansion was maintained in sales of such products as the osteoporosis medication *Evista* and *Loxonin* brand anti-inflammatory antipyretic analgesics.

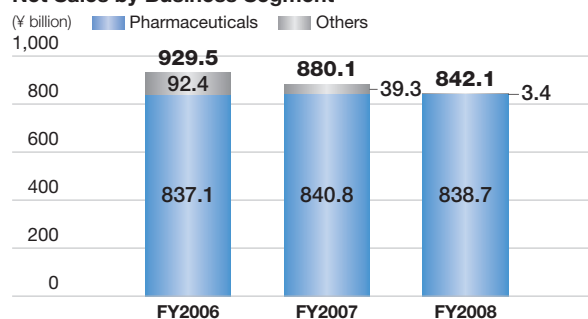
Sales of Key Products

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

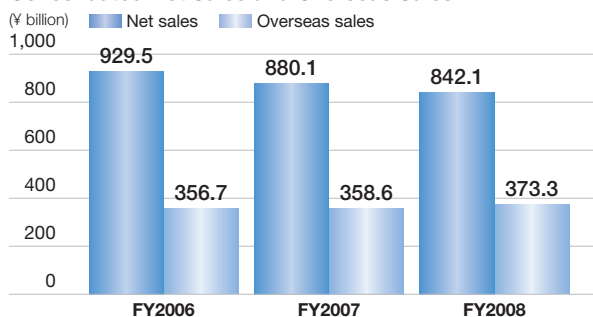
Sales by Business Segment

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

Net Sales by Business Segment



Consolidated Net Sales and Overseas Sales



Sales by Geographical Segment

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

■ Japan

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

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

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

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

■ North America

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

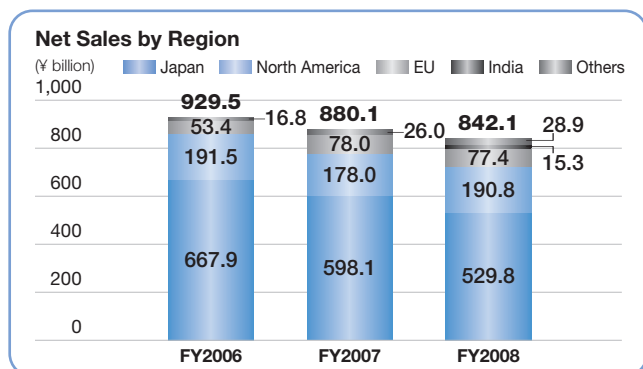
Despite the negative impact of yen appreciation, higher net sales in yen terms were achieved due to continued growth in local currency net sales of such products as the antihypertensive agents *Benicar* and *AZOR*; the antihyperlipidemic agent *Welchol*, which has been approved for the additional indication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

■ Europe

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

■ India and Other Regions

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



Gross Profit on Sales

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

■ Cost of Sales

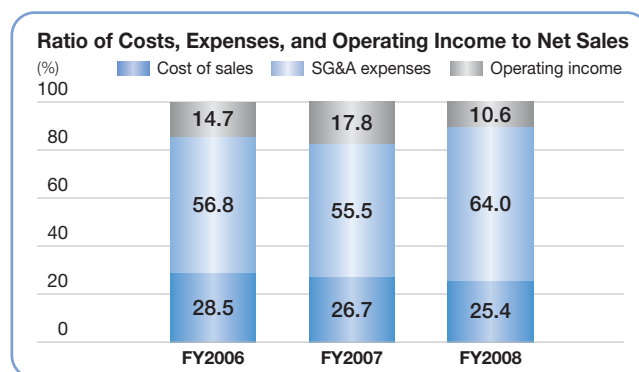
Cost of sales fell ¥20.2 billion, or 8.6%, to ¥214.4 billion. However, in real terms—excluding the effects of exceptional factors associated with the spin-off of non-pharmaceutical businesses and adjustment of subsidiaries' fiscal year periods—cost of sales increased ¥11.4 billion, or 5.6%. The Group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

Operating Income

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

■ Selling, General and Administrative Expenses

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



Other Income (Expenses)

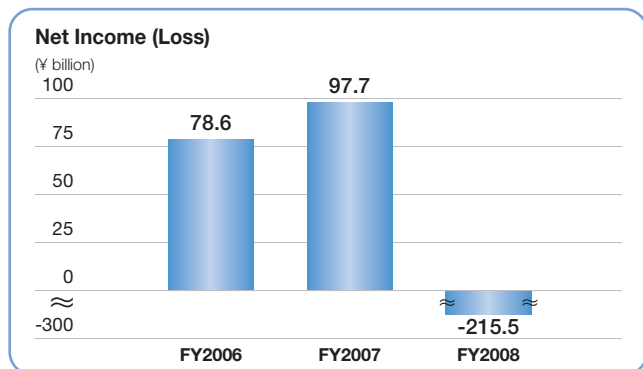
Other income (expenses) deteriorated by ¥407.2 billion. This reflected a ¥19.8 billion deterioration in derivative loss, from ¥0.7 billion in fiscal 2007, and an ¥18.0 billion deterioration in foreign exchange loss, from a foreign exchange gain of ¥0.5 billion in fiscal 2007, as well as a ¥351.3 billion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

