

# Results Briefing

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## Performance Overview & Management Strategy

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### Results of FY2008

(April 1, 2008 – March 31, 2009)

May 13, 2009

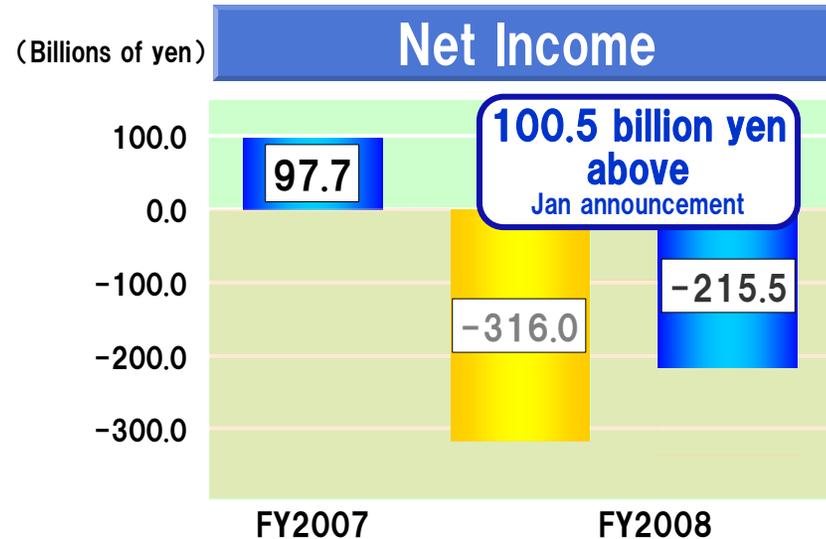
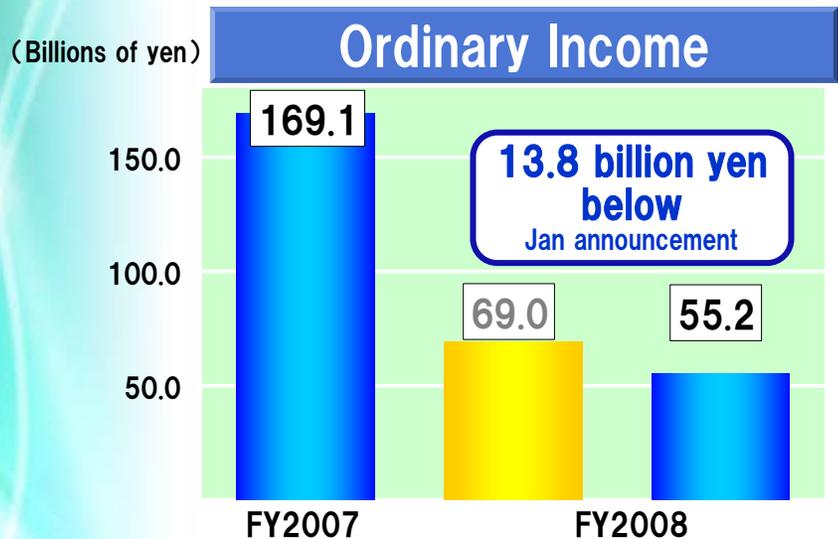
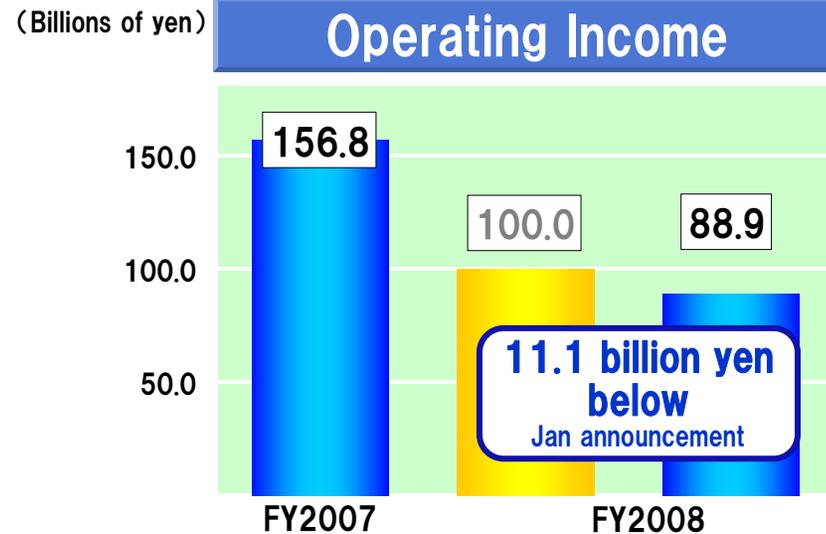
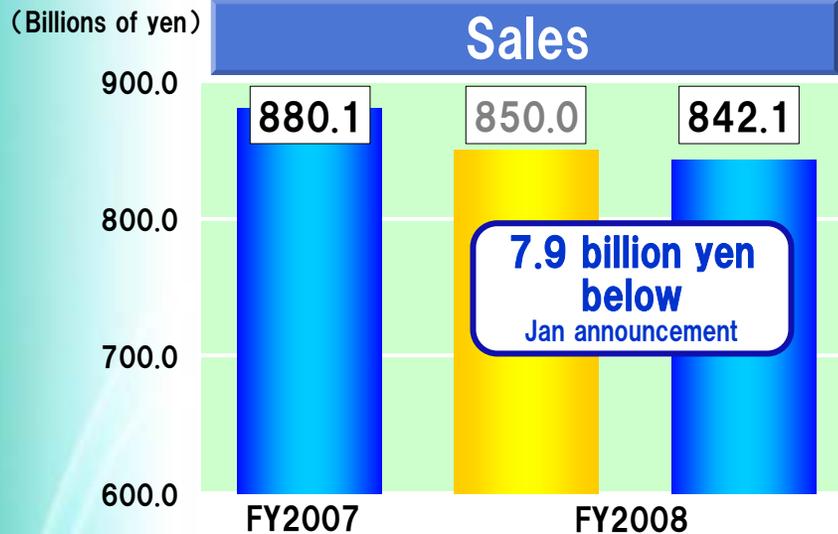
(Reflecting partial correction made on May 28, 2009)