Income (Loss) before Income Taxes and Minority Interests

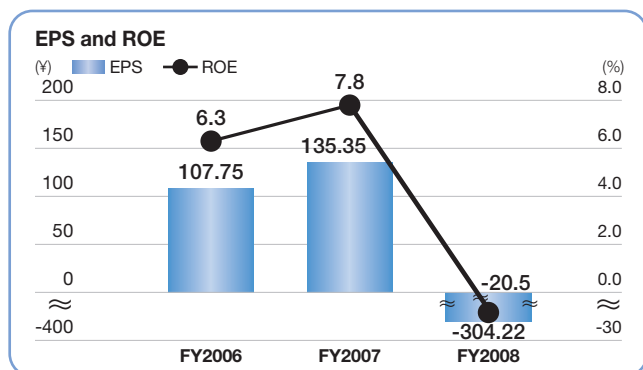
Loss before income taxes and minority interests amounted to ¥308.3 billion, a ¥475.1 billion change from the ¥166.9 billion of net income recorded for fiscal 2007.

Net Income (Loss)

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



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



Income Taxes

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

Dividends

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

The Company has a basic policy objective of paying dividends from retained earnings twice each year in the form of interim and year-end dividends. The interim dividend is decided by resolution of the Board of Directors with September 30 as the basic payment date, while the year-end dividend is decided at the General Shareholders' Meeting.

In line with its profit distribution policies, the Company purchased 15 million shares in treasury stock for a total of ¥45.7 billion during fiscal 2008. Regarding dividends applicable to the year, although the Company posted a net loss of ¥215.5 billion after the amortization of goodwill (one-time amortization) associated with the investment in

Ranbaxy, the Company paid a dividend of ¥80 per share (including an interim dividend of ¥40 per share), an increase of ¥10 from the fiscal 2007 level.

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

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

R&D Activities

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

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

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

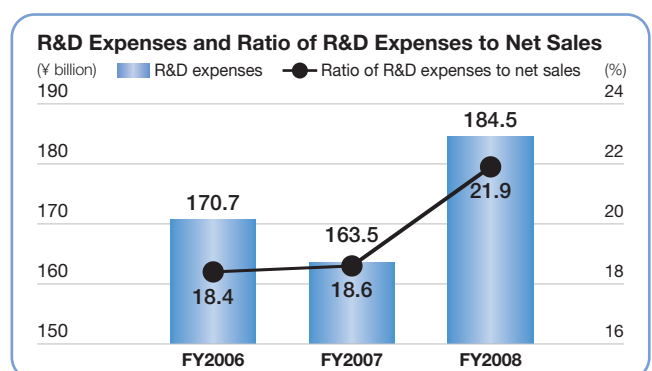
Phase III clinical trials of the anti-RANKL antibody inhibitor Denosumab are under way in Japan for the indication of osteoporosis. A multinational Phase III clinical trial program is also in progress to study the drug's effects on bone metastases of cancer.

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

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

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

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



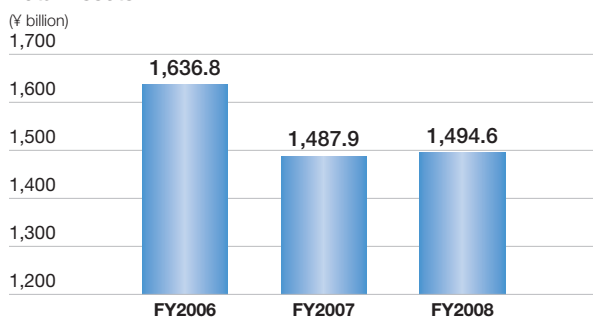
Financial Position

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

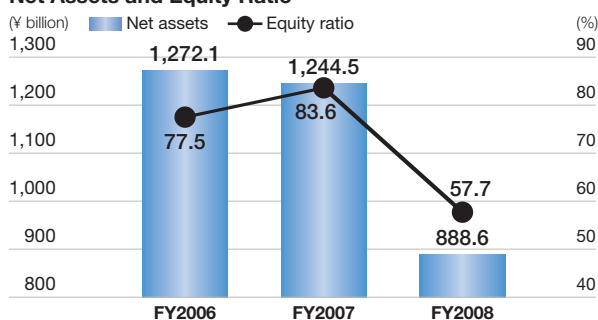
Current liabilities rose ¥314.0 billion, or 161.4%, to ¥508.5 billion, while long-term liabilities grew ¥48.6 billion, or 99.4%, to ¥97.4 billion. In response to the assumption of Ranbaxy's liabilities and to provide a portion of the cost of acquiring shares in Ranbaxy, the Company obtained ¥240.0 billion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

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

Total Assets



Net Assets and Equity Ratio



Cash Flows

■ Cash Flows from Operating Activities

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

reduction of retirement benefit expenses in connection with workforce rightsizing and personnel transfers to functional subsidiaries.

■ Cash Flows from Investing Activities

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

■ Cash Flows from Financing Activities

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

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

Cash Flow Highlights

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

Outlook for Fiscal 2009*

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

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

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

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

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

* As of June 26, 2009

Factors that Could Have a Major Impact on Business Performance

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

1. Trends in Sales of Important Products

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

2. Trends in R&D Activities and Licensing Activities

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

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

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

4. Trends in Ranbaxy's Business Operations

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

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

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

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

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

■ Business Risks

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

1) Research and Development Risk

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

2) Manufacturing and Procurement Risk

The Group manufactures some of its products at its own production facilities using original technology, but is also dependent on specific suppliers for the supply of some finished products, raw materials, and production intermediates. Any delay, suspension, or

termination of such manufacturing or supply activities for any reason could have a material impact on the Group's business results and financial position. Manufacture of pharmaceuticals in Japan is subject to strict regulation as stipulated in the Pharmaceutical Affairs Law. Any quality assurance problem that necessitated a product recall could have an adverse effect on the Group's business results and financial position.

3) Sales-Related Risk

Any decline in sales due to the emergence of unanticipated side effects of a drug, or due to the entry of generic products into a sector following the expiration of a patent or the introduction of competing products within the same therapeutic area, could negatively affect the Group's business results and financial position. Any changes in the terms of sales or technology transfer agreements, or the expiration or cancellation thereof, could also have a material impact on the Group's business results and financial position. In addition, due to ongoing growth in the use of generic products in developed country markets, the launch of any new product may not generate sales and profits commensurate with the investment in its research and development.

4) Legal and Regulatory Risk

Prescription drugs in Japan are subject to a variety of laws, regulations, and ordinances. Trends in regulatory measures related to the medical treatment system and national health insurance, most notably the NHI price revisions, could have a negative impact on the Group's business results and financial position. Similarly, sales of prescription drugs in overseas markets are also subject to various legal and regulatory constraints; the Group's performance in these markets could be adversely affected by regulatory trends.

5) Intellectual Property Risk

The business activities of the Group could be subject to restraint or dispute in an event of the infringement of the patents or other intellectual property rights of other parties. Conversely, infringement of the intellectual property rights of the Group by third parties could lead to a legal action by the Group to protect such rights. In either case, the resulting outcome could have a material impact on the Group's business results and financial position. In particular, due to the increasing use of generic products in developed countries, lawsuits and other challenges to Group-owned intellectual property could increase in prevalence.

6) Environmental Risk

Certain of the chemicals used in pharmaceutical research and manufacturing processes include substances with the potential to exert a negative impact on human health and natural ecosystems. Any judgment that Group operations pose a risk of serious environmental impact in terms of soil contamination, air pollution, or water pollution could adversely affect the Group's business results and financial position.

7) Litigation-Related Risk

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

8) Financial Markets and Currency Fluctuation Risk

Falls in share prices could lead to write-downs or losses on disposal related to stocks owned by the Group. The Group's retirement benefit expenses could increase depending on trends in interest rates. In addition, fluctuations in foreign currency exchange rates could have a financially adverse effect on the Group. The Group conducts business, including production, sales, import, and export activities, on a global basis, and foreign exchange movements could therefore have a material impact on the Group's business results and financial position.

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

9) Risks Related to Operations of Ranbaxy

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

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

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

10) Other Risks

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

Consolidated Balance Sheets

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

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

See accompanying notes.

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

Consolidated Statements of Operations

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

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2009	2008	2007	2009
Net Sales (Note 15)	¥ 842,147	¥880,120	¥929,507	\$ 8,593,337
Costs and Expenses (Note 15):				
Cost of sales	214,397	234,571	265,201	2,187,724
Selling, general and administrative expenses	354,340	325,250	357,330	3,615,715
Research and development expenses	184,539	163,472	170,662	1,883,051
	753,276	723,293	793,193	7,686,490
Operating Income (Note 15)	88,871	156,827	136,314	906,847
Other Income (Expenses):				
Interest and dividend income	9,475	11,863	11,273	96,684
Interest expense	(1,917)	(128)	(252)	(19,561)
Derivative gain (loss)	(20,501)	(748)	2,640	(209,194)
Foreign exchange gains (losses)	(17,466)	536	1,125	(178,224)
Gain on sale of property, plant and equipment	2,239	6,622	4,315	22,847
Gain on sales of investments in affiliates	—	8,719	59,347	—
Gain on sales of investment securities	124	256	8,222	1,265
Loss on disposal of property, plant and equipment	(3,305)	(2,161)	(3,623)	(33,724)
Loss on business integration (Note 10)	—	(9,998)	(82,479)	—
Loss on impairment of long-lived assets (Note 10)	(3,062)	—	(4,916)	(31,245)
Amortization of goodwill (one-time amortization) (Note 10)	(354,390)	—	—	(3,616,224)
Non-recurring depreciation on non-current assets (Note 10)	(3,233)	—	—	(32,990)
Provision for soil remediation costs	(93)	(202)	(2,876)	(949)
Loss on business restructuring	—	(2,247)	(3,610)	—
Other, net	(5,005)	(2,483)	1,433	(51,073)
	(397,134)	10,029	(9,401)	(4,052,388)
Income (Loss) before Income Taxes and Minority Interests	(308,263)	166,856	126,913	(3,145,541)
Income Taxes (Note 9):				
Income taxes—current	29,241	52,355	64,710	298,377
Income taxes—deferred	(108,414)	16,741	(16,631)	(1,106,265)
Income (Loss) before Minority Interests	(229,090)	97,760	78,834	(2,337,653)
Minority Interests in Net Income (Loss) of Consolidated Subsidiaries	13,591	(100)	(284)	138,684
Net Income (Loss)	¥(215,499)	¥ 97,660	¥ 78,550	\$ (2,198,969)
		Yen		U.S. dollars (Note 1)
Amounts per Share of Common Stock (Note 2):				
Net income (loss)	¥ (304.22)	¥ 135.35	¥ 107.75	\$ (3.10)
Diluted net income	—	135.34	—	—
Cash dividends applicable to the year	80.00	70.00	60.00	0.82