Takashi Shoda, President & CEO



# Results Overview

# Overview of FY2008 Results



# Overview of FY2008 Results

- compared with FY2007 results -

(Billions of yen, ratio to sales)

	FY2007 Results (Apr-Mar)				FY2008 Results (Apr-Mar)					
	(1)	Non-Pharma Business	Impact of change in the accounting period (EU)	* Special Factors Excluded (2)	(3)	Simple Comparison (3)-(1)	Ranbaxy Oct-Dec Results (US GAAP)	Goodwill Write-down etc. on Ranbaxy	exc. Ranbaxy (4)	Real term Comparison (4)-(2)
<b>Net Sales</b>	100.0%	100.0%	100.0%	100.0%	100.0%		100.0%		100.0%	
	<b>880.1</b>	<b>32.0</b>	<b>14.1</b>	<b>834.0</b>	<b>842.1</b>	<b>-38.0</b>	<b>38.6</b>		<b>803.5</b>	<b>-30.5</b>
<b>Cost of Sales</b>	26.7%	87.1%	25.7%	24.3%	25.5%		53.1%		23.9%	
	<b>234.6</b>	<b>27.9</b>	<b>3.6</b>	<b>203.0</b>	<b>214.4</b>	<b>-20.2</b>	<b>20.5</b>	<b>1.8</b>	<b>192.1</b>	<b>-11.0</b>
<b>SG&amp;A expenses</b>	37.0%	10.9%	58.7%	37.6%	42.1%		38.8%		40.9%	
	<b>325.2</b>	<b>3.5</b>	<b>8.3</b>	<b>313.5</b>	<b>354.3</b>	<b>29.1</b>	<b>15.0</b>	<b>10.6</b>	<b>328.8</b>	<b>15.3</b>
<b>R&amp;D expenses</b>	18.6%	2.4%	2.3%	19.5%	21.9%		6.7%		21.8%	
	<b>163.5</b>	<b>0.8</b>	<b>0.3</b>	<b>162.4</b>	<b>184.5</b>	<b>21.1</b>	<b>2.6</b>	<b>6.9</b>	<b>175.1</b>	<b>12.7</b>
<b>Total Expense</b>	55.5%	13.3%	61.0%	57.1%	64.0%		45.4%		62.7%	
	<b>488.7</b>	<b>4.3</b>	<b>8.6</b>	<b>475.8</b>	<b>538.9</b>	<b>50.2</b>	<b>17.6</b>	<b>17.5</b>	<b>503.8</b>	<b>28.0</b>
<b>Operating Income</b>	17.8%	-0.4%	13.3%	18.6%	10.6%		1.5%		13.4%	
	<b>156.8</b>	<b>-0.1</b>	<b>1.9</b>	<b>155.1</b>	<b>88.9</b>	<b>-68.0</b>	<b>0.6</b>	<b>-19.3</b>	<b>107.6</b>	<b>-47.5</b>
<b>Ordinary Income</b>	19.2%	-0.6%	15.4%	20.0%	6.6%		-61.9%		12.2%	
	<b>169.1</b>	<b>-0.2</b>	<b>2.2</b>	<b>167.1</b>	<b>55.2</b>	<b>-113.9</b>	<b>-23.9</b>	<b>-19.3</b>	<b>98.4</b>	<b>-68.7</b>
<b>Net Income</b>	11.1%	1.6%	14.3%	11.4%	-25.6%		-42.0%		6.2%	
	<b>97.7</b>	<b>0.5</b>	<b>2.0</b>	<b>95.1</b>	<b>-215.5</b>	<b>-313.2</b>	<b>-16.2</b>	<b>-249.2</b>	<b>49.9</b>	<b>-45.2</b>

•Figures of non-pharmaceutical subsidiaries spun off, and the effect of change in the accounting periods of EU subsidiaries are considered as special factors. In order to compare the results in the real term, figures excluding such factors are shown as "Special Factors Excluded."