See accompanying notes.

Consolidated Statements of Changes in Net Assets

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

	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	Sub- scription rights to shares	Minority interests	Total net assets
Balance at March 31, 2006	735,011	¥50,000	¥179,858	¥ 936,513	¥ (9,832)	¥80,255	¥—	¥ 735	¥ —	¥11,610	¥1,249,139
Gain on sale of treasury stock		—	2	—	—	—	—	—	—	—	2
Net income		—	—	78,550	—	—	—	—	—	—	78,550
Cash dividends (¥55.00 per share)		—	—	(40,097)	—	—	—	—	—	—	(40,097)
Bonuses to directors		—	—	(344)	—	—	—	—	—	—	(344)
Decrease due to change in scope of consolidation		—	—	(3,007)	—	—	—	—	—	—	(3,007)
Decrease due to change in number of equity-method affiliates		—	—	(132)	—	—	—	—	—	—	(132)
Changes in net unrealized holding gains on securities		—	—	—	—	(7,896)	—	—	—	—	(7,896)
Changes in translation of foreign currency financial statements		—	—	—	—	—	—	4,216	—	—	4,216
Changes in treasury stock		—	—	—	(164)	—	—	—	—	—	(164)
Changes in minority interests		—	—	—	—	—	—	—	—	(8,119)	(8,119)
Balance at March 31, 2007	735,011	¥50,000	¥179,860	¥ 971,483	¥ (9,996)	¥72,359	¥—	¥ 4,951	¥ —	¥ 3,491	¥1,272,148
Gain on sale of treasury stock		—	3	—	—	—	—	—	—	—	3
Net income		—	—	97,660	—	—	—	—	—	—	97,660
Cash dividends (¥65.00 per share)		—	—	(47,034)	—	—	—	—	—	—	(47,034)
Increase due to changes in scope of consolidation		—	—	142	—	—	—	—	—	—	142
Increase due to merger of unconsolidated subsidiaries		—	—	2,894	—	—	—	—	—	—	2,894
Changes in net unrealized holding gains on securities		—	—	—	—	(23,819)	—	—	—	—	(23,819)
Changes in translation of foreign currency financial statements		—	—	—	—	—	—	(21,215)	—	—	(21,215)
Changes in treasury stock		—	—	—	(33,411)	—	—	—	—	—	(33,411)
Issuance of subscription rights to shares		—	—	—	—	—	—	—	258	—	258
Changes in minority interests		—	—	—	—	—	—	—	—	(3,113)	(3,113)
Balance at March 31, 2008	735,011	¥50,000	¥179,863	¥1,025,145	¥(43,407)	¥48,540	¥—	¥(16,264)	¥ 258	¥ 378	¥1,244,513
Effect of changes in accounting policies applied to foreign subsidiaries		—	—	(1,365)	—	—	—	—	—	—	(1,365)
Gain on sale of treasury stock		—	(7)	—	—	—	—	—	—	—	(7)
Retirement of treasury stock		—	(74,662)	—	—	—	—	—	—	—	(74,662)
Net loss		—	—	(215,499)	—	—	—	—	—	—	(215,499)
Cash dividends (¥75.00 per share)		—	—	(53,322)	—	—	—	—	—	—	(53,322)
Change in scope of equity method		—	—	(1,138)	—	—	—	—	—	—	(1,138)
Changes in net unrealized holding gain on securities		—	—	—	—	(28,657)	—	—	—	—	(28,657)
Deferred gains or losses on hedges		—	—	—	—	—	77	—	—	—	77
Change in translation of foreign currency financial statements		—	—	—	—	—	—	(35,104)	—	—	(35,104)
Changes in treasury stock		—	—	—	28,851	—	—	—	—	—	28,851
Issuance of subscription rights to shares		—	—	—	—	—	—	—	2,132	—	2,132
Changes in minority interests		—	—	—	—	—	—	—	—	22,798	22,798
Balance at March 31, 2009	709,011	¥50,000	¥105,194	¥ 753,821	¥(14,556)	¥19,883	¥77	¥(51,368)	¥2,390	¥23,176	¥ 888,617

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

See accompanying notes.

Consolidated Statements of Cash Flows

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

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

See accompanying notes.

Notes to Consolidated Financial Statements

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

1. Basis of Presenting Consolidated Financial Statements

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

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

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Certain supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2009, which was ¥98 to U.S. \$1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

Consolidation and Investments in Affiliated Companies

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

The equity method is applied, with minor exception, to the 20 to 50% owned affiliated companies whereby the Company has the ability to exercise significant influence over the operational and financial policies of a company and to certain immaterial subsidiaries not consolidated.

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

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

DAIICHI SANKYO EUROPE GmbH and its subsidiaries, etc., changed their fiscal year-end from December 31 to March 31 effective from the fiscal year ended March 31, 2008. As a result, while the financial statements of these subsidiaries as of December 31, 2006 were used in the preparation of the Consolidated Financial Statements for the fiscal year ended March 31, 2007, due to this change in fiscal year-end, the consolidated financial statements for the fiscal year ended March 31, 2008 included 15-month results of these subsidiaries (for the period from January 1, 2007 to March 31, 2008). As a result, net sales, operating income, income before income taxes and minority interests, and net income for the fiscal year ended March 31, 2008 increased by ¥14,129 million, ¥1,886 million, ¥2,161 million, and ¥2,027 million, respectively.

Cash and Cash Equivalents and Cash Flow Statements

For the purpose of the consolidated statements of cash flows, the Companies classify cash on hand, readily available bank deposits, and short-term, highly liquid investments that bear insignificant risk of changes in value and whose maturities are within three months at the time of purchase as cash and cash equivalents.

Marketable Securities and Investment Securities

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

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

Derivative Transactions

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

Deferred hedge accounting is basically adopted.

Forward foreign exchange contracts and currency options which meet hedging criteria are accounted for by the allocation method. The allocation method requires that recognized foreign currency receivables or payables be translated at the underlying exchange rates in the corresponding forward foreign exchange contracts and currency options. Interest-rate swaps and currency swaps which meet the criteria to qualify as hedges and satisfy certain criteria are accounted for by a special method stipulated in the accounting standard, as if the interest rates on the swaps were originally applied to the underlying borrowings. The Company and its consolidated subsidiaries which have derivatives positions have also developed hedging policies to control various aspects of these transactions, including establishing authorization levels and limits of transaction volumes.

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

Inventories

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

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

As a result, operating income and income before income taxes and minority interests decreased by ¥2,993 million and ¥2,311 million, respectively.

Property, Plant and Equipment

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

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

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

The range of useful lives was from 15 to 50 years for buildings and structures, and from 4 to 7 years for machinery, equipment and vehicles until March 31, 2008. Effective from the year ended March 31, 2009, the range of useful lives for machinery, equipment and vehicles has been changed to 4 to 8 years, which is based on the reassessment of the useful lives in light of the change in the Japanese Corporation Tax Law, although the range of useful lives for buildings and structures remains unchanged. The effects of this change were immaterial.

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

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

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

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

Directors' and Corporate Auditors' Bonuses

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

Accrued Severance and Retirement Benefits

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

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

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

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

The Company and certain domestic consolidated subsidiaries integrated their retirement benefit and pension plans on April 1, 2007 following the corporate reorganization and implemented their revision, which included introduction of a cash balance plan-type retirement and pension system in accordance with the Defined-Benefit Pension Plan Law, and transferring 20% of the retirement benefit amounts to a defined contribution pension plan.

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

Since the Company does not expect to incur a large amount of prior service costs after the revision of the retirement benefit plans, effective from the fiscal year ended March 31, 2008, the prior service costs of the Company and Asubio Pharma Co., Ltd. has been amortized over 12 months since they incurred, although the former amortization period of prior service costs for Sankyo was 5 years and 10 years for Daiichi Pharmaceutical Co., Ltd. ("Daiichi") and Daiichi Asubio Pharmaceutical, Inc., which were the major companies before the corporate reorganization.

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

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

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

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

Certain domestic consolidated subsidiaries have retirement benefits programs to directors and corporate statutory auditors. Such benefits are calculated based on the established guidelines. Payment of such benefits is subject to approval at the shareholders' meeting.

Research and Development

Research and development expenses are charged to income when incurred.

Foreign Currency Translation

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

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

Accounting for Certain Lease Transactions

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

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

Amounts per Share

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

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

Accounting Standard for Business Combination

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

Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries

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

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

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

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

Reclassification

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

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

3. Cash and Cash Equivalents

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Market Value Information for Securities

(1) At March 31, 2009 and 2008, the acquisition costs, carrying amounts, and fair market values of securities with available market values were as follows:

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

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Securities with market values greater than their carrying amounts:			
Carrying amount	¥93,911	¥81,818	\$958,276
Market value	94,482	82,648	964,102
Difference	¥ 571	¥ 830	\$ 5,826
Securities with fair value not exceeding book value:			
Carrying amount	¥57,425	¥96,646	\$585,969
Market value	56,688	96,103	578,449
Difference	¥ (737)	¥ (543)	\$ (7,520)