# YoY Comparison – compared with FY2007 results –

## 3. Ordinary Income                    ¥55.2B (– ¥113.9B, –67.4%)

- Decrease in non-operating income (– ¥4.7B)
  - Drop in interest receivables due to reduction in investment funds (– ¥2.3B)
- Increase in non-operating expenses (+ ¥41.2B)
  - Ranbaxy related (+ ¥26.0B)
    - Loss on valuation of derivatives (+ ¥14.8B)    • Forex loss on loans etc (+ ¥10.6B)
  - Unrelated to Ranbaxy (+ ¥15.2B)
    - Forex losses (+ ¥6.8B)    • Valuation loss on synthetic stock options (+ ¥4.9B)
    - Increase in interest expenses (+ ¥1.8B)

## 4. Net Income                            – ¥215.5B (– ¥313.2B)

- Decrease in extraordinary income (– ¥12.3B)
  - Lower gains from sales of property, plant and equipment (– ¥4.4B)
  - Posted gain on sales of investments in affiliates in FY07 (– ¥8.7B)
- Increase in extraordinary loss (+ ¥348.9B)
  - Ranbaxy related (+ ¥351.6B) ••• one-time write down of goodwill (+ ¥351.3B)
  - Unrelated to Ranbaxy (– ¥2.7B)
    - FY07 loss on business integration/restructuring > FY08 Nonrecurring depreciations
- Income taxes (– ¥148.3B)
- Minority interests (– ¥13.7B)

# Overview of FY2008 Financial Results

- comparison with January 2009 announcement -

(Billions of yen, ratio to sales)

	FY2008 Forecast (Apr-Mar) as of Jan.				FY2008 Results (Apr-Mar)					
	(1)	Ranbaxy Oct-Dec Forecast (US GAAP)	Goodwill Write-down etc. on Ranbaxy	exc. Ranbaxy (2)	(3)	from Jan. Forecast (3)-(1)	Ranbaxy Oct-Dec Results (US GAAP)	Goodwill Write-down etc. on Ranbaxy	exc. Ranbaxy (4)	from Jan. Forecast (4)-(2)
<b>Net Sales</b>	100.0%	100.0%		100.0%	100.0%		100.0%		100.0%	
	<b>850.0</b>	<b>40.0</b>		<b>810.0</b>	<b>842.1</b>	<b>-7.9</b>	<b>38.6</b>		<b>803.5</b>	<b>-6.5</b>
<b>Cost of Sales</b>	25.5%	52.5%		24.2%	25.5%		53.1%		23.9%	
	<b>217.0</b>	<b>21.0</b>		<b>196.0</b>	<b>214.4</b>	<b>-2.6</b>	<b>20.5</b>	<b>1.8</b>	<b>192.1</b>	<b>-3.9</b>
<b>SG&amp;A expenses</b>	41.7%	38.8%		40.5%	42.1%		38.8%		40.9%	
	<b>354.5</b>	<b>15.5</b>	<b>11.0</b>	<b>328.0</b>	<b>354.3</b>	<b>-0.2</b>	<b>15.0</b>	<b>10.6</b>	<b>328.8</b>	<b>0.8</b>
<b>R&amp;D expenses</b>	21.0%	6.3%		21.7%	21.9%		6.7%		21.8%	
	<b>178.5</b>	<b>2.5</b>		<b>176.0</b>	<b>184.5</b>	<b>6.0</b>	<b>2.6</b>	<b>6.9</b>	<b>175.1</b>	<b>-0.9</b>
<b>Total Expense</b>	62.7%	45.0%		62.2%	64.0%		45.4%		62.7%	
	<b>533.0</b>	<b>18.0</b>	<b>11.0</b>	<b>504.0</b>	<b>538.9</b>	<b>5.9</b>	<b>17.6</b>	<b>17.5</b>	<b>503.8</b>	<b>-0.2</b>
<b>Operating Income</b>	11.8%	2.5%		13.6%	10.6%		1.5%		13.4%	
	<b>100.0</b>	<b>1.0</b>	<b>-11.0</b>	<b>110.0</b>	<b>88.9</b>	<b>-11.1</b>	<b>0.6</b>	<b>-19.3</b>	<b>107.6</b>	<b>-2.4</b>
<b>Ordinary Income</b>	8.1%	-62.5%		13.0%	6.6%		-61.9%		12.2%	
	<b>69.0</b>	<b>-25.0</b>	<b>-11.0</b>	<b>105.0</b>	<b>55.2</b>	<b>-13.8</b>	<b>-23.9</b>	<b>-19.3</b>	<b>98.4</b>	<b>-6.6</b>
<b>Net Income</b>	-37.2%	-27.5%		7.4%	-25.6%		-42.0%		6.2%	
	<b>-316.0</b>	<b>-11.0</b>	<b>-365.0</b>	<b>60.0</b>	<b>-215.5</b>	<b>100.5</b>	<b>-16.2</b>	<b>-249.2</b>	<b>49.9</b>	<b>-10.1</b>

# Causes of Difference – comparison with January 2009 announcement –

**1. Net Sales** **¥ 842.1B (– ¥ 7.9B)**

- Ranbaxy related (– ¥ 1.4B) … Difference from provisional results as of Jan-09
- Unrelated to Ranbaxy (– ¥ 6.5) … Domestic pharmaceuticals (– ¥ 8.3B)

**2. Operating Income** **¥ 88.9B (– ¥ 11.1B)**

- Ranbaxy related (– ¥ 8.7B)
  - Adjustment for consolidation of Ranbaxy (– ¥ 8.3B)
    - IPRD (¥ 6.9B)
    - Increase in inventories to fair value (¥ 1.8B)
- Unrelated to Ranbaxy (– ¥ 2.4B)
  - Gross profit decline reflects net sales drop (– ¥ 2.6B)

**3. Ordinary Income** **¥ 55.2B (– ¥ 13.8B)**

- Lower than expected non-operating result (– ¥ 2.7B) … DSI (– ¥ 4.0B)