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

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

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

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

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

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

(a) Held-to-Maturity Securities

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

(b) Available-for-Sale Securities

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

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

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

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

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

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

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

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

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

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

5. Inventories

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

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

6. Lease Information

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

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

	Millions of yen		
	2009	2008	2009
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles, and other	¥1,910	¥(1,138)	¥772

	Millions of yen		
	2008	2007	2008
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles, and other	¥7,133	¥(3,792)	¥3,341

	Thousands of U.S. dollars		
	2009	2008	2009
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles, and other	\$19,490	\$(1,612)	\$7,878

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

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

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

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

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

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

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

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

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

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

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

8. Bonds

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

9. Income Taxes

Taxes on income consist of corporation tax, inhabitants' taxes, and enterprise taxes. The aggregate statutory tax rate on income before income taxes and minority interests in net income of consolidated subsidiaries was approximately 40.5% for the years ended March 31, 2009, 2008, and 2007. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

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

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

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

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the year ended March 31, 2007:

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

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

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

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

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

10. Other Income (Expenses)

(1) Amortization of Goodwill

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

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

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

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

The breakdown of this amount is the following:

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

(3) Loss on Impairment of Long-lived Assets

The Companies categorized their assets for their business operations into groups which are based on income/loss management for managerial accounting, taking into consideration the similarity in the type of products and business activities, the consistency as a business group, and the continuity of management in the future, and individually categorized their assets for lease and unutilized assets that are not directly used for business.

In the years ended March 31, 2009 and 2007, the Companies recognized a loss on impairment in the following asset groups:

(Fiscal 2009)

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

(Fiscal 2007)

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

Because the above asset groups are idle and have uncertain prospects for future utilization, their book values have been written down to a recoverable amount, and such reductions in the amount of ¥3,062 million (\$31,245 thousand) and ¥4,916 million were recorded as a loss on impairment of long-lived assets for the years ended March 31, 2009 and 2007, respectively.

The amounts consisted of the following:

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

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

(4) Loss on Business Integration

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

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

11. Retirement and Termination Benefits Plans

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

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

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

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

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

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

Periodic employees' severance and retirement benefit expenses for the years ended March 31, 2009, 2008, and 2007 consist of the following:

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

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

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

12. Net Assets

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

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

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

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

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

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

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

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

At the annual shareholders' meeting held on June 26, 2009, the shareholders resolved cash dividends amounting to ¥28,157 million (\$287,316 thousand) by using capital surplus. Such appropriations have not been accrued in the consolidated financial statements as of March 31, 2009 and are recognized in the period in which they are resolved.

13. Commitments and Contingencies

(1) Guarantees on Loans

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

(2) Other Contingencies

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

14. Business Combination

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

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

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

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

(2) Acquisition of U3 Pharma

(a) Description of the business of acquired company

1) Name and nature of business of acquired company

Name of acquired company: U3 Pharma AG

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

2) Purpose of acquisition

To develop a continuous stream of promising drug candidates by reinforcing the drug discovery platform in the fields of cancer and therapeutic antibodies

3) Date of acquisition

June 19, 2008

4) Legal form of acquisition

Share purchase by cash

5) Name of the company after acquisition

U3 Pharma AG (now U3 Pharma GmbH)

6) Percentage of voting rights acquired

100%

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

From July 1, 2008 to March 31, 2009

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

Acquisition considerations:

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

(d) Description of goodwill

1) Amounts of goodwill

¥25,062 million (\$255,735 thousand)

2) Reason for recognizing goodwill

Goodwill was recognized as the excess value of the purchase cost over the net of acquired assets and assumed liabilities at fair value.

3) Goodwill amortization method and period

Amortized in equal amounts over 5 years

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

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

(3) Acquisition of Ranbaxy

(a) Description of the acquired company

1) Name and nature of business of the acquired company

Name of the acquired company: Ranbaxy Laboratories Ltd.

Nature of the acquired business: Manufacture, sale, and research and development of generic drugs in the therapeutic areas of hyperlipidemia and infection

2) Purpose of acquisition

The Group believes that realizing sustained business growth must involve the expansion of its prescription drug business in advanced country markets while at the same time seizing new growth opportunities in developing countries. In addition to the traditional high-risk/high-return business model employed in developed-country markets, the Group believes it is necessary to anticipate and respond to rapidly changing market needs by adopting a "hybrid business model." This approach seeks to expand the Group's global reach by growing in emerging markets while also further expanding the Group's drug portfolio in developed markets using generic drugs. The entry of Ranbaxy Laboratories Ltd. into the Group is thus an extremely significant step in terms of promoting the sustained long-term growth of the Group.

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

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

From October 1, 2008 to December 31, 2008

(c) Acquisition cost of acquired company and related breakdown

Acquisition considerations:

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

(d) Description of goodwill

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

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

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

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

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

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

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

15. Segment Information

(1) Business Segments

The Companies' primary business activities consist mainly of pharmaceuticals.

"Other" includes various remaining businesses such as agrochemicals, chemicals, and other. Since net sales, operating income, and total assets in the "Pharmaceutical" segment constituted more than 90% of the consolidated totals, the disclosure of business segment information for the years ended March 31, 2009 and 2008 has been omitted.

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

	Millions of yen			Consolidated
	2007			
	Pharmaceuticals	Other	Elimination and/or corporate	
Sales and operating income				
Net sales:				
Outside customers	¥ 837,116	¥92,391	¥ —	¥ 929,507
Inter-segment	352	3,298	(3,650)	—
Total sales	837,468	95,689	(3,650)	929,507
Operating expenses	706,099	91,312	(4,218)	793,193
Operating income	¥ 131,369	¥ 4,377	¥ 568	¥ 136,314
Identifiable assets	¥1,559,252	¥78,964	¥(1,381)	¥1,636,835
Depreciation	36,570	3,417	—	39,987
Impairment loss	4,916	—	—	4,916
Capital expenditures	42,398	3,886	—	46,284

(2) Geographic Segments

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

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

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

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

	Millions of yen				
	2008				
	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	¥ 598,149	¥177,954	¥104,017	¥ —	¥ 880,120
Inter-segment	66,676	49,832	21,864	(138,372)	—
Total sales	664,825	227,786	125,881	(138,372)	880,120
Operating expenses	557,688	190,164	112,669	(137,228)	723,293
Operating income	¥ 107,137	¥ 37,622	¥ 13,212	¥ (1,144)	¥ 156,827
Assets	¥1,226,415	¥186,385	¥140,442	¥ (65,353)	¥1,487,889

	Millions of yen				
	2007				
	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	¥ 667,852	¥191,466	¥70,189	¥ —	¥ 929,507
Inter-segment	81,943	41,240	17,044	(140,227)	—
Total sales	749,795	232,706	87,233	(140,227)	929,507
Operating expenses	637,080	195,421	79,603	(118,911)	793,193
Operating income	¥ 112,715	¥ 37,285	¥ 7,630	¥ (21,316)	¥ 136,314
Assets	¥1,454,251	¥183,524	¥94,757	¥ (95,697)	¥1,636,835

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

As described in note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2009, the Company has adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements ("PITF No. 18" issued by the Accounting Standards Board of Japan on May 17, 2006)". As a result, compared with the previous accounting method, net sales and operating expenses in the "Europe" segment decreased by ¥59 million (\$602 thousand) and ¥1,773 million (\$18,092 thousand), respectively, and operating income increased by ¥1,714 million (\$17,490 thousand), and additionally operating expenses in the "Other" segment decreased by ¥95 million (\$969 thousand) and operating income increased by the same amount.

As described in note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2008, the Company has adopted "Accounting Standard for Measurement of Inventories" ("Statement No. 9" issued by the Accounting Standards Board of Japan on July 5, 2006). As a result, compared with the previous accounting method, operating expenses in the "Japan" segment increased by ¥2,993 million and operating income decreased by the same amount.

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

In accordance with the amendment, also, the Company and its domestic subsidiaries have started to depreciate the difference between 5% of the acquisition costs and memorandum prices for all tangible fixed assets acquired on or before March 31, 2007 by equal amounts over five years, starting in the year after the fiscal year in which accumulated depreciation based on the pre-revision method reached 95% of the acquisition costs. As a result, as compared with the previous accounting method, operating expenses in the "Japan" segment increased by ¥1,589 million and operating income decreased by the same amount.

As described in note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2008, the Company and certain domestic consolidated subsidiaries have revised the retirement benefit and pension plans, and prior service cost has been amortized over 12 months since it was incurred. Also, actuarial gains and losses have been amortized by a straight-line method over 10 years. As a result, as compared with the previous accounting method, operating expenses in the "Japan" segment decreased by ¥12,669 million and operating income increased by the same amount.

(3) Overseas Sales

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

The Companies' overseas business activities consist mainly of those in North America and Europe. "Other" includes mainly Asia. A summary of overseas net sales by the Companies for the years ended March 31, 2009, 2008, and 2007 was as follows:

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

	Millions of yen			
	2008			
	North America	Europe	Other	Total
Overseas net sales	¥219,939	¥98,455	¥40,245	¥358,639
Consolidated net sales				880,120
Ratio of overseas net sales on a consolidated basis	25.0%	11.2%	4.6%	40.8%

	Millions of yen			
	2007			
	North America	Europe	Other	Total
Overseas net sales	¥241,850	¥84,328	¥30,523	¥356,701
Consolidated net sales				929,507
Ratio of overseas net sales on a consolidated basis	26.0%	9.1%	3.3%	38.4%

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

16. Derivatives

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

(1) Currency-related

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

(2) Interest rate-related

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

(3) Stock-related

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

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

The amounts in [] represent option premium.