**4. Net Income** **– ¥ 215.5B (+ ¥ 100.5B)**

- Income taxes (– ¥ 107.8B)

# Major Product Trends

(Billions of yen)

			FY2007 Results	FY2008 Forecasts as of Jan.	FY2008 Results			
					Results	YoY Change		
						from Jan. Forecast	simple comparison	Real term Comparison
GLOBAL	<b>Olmesartan</b>	antihypertensive	195.6	212.5	211.1	-1.4	15.6	22.0
	<b>Levofloxacin</b>	synthetic antibacterial agent	108.7	99.5	97.7	-1.8	-11.1	-11.1
	<b>Pravastatin</b>	antihyperlipidemic agent	76.5	60.5	60.8	0.3	-15.6	-14.0
	<b>Prasugrel</b>	antiplatelet * alliance revenue			0.03	0.03	0.03	0.03
Japan	<b>Calblock</b>	antihypertensive	10.2	13.0	12.1	-0.9	1.9	1.9
	<b>Artist</b>	antihypertensive	21.1	23.0	21.9	-1.1	0.8	0.8
	<b>Kremezin</b>	treatment for chronic renal failure	12.4	14.0	12.8	-1.2	0.4	0.4
	<b>Loxonin</b>	anti-inflammatory analgesic	33.6	41.0	38.7	-2.3	5.1	5.1
	<b>Omnipaque</b>	contrast agent	31.2	29.0	28.3	-0.7	-2.8	-2.8
	<b>Urief</b>	treatment for dysuria	5.4	8.5	7.9	-0.6	2.5	2.5
U.S.	<b>Venofer</b>	treatment for iron deficiency anemia	31.1	31.5	32.0	0.5	1.0	1.0
	<b>Welchol</b>	antihyperlipidemic agent / treatment for type 2 diabetes	22.7	25.0	24.5	-0.5	1.8	1.8

\* Accounting period of European subsidiaries in FY2007 were 15 months following the change in fiscal year-end. Figures excluding the extra three months sales are shown for Real term Comparison.

# Major Product Trends (Local Currency Basis)

		FY2007 Results	FY2008 Results		
			Results	YoY Change	
				Real term Comparison	Growth
Daiichi Sankyo, Inc. <US> (Mil \$)	Benicar/Benicar HCT	769	869	100	13.0%
	Azor	22	86	64	287.2%
	Welchol	199	244	45	22.5%
Daiichi Sankyo Europe GmbH (Mil euro)	Olmetec/Olmetec Plus	261	261	41	18.5%
	Sevikar		15	15	-
Luitpold Pharmaceuticals, Inc. <US> (Mil \$)	Venofer	272	319	47	17.2%

\* Accounting period of European subsidiaries in FY2007 were 15 months following the change in fiscal year-end.  
Figures excluding the extra three months sales are shown for Real term Comparison.

# Ranbaxy Topics

- **June 2008: Daiichi Sankyo announced a strategic alliance with Ranbaxy aimed at creating unique Hybrid Business Model.**
- **September 2008: The U.S. FDA issued warning letters and import alert for drugs produced at Ranbaxy's Paonta Sahib and Dewas plants for GMP violation.**
- **November 2008: Deal closed after open offer, purchase of shares from the promoters, and third-party allotment.**
- **February 2009: The U.S. FDA invoked Application Integrity Policy (AIP) against Paonta Sahib Plant → Task force including external consultancy was launched.**
- **March 2009: Paonta Sahib facility received GMP approvals from U.K. and Australian authorities.**
- **April 2009: Ranbaxy starts Olmesartan business (Product Name: Olvance) in India, in addition to GSK.**
- **May 2009: Nitrofurantoin were recalled in the U.S. in the course of efforts to resolve AIP issue.**

# Ranbaxy Consolidation

- Impact on FY2008 Income Statement -

Purchase Price Allocation			B/S	Impact on FY08 Income Statement
Purchase cost ¥488.3B	Book value of assets and liabilities ¥78.8B			
	Fair value of assets ¥45.8B	Inventories ¥2.0B	B/S -> charged to cost of sales	Cost of Sales ¥1.8B
		Tangible fixed assets (land) ¥10.0B	B/S, nondepreciable assets	
		Intangible fixed assets (leasehold land) ¥5.9B	B/S, nondepreciable assets	
		Intangible fixed assets (products etc.) ¥41.0B	B/S, -> amortized over 10yrs on straight-line basis	Amortization ¥0.9B
		In Process R&D expenses ¥6.9B	-> Charged to R&D Expenses	R&D expenses ¥6.9B
	Deferred tax liabilities - ¥20.0B	B/S		
	Goodwill ¥408.7B		B/S, -> amortized over 20yrs on straight-line basis	Amortization ¥10.2B One-time write down ¥351.3B
Minority interests -¥45.0B		B/S		

# Ranbaxy Consolidation

- One-time write-down of goodwill (valuation loss) -

## Balance of Goodwill



Amortization  
six months



## Valuation loss calculation



Valuation  
loss  
¥ 351.3B

Market value  
of shares  
acquired in R  
(at Mar-09 end)  
¥ 85.9B

DS: Daiichi Sankyo  
R : Ranbaxy

# Ranbaxy Non-operating Expenses

[Q4 results (Oct-Dec, 2008)]

non-operating income	¥ 1.5B
Loss on valuation of derivatives	¥ 14.8B
Forex loss	¥ 10.6B
others	¥ 0.6B
non-operating loss	¥ 26.0B
non-operating income/loss	¥ 24.5B

Comprehensive Forex hedging of  
for future sales using zero-cost option

Revaluation of loans including FCCB\* (US\$)  
\* Foreign Currency Convertible Bond

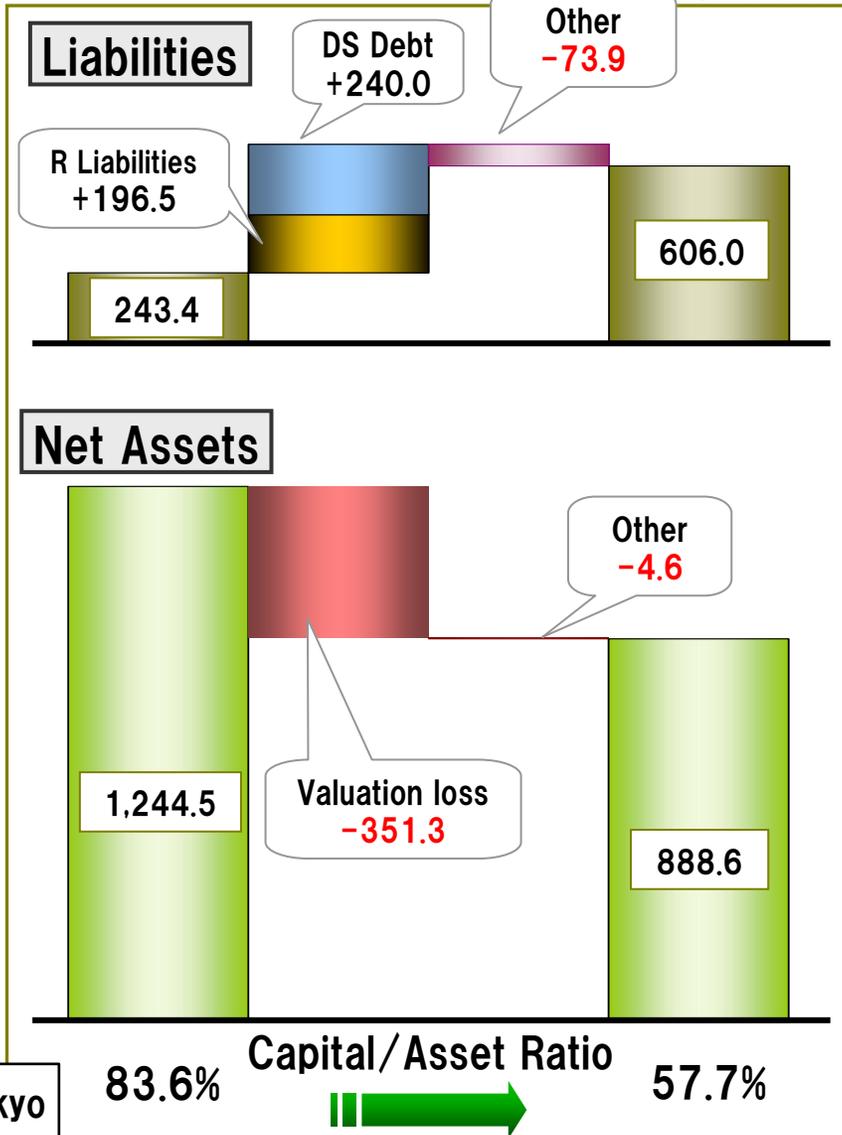
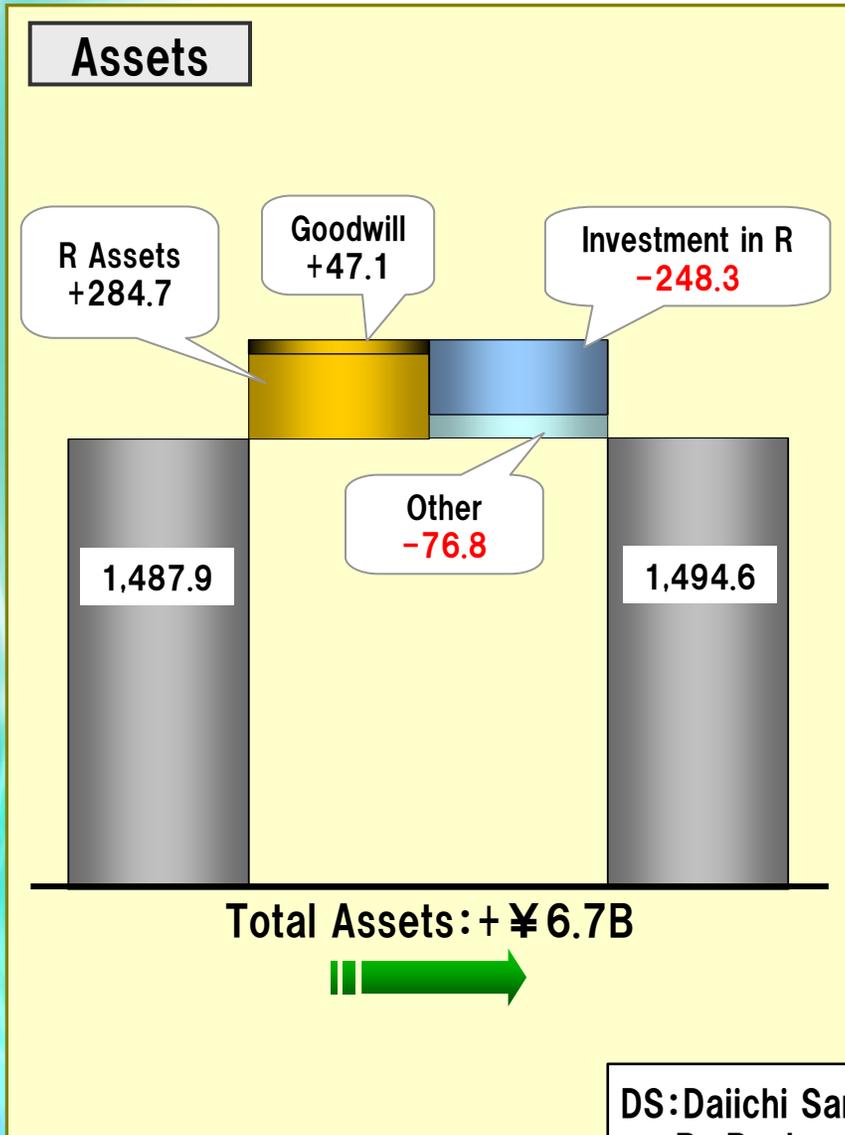
> Increase in non-operating expenses from Rupee fluctuation

US\$ = Rs 46.1 (Sep-08) ▶ Rs 47.9 (Dec-08) ▶ Rs 50.9 (Mar-09)



# Balance Sheet - FY2008 Year-end

(Unit: B Yen)



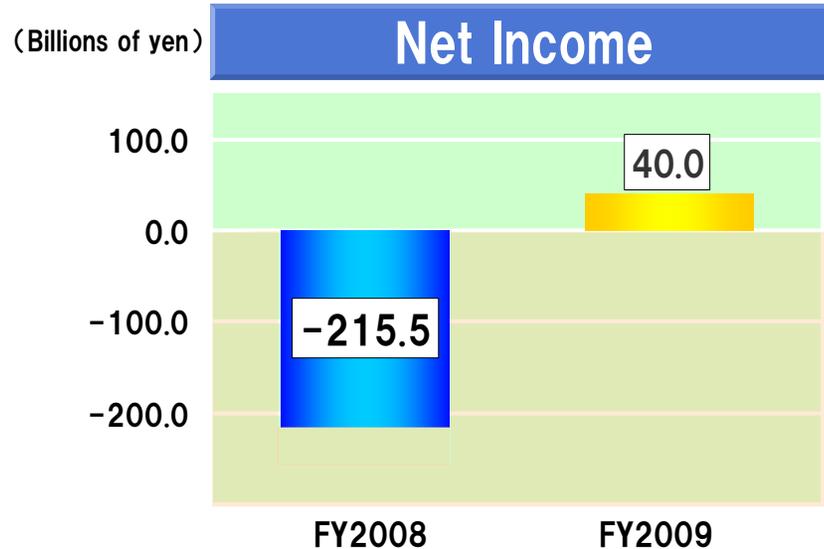
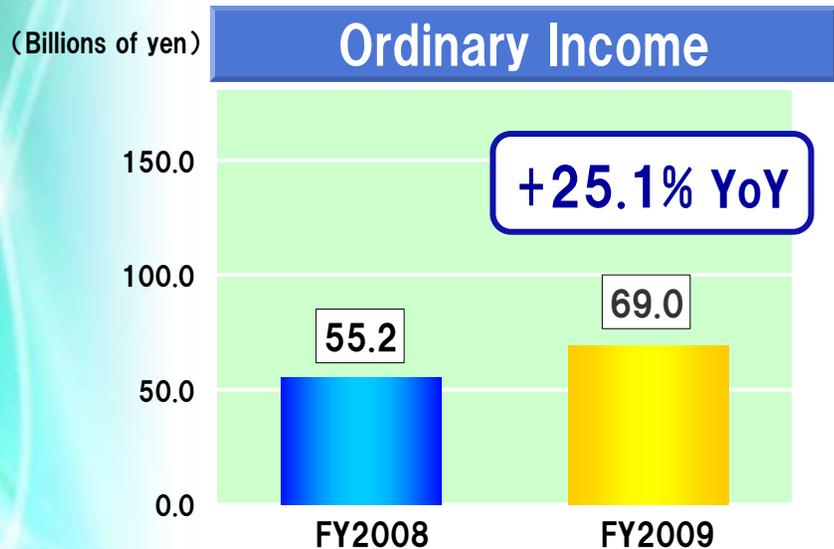
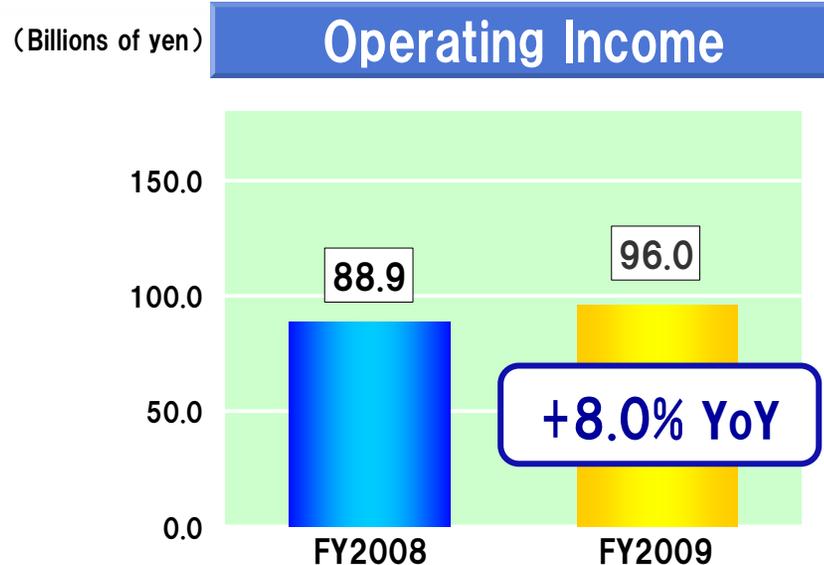
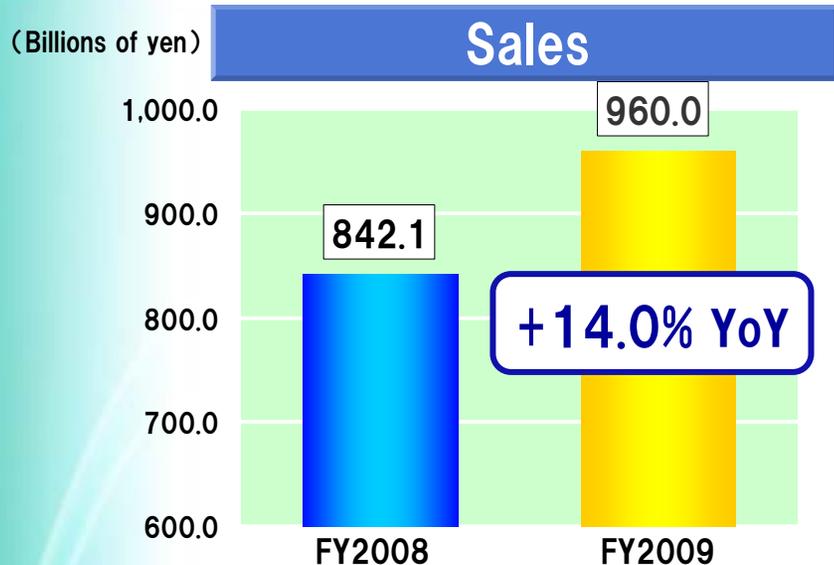
DS: Daiichi Sankyo  
R : Ranbaxy

# MEMO

# MEMO

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# Overview of FY2009 Forecast (1)



# Overview of FY2009 Forecast (2)

(Billions of yen, ratio to sales)

	FY2008 Results	FY2009 Forecast	
		Consolidated Forecast	YoY Change
<b>Net Sales</b>	100.0% 842.1	100.0% 960.0	117.9
<b>Cost of Sales</b>	25.5% 214.4	29.0% 278.0	63.6
<b>SG&amp;A expenses</b>	42.1% 354.3	40.8% 392.0	37.7
<b>R&amp;D expenses</b>	21.9% 184.5	20.2% 194.0	9.5
<b>Total Expense</b>	64.0% 538.9	61.0% 586.0	47.1
<b>Operating Income</b>	10.6% 88.9	10.0% 96.0	7.1
<b>Ordinary Income</b>	6.6% 55.2	7.2% 69.0	13.8
<b>Net Income</b>	-25.6% -215.5	4.2% 40.0	255.5

## Reasons for missing targets of the mid-term business management plan

<b>Domestic Sales &amp; Marketing</b>	<ul style="list-style-type: none"> <li>➤ Measures to increase use of generics</li> <li>➤ Re-pricing based on market expansion (Olmotec)</li> <li>➤ Return of rights to licensor</li> </ul>
<b>Overseas Sales &amp; Marketing</b>	<ul style="list-style-type: none"> <li>➤ Yen appreciation</li> <li>➤ New product delays (Prasugrel, Injectafer)</li> <li>➤ Increased rebates</li> <li>➤ Generic erosion of Floxin Otic</li> </ul>
<b>Expenses</b>	<ul style="list-style-type: none"> <li>➤ Investment in overseas networks</li> <li>➤ Increased R&amp;D expenses for latter stage large-scale R&amp;D projects</li> <li>➤ Strengthening oncology pipeline</li> <li>➤ Costs related to consolidation of Ranbaxy</li> </ul>

# Major Products – Sales Targets

(Billions of yen)

			FY2008 Results	FY2009 Forecast		
				1st half	Full year	Change
GLOBAL	<b>Olmesartan</b>	antihypertensive	211.1	112.2	235.5	24.4
	<b>Levofloxacin</b>	synthetic antibacterial agent	97.7	42.7	92.0	-5.7
	<b>Pravastatin</b>	antihyperlipidemic agent	60.8	29.0	55.0	-5.8
Japan	<b>Calblock</b>	antihypertensive	12.1	7.0	15.0	2.9
	<b>Artist</b>	antihypertensive	21.9	12.0	24.0	2.1
	<b>Kremezin</b>	treatment for chronic renal failure	12.8	7.0	14.0	1.2
	<b>Loxonin</b>	anti-inflammatory analgesic	38.7	24.0	51.0	12.3
	<b>Omnipaque</b>	contrast agent	28.3	14.5	28.0	-0.3
	<b>Urief</b>	treatment for dysuria	7.9	4.5	10.0	2.1
U.S.	<b>Venofer</b>	treatment for iron deficiency anemia	32.0	13.5	27.5	-4.5
	<b>Welchol</b>	antihyperlipidemic agent / treatment for type 2 diabetes	24.5	13.5	28.5	4.0

\* Forecast for Prasugrel is not disclosed

# Key Performance Indicators

	Unit	FY2007 Results	FY2008 Results	FY2009 Forecast
Earnings per share (EPS)	Yen	135.35	-304.22	56.8
Annual dividends per share	Yen	70	80	60
Payout ratio	%	51.7	-	105.6
Number of shares issued at the end of period	million shares	735	709	709
Total asset	billions of yen	1,487.9	1,494.6	
Net asset	billions of yen	1,244.5	888.6	
Equity ratio	%	83.6	57.7	
Dividend on equity (DOE)	%	4.0	5.4	
Return on equity (ROE)	%	7.8	-20.5	
Cash balance at the end of year	billions of yen	444.3	177.8	

# Results Overview

## R&D Pipeline Update

## Key R&D Milestones Achieved in FY2008

- **EFIENT® launched in EU.**
- **Edoxaban Phase III multi-dose AF study initiated.**
- **Biotech partnerships with ArQule (ARQ197) and U3 Pharma.**
- **SEVIKAR® (olmesartan/amlodipine) launched in EU.**
- **Start of Phase III for anti-influenza drug, CS-8958**
- **Denosumab (Amgen) positive Phase III studies for osteoporosis and cancer.**

# Progress in R&D Pipeline

## ➤ Changes from January 2009 (FY2008 Q3 Results)

### • New additions

- Triple combination (CS-8635) / Antihypertensive (EU) : P3  
\* Olmesartan + Amlodipine + Hydrochlorothiazide
- Tigatuzumab (CS-1008) / Anti-DR5 antibody (JPN) : P1
- Sonazoid/ultrasonic contrast agent (JPN only) : P2  
<additional indication: contrast for prostatic lesion/  
contrast for mammary lesion >

### • Development Stage Changes

- Prasugrel/Antiplatelet (EU) : Application -> Launched <PCI-ACS>
- Levofloxacin high-dose (JPN only) : Application -> Approved
- Human ghrelin (JPN) : P2 -> P3

# Development Pipeline

	Phase 1	Phase 2	Phase 3	Application
Cardiovascular diseases	- DB-772d	- Olmetec/diuretic Combo (#)	- <u>Edoxaban</u> - <u>Prasugrel (ACS-MM)</u> - <u>CS-8635</u> - Olmetec additional indication (#) <Diabetic nephropathy>	- <u>Prasugrel (ACS-PCI)</u> - Olmetec/Calblock Combo (#)
Glucose metabolic disorders	- CS-1036 (#)		- Rivoglitazone	
Infectious diseases			- Levofloxacin inj (#) - CS-8958	
Malignant neoplasm	- U3-1287	- Tigatuzumab - Nimotuzumab (#) - ARQ 197 - CS-7017		
Immunological allergic diseases	- CS-0777	- SUN 13834		
Bone / joint diseases			- <u>Denosumab (#)</u> - Loxonin gel (#)	
Others		- Sonazoid additional indication (#) <Contrast for prostatic lesion/ Contrast for mammary lesion>	- Human ghrelin - Memantine hydrochloride (#)	- Feron/Ribavirin combination therapy (#) - Silodosin
<b>Total</b>	<b>4</b>	<b>7</b>	<b>11</b>	<b>4</b>

- Only the most advanced stages are described for the projects under global development
- Prioritized projects are underlined (blue)
- # : Developed only in JPN

# Management Challenges for FY2009

- Final year of our 1st mid-term business management plan -

# Management Challenges for FY2009 (1)

## ➤ Strengthening profitability and reinforcing earnings structure to ensure sustainable growth

- Review 1st mid-term business management plan (MTP) and develop the 2nd MTP towards achieving Our Vision for 2015
- Maximize product potential and regain 6% domestic market share by further evolving “crosswise” medical reps structure
- Generate values and raise productivity of the expanded sales forces overseas
- Strive to maximize operational efficiency to constrain expenses

## ➤ Enhance global business management framework

- Build global management structure based on matrix organization model that encompasses both regional and functional axis
- Further optimize global supply chain management and realize cost reductions

## Management Challenges for FY2009 (2)

- **Push ahead with priority development projects and achieve more from drug discoveries in core disease areas**
  - Develop high-priority projects on schedule
  - Realize synergies in oncology/antibody areas and enrich pipeline
  
- **Promote collaboration with Ranbaxy towards the realization of Hybrid Business Model**
  - Early resolution of GMP issues raised by the US FDA
  - Create framework for collaboration in the value chain functions
  - Leverage relationship with Ranbaxy to extend global reach

# FY2009 Daiichi Sankyo Briefings

	Date (JST)
FY2009 Q1 Financial Results	July 31, 2009
FY2009 Q2 Financial Results	October 30, 2009
R&D Meeting	November or December, 2009
FY2009 Q3 Financial Results	January 29, 2010
2nd mid-term business management plan (2010-2012)	March, 2010

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