17. Stock Option Plans

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

(1) Stock Options by the Company

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

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

The movement of stock options was as follows:

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

Price information of stock options was as follows:

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

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

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

(2) Stock Options by the Subsidiaries

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

	2001 Stock option (1)	2001 Stock option (2)	2002 Stock option
Individuals covered by the plan:			
Directors	3	3	3
Employees	494	679	862
Total	497	682	865
Class and number of stocks (shares)			
Common stock	434,540	664,500	940,900
Date of the grant	January 12, 2001	December 3, 2001	April 1, 2002
Vesting	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.
Exercise period	10 years from the date of the grant	10 years from the date of the grant	10 years from the date of the grant
	2003 Stock option	2004 Stock option	2005 Stock option
Individuals covered by the plan:			
Directors	3	2	2
Employees	931	1,208	1,605
Total	934	1,210	1,607
Class and number of stocks (shares)			
Common stock	1,861,900	2,565,500	3,013,350
Date of the grant	February 7, 2003	January 22, 2004	January 17, 2005
Vesting	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.	The options are vested evenly over a period of 5 years from the date of the grant.
Exercise period	10 years from the date of the grant	10 years from the date of the grant	10 years from the date of the grant

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

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

The movement of stock options was as follows:

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

	2003 Stock option	2004 Stock option	2005 Stock option
Subscription rights to shares which have not been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Granted	—	—	—
Increase upon acquisition	—	263,570	677,300
Forfeited/expired	—	5,060	16,860
Vested	—	1,970	3,480
Outstanding as of March 31, 2009	—	256,540	656,960
Subscription rights to shares which have been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Vested	—	1,970	3,480
Increase upon acquisition	461,542	1,085,497	1,148,100
Exercised	—	—	—
Forfeited/expired	4,810	15,960	21,750
Outstanding as of March 31, 2009	456,732	1,071,507	1,129,830
	2006 Stock option	2007 Stock option	2008 Stock option (1)
Subscription rights to shares which have not been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Granted	—	—	—
Increase upon acquisition	494,340	844,340	1,443,925
Forfeited/expired	11,760	18,080	48,875
Vested	2,835	2,640	4,275
Outstanding as of March 31, 2009	479,745	823,620	1,390,775
Subscription rights to shares which have been vested (shares):			
Outstanding as of March 31, 2008	—	—	—
Vested	2,835	2,640	4,275
Increase upon acquisition	306,748	230,981	11,450
Exercised	—	—	—
Forfeited/expired	5,520	4,785	—
Outstanding as of March 31, 2009	304,063	228,836	15,725
	2008 Stock option (2)	2008 Stock option (3)	
Subscription rights to shares which have not been vested (shares):			
Outstanding as of March 31, 2008	—	—	
Granted	—	200,000	
Increase upon acquisition	15,000	—	
Forfeited/expired	—	—	
Vested	—	—	
Outstanding as of March 31, 2009	15,000	200,000	
Subscription rights to shares which have been vested (shares):			
Outstanding as of March 31, 2008	—	—	
Vested	—	—	
Increase upon acquisition	—	—	
Exercised	—	—	
Forfeited/expired	—	—	
Outstanding as of March 31, 2009	—	—	

Price information of stock options was as follows:

	2001	2001	2002
	Stock option (1)	Stock option (2)	Stock option
Exercise price (INR)	336.50	297.50	372.50
Average market price of the stock at the time of exercise (INR)	—	—	—
Fair value (date of the grant) (INR)	481.50	486.00	598.50
	2003	2004	2005
	Stock option	Stock option	Stock option
Exercise price (INR)	283.50	496.00	538.50
Average market price of the stock at the time of exercise (INR)	—	—	—
Fair value (date of the grant) (INR)	416.00	708.50	754.18
	2006	2007	2008
	Stock option	Stock option	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	2008	
	Stock option (2)	Stock option (3)	
Exercise price (INR)	561.00	219.00	
Average market price of the stock at the time of exercise (INR)	—	—	
Fair value (date of the grant) (INR)	733.89	282.31	

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

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

18. Subsequent Events

(1) Proposal for Appropriations of Retained Earnings

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

(a) Year-end dividend

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

(b) Matters relating to disposal of capital surplus

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

(2) Issuance of Unsecured Straight Bonds

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

(a) Description of bonds

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

(b) Issuance date

June 24, 2009 for each bond

(c) Security or guarantee

Each bond is not secured nor is it guaranteed.

(d) Use of bonds

Repayment of loans

(e) Other important covenants

There are no specific financial covenants.



Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of DAIICHI SANKYO COMPANY, LIMITED. and consolidated subsidiaries as of March 31, 2009 and 2008, and the related consolidated statements of operations, changes in net assets and cash flows for each of the three years in the period ended March 31, 2009, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of DAIICHI SANKYO COMPANY, LIMITED. and subsidiaries as of March 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2009, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

- (1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2007, the Company and its domestic subsidiaries adopted early the Accounting Standard for Measurement of Inventories.
- (2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2007, the Company and its certain subsidiary changed their accounting methods for accrued severance and retirement benefits.
- (3) As discussed in Note 18 (2) to the consolidated financial statements, the Company issued unsecured bonds on June 24, 2009, pursuant to the resolution by the Board of Directors on May 28, 2009.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 26, 2009

KPMG AZSA & Co., an audit corporation incorporated under the Japanese Certified Public Accountants Law and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative.