FASF

May 15, 2007

Consolidated Financial Results for Fiscal 2006 (Year Ended March 31, 2007)

Listed company name: DAIICHI SANKYO COMPANY, LIMITED
Stock code number: 4568
Listed exchanges: Tokyo, Osaka, and Nagoya
URL: http://www.daiichisankyo.com
Representative: Mr. Takashi Shoda, President and Representative Director
Contact: Mr. Toshio Takahashi, Corporate Officer, General Manager, Corporate Communications
Telephone: +81-3-6225-1126
Scheduled date of annual general meeting of shareholders: June 28, 2007
Scheduled date of dividend payments: From June 29, 2007
Scheduled date of Securities Report filing: June 28, 2007

(All amounts have been rounded down to the nearest million yen)

1. Consolidated Financial Results for Fiscal 2006 (from April 1, 2006 to March 31, 2007)

(1) Consolidated Financial Results

(Percentages indicate changes from in the prior fiscal year).

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	Percent change	Millions of yen	Percent change	Millions of yen	Percent change	Millions of yen	Percent change
Fiscal 2006	929,506	0.4	136,313	(11.9)	152,086	(4.8)	78,549	(10.4)
Fiscal 2005	925,918	–	154,728	–	159,714	–	87,692	–

	Basic net income per share	Diluted net income per share	Return on equity	Ordinary income as a percentage of total assets	Operating income as a percentage of net sales
	Yen	Yen	%	%	%
Fiscal 2006	107.75	–	6.3	9.4	14.7
Fiscal 2005	119.49	119.47	7.3	10.3	16.7

Reference: Equity in earnings (losses) of subsidiaries and affiliates accounted for by the equity method:
Fiscal 2006: (¥17 million)
Fiscal 2005: (¥349 million)

(2) Consolidated Financial Position

(Figures less than ¥1million, except per share amounts, have been omitted).

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal 2006	1,636,835	1,272,148	77.5	1,740.26
Fiscal 2005	1,596,126	1,237,529	77.5	1,696.97

Reference: Shareholders' equity:

Fiscal 2006: ¥1,268,656 million
Fiscal 2005: –

(3) Consolidated Cash Flows

(Figures less than ¥1million, except per share amounts, have been omitted).

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Cash and cash equivalents at the end of year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Fiscal 2006	106,429	45,305	(40,768)	513,211
Fiscal 2005	132,759	(39,258)	(50,106)	400,967

2. Dividends

	Dividend per share			Total dividend payments (Annual)	Dividend payout ratio (Consolidated)	Dividends as a percentage of net assets (Consolidated)
	Interim	Year-end	Annual			
(Record date)	Yen	Yen	Yen	Millions of yen	%	%
Fiscal 2006	30.00	30.00	60.00	43,740	55.7	3.5
Fiscal 2005	–	25.00	25.00	18,226	20.9	1.5
Fiscal 2007 (Forecast)	35.00	35.00	70.00	–	55.5	–

Note: In the fiscal year ended March 2006, in lieu of an interim dividend the Company made a share transfer payment of ¥25 per share of common stock to all final shareholders of record in Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. as of the close of business on September 27, 2005.

3. Forecast of Consolidated Results for Fiscal Year 2007 (from April 1, 2007 to March 31, 2008)

(Percentages indicate changes over the same period in the prior fiscal year)

	Net sales		Operating income		Ordinary income		Net income		Basic net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Interim 6-month period	416,000	(14.4)	75,000	(4.3)	80,000	(9.3)	44,000	(34.2)	60.36
Full fiscal year	837,000	(10.0)	157,000	15.2	165,000	8.5	92,000	17.1	126.20

4. Others

(1) Changes in significant subsidiaries during the fiscal year (resulting in a change in scope of consolidation): None

(2) Changes in accounting principles, procedures or presentation related to the preparation of consolidated financial statements (i.e., changes in the basis of significant accounting policies)

1) Changes due to adoption of new accounting standards: Yes

2) Changes other than those included in 1) above: Yes

Note: Please refer to p. 32 ("Changes in the Basis of Presentation and Significant Accounting Policies for the Preparation of Consolidated Financial Statements") for further details.

(3) Total number of common shares issued and outstanding

1) Total number of common shares issued and outstanding at the end of the fiscal year (including treasury stock):

Fiscal 2006:	735,011,343shares
Fiscal 2005:	735,011,343shares

2) Total number of shares in treasury at the end of the fiscal year:

Fiscal 2006:	6,008,421shares
Fiscal 2005:	5,959,047shares

Note: Please refer to p. 38 ("Per Share Information") regarding the number of shares used as the basis for the calculation of net income per share (consolidated).

(Reference) Non-Consolidated Financial Results

Non-Consolidated Financial Results for Fiscal 2006 (from April 1, 2006 to March 31, 2007)

(1) Non-Consolidated Financial Results

(Percentages indicate changes from in the prior fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	Percent change	Millions of yen	Percent change	Millions of yen	Percent change	Millions of yen	Percent change
Fiscal 2006	6,141	(92.0)	361	(99.5)	269	(99.6)	(3,355)	–
Fiscal 2005	76,656	–	73,948	–	73,591	–	73,545	–

	Basic net income per share	Diluted net income per share
	Yen	Yen
Fiscal 2006	(4.57)	–
Fiscal 2005	100.06	–

2) Non-Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Fiscal 2006	1,189,969	1,162,869	97.7	1,582.30
Fiscal 2005	1,209,278	1,206,810	99.8	1,641.98

Reference: Shareholders' equity:

Fiscal 2006: ¥1,162,869 million

Fiscal 2005: –

*All amounts described in this report are rounded down to the nearest million yen.

*Disclaimer regarding forward-looking information including appropriate use of forecasted financial results

The forecast figures shown above are based on information that was available at the time of preparation and may contain certain uncertainties. Actual performance and other factors may differ from these forecasts due to changes in circumstances and other developments. More information concerning these forecasts can be found in the attached Supplementary Information on pages 9-10.

1. Results of Operations

(1) Analysis of Results of Operations

a. Overview

DAIICHI SANKYO COMPANY, LIMITED (hereinafter "the Company") was established in September 2005 as the joint holding company for the DAIICHI SANKYO Group by means of a stock transfer. Business integration has proceeded steadily since then, and has involved the reorganizing of various Group companies. The integration process was completed in April 2007 with the merger of Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. into DAIICHI SANKYO COMPANY, LIMITED.

The growth of global pharmaceutical market is generally trending downward. In the United States, the world's largest market for prescription drugs, there are signs that the emergence of generics is causing market growth to taper off in value terms. In the European and Japanese markets, governments continue to impose measures designed to constrain medical expenditures by targeting the cost of medicines. In Japan, the home market for the DAIICHI SANKYO Group, competition is intensifying notably between the major pharmaceutical manufacturers, including foreign-owned makers.

Responding to such business conditions, the DAIICHI SANKYO Group focused marketing efforts on providing medical professionals with accurate efficacy and safety information to cater to increasingly diverse medical needs based on the promotion of the proper use of drugs. Such efforts helped to cultivate and expand markets for the Company's products. Consolidated net sales in the fiscal year ended March 2007 totaled ¥929.5 billion, an increase of 0.4% compared with the previous year. In terms of profitability, although the Group made substantial efforts to cut costs by boosting operational efficiency across the board, the revision of the NHI price in April 2006 had a negative impact on the profitability of domestic operations. Additional negative factors included higher R&D investments associated with the development of global drug candidates and the cultivation of various strategic alliances. Operating income fell 11.9% in year-on-year terms to ¥136.3 billion.

The fiscal year ended March 2007 also was witnessed by accelerating efforts by the DAIICHI SANKYO Group to concentrate on the pharmaceutical business to facilitate the evolution into a "Global Pharma Innovator." The Company booked extraordinary losses due to operational reorganizing and workforce resizing. At the consolidated level, losses associated with business integration totaled to ¥82.4 billion and losses related to operational reorganizing amounted to ¥3.6 billion. Although these charges were partially offset by extraordinary gains of ¥59.3 billion arising from the sale of Group subsidiaries involved in non-pharmaceutical businesses, net income for the year ended March 2007 equaled ¥78.5 billion, a decline of 10.4% compared with the previous year.

These Group results for the year ended March 2007 included contributions of the 15-month period from January 2006 to March 2007 for the Group's U.S. subsidiaries, Daiichi Sankyo INC. and Luitpold Pharmaceuticals Inc. following a change in these companies' fiscal year-end from December to March. The aggregate operating results of these subsidiaries for the period from January to March 2006 were net sales of ¥31.5 billion, operating income of ¥9.0 billion, ordinary income of ¥10.5 billion and net income of ¥5.8 billion.

b. Segment Information

1) Pharmaceuticals

Net sales in the pharmaceuticals segment increased 6.7% in year-on-year terms to ¥837.1 billion, while operating income fell 11.3% to ¥131.3 billion.

In the Japanese prescription drugs market, the downward revision in the National Health Insurance (NHI) price implemented in April 2006 averaged 6.7% across the industry. Other factors also contributed to increasingly harsh business conditions surrounding the pharmaceutical industry, including the gradual adoption by medical facilities of the Diagnosis and Procedure Combination (DPC) case-mix system for NHI reimbursement (under which reimbursement fees for inpatient care are calculated on an inclusive daily basis based on the diagnoses and procedures involved); the implementation of measures to promote the use of generics; and the passage of a new law introducing various reforms to healthcare system in Japan.

Under harsh market conditions, the Company recorded sales of prescription drugs in the Japanese market of ¥433.4 billion, up 0.5% compared with a year earlier. Although the effects of expanded generic use and fiercer competition contributed to a reduction in sales of the antihyperlipidemic agent Mevalotin® and the contrast medium Omnipaque®, the antihypertensive agent Olmetec® generated rapid sales growth. The analgesic, anti-inflammatory and anti-febrile preparation Loxonin® also made a positive contribution to growth following an expansion in the range of available presentations.

In overseas prescription drug markets, the number of patients enrolled in the state-subsidized Medicare system rose in the United States following the implementation of the Medicare Part D reforms in January 2006; also inherent in this move was an expansion of the government-regulated segment of the U.S. market. Overall, the U.S. prescription drugs market saw a pronounced slowdown as growth from original branded drugs failed to offset the effects of a shift to generics amid patent expirations on several leading products.

Prescription drug markets in Europe were sluggish overall due to the effects of ever-stronger regulatory controls, including moves to remove certain drugs from public reimbursement schedules and to promote generic dispensing.

Sales of prescription drugs in overseas markets increased 16.8% over the previous year to ¥338.0 billion. As anticipated, the DAIICHI SANKYO Group recorded a significant decline in exported bulk of pravastatin, antihyperlipidemic agent, due to expire the patent in the U.S. Major contributors to growth included the antihypertensive agent olmesartan (marketed as Benicar® in the U.S. and as Olmetec® in Europe), the antihyperlipidemic agent WelChol® and the anemia treatment Venofer®. The broad-spectrum oral antibacterial levofloxacin also produced consistent growth.

In the healthcare products sector, the sales framework for OTC drugs in Japan underwent its first fundamental reform in 46 years. The enactment of the revised Pharmaceutical Affairs Law heralded the transition to a new system that will be based on standards stipulated in the new legislation.

With the aim of contributing to an improved quality of life (QOL) for all through better health and beauty, the DAIICHI SANKYO Group has positioned healthcare products sector as a core business alongside prescription drugs. In April 2006, the Group acquired all the shares of Zepharma, Inc. As a result, sales of healthcare products jumped 71.9% on a year-on-year basis to ¥47.9 billion. Zepharma, Inc. was absorbed into Daiichi Sankyo Healthcare Co., Ltd. at the start of April 2007.

2) Other

Net sales in this segment declined 34.6% year on year to ¥92.3 billion, while operating income fell 28.8% to ¥4.3 billion.

DAIICHI SANKYO Group has been in the process of making non-pharmaceutical operations independent out of the Group in order to focus resources on the pharmaceutical business. During the fiscal year ended March 2007, the Company completed transfers to other firms of shares in several Group subsidiaries, including Wakodo Co., Ltd., Daiichi Pure Chemicals Co., Ltd., Daiichi Radioisotope Laboratories, Ltd. and Sankyo Agro Co., Ltd. Meanwhile, Fuji Flour Milling Co., Ltd. was excluded from the scope of consolidation as the result of a merger and Sankyo Lifetech Co., Ltd. was spun off as a separate operation and then sold. These various moves resulted in a significant decline in sales and profits in this segment in year-on-year terms.

c. R&D activities

R&D investments by the DAIICHI SANKYO Group, which was mostly incurred in the pharmaceuticals segment, were totaled to ¥170.6 billion in the fiscal year ended March 2007 (rising 7.5% in year-on-year terms). The ratio of R&D investments to sales was 18.4%.

The R&D activities of the DAIICHI SANKYO Group are directed at realizing the Company's vision of being a "Global Pharma Innovator." The Group has focused its R&D investments in four target therapeutic areas (cardiovascular, glucose metabolism, cancer, and autoimmune diseases/rheumatoid arthritis) with the aim of bringing a continuous stream of world-class innovative drugs to market while simultaneously trying to shorten product lead times.

In terms of significant R&D-related successes during the year under review, in September 2006 the Company filed an application in Japan for regulatory approval of DU-6859a (generic name: sitafloxacin), a new quinolone type of synthetic antibacterial. The Company also received import approval in October 2006 for Sonazoid® (generic name: perflubutane), an ultrasound contrast medium, and in January 2007, the product was launched in Japan. In the United States, the Group filed an application in November 2006 for regulatory approval of CS-8663, a combination antihypertensive containing olmesartan and amlodipine, and in December 2006 filed a supplemental New Drug Application (sNDA) with the U.S. Food and Drug Administration (FDA) to gain an additional indication for treatment of type II diabetes for the antihyperlipidemic agent WelChol®. In addition, the Company received regulatory approval in Japan for ActHIB®, a vaccine for preventing infections due to Haemophilus influenzae type b, and is currently preparing to launch the product.

The Group continues to focus on moves to build alliances aimed at further enhancing the development pipeline or acquiring innovative drug-discovery technology. In an in-licensing move, the Company reached an agreement in July 2006 with CIMYM BioSciences Inc. granting the Group exclusive sales and development rights in Japan for the anticancer drug nimotuzumab (development code: DE-766, a human monoclonal antibody). Separately, in August 2006 the Group reached an agreement with Ajinomoto Co., Inc. that granted the Group global development, manufacturing and sales rights for AJD101, a novel diabetes treatment that is currently in Phase I clinical trials outside Japan. Elsewhere, with the aim of augmenting drug-discovery efforts, the Group is also pursuing other approaches such as investing in healthcare venture funds.

In terms of the status of other key pipeline projects, the Company terminated development work on DJ-927, a taxane derivative (oral anticancer), after comparator studies failed to demonstrate sufficient efficacy. Clinical trials in the U.S. on DW-908e, a VLA-4 inhibitor (anti-allergic), were also suspended when comparator studies using rival drugs with a similar mechanism of action pointed to the uncertainty of prospects for breaking the clinical hold of such products in the U.S. market. Elsewhere, based on a pipeline management perspective, the Company decided to return development rights for an agent used to reduce reperfusion injury in acute myocardial infarction (development code:

CS-9803) that is currently under joint development with U.S.-based KAI Pharmaceuticals, Inc.

The pipeline drugs currently selected as top-priority development projects for the DAIICHI SANKYO Group are: prasugrel (CS-747), an antiplatelet agent; DU-176b, a factor-Xa inhibitor; CS-8663, an antihypertensive; and DZ-697b, an antiplatelet agent. Data from Phase I clinical studies demonstrating the superior medical effect of prasugrel over current antiplatelet therapy benchmark treatments were published at the Transcatheter Cardiovascular Therapeutics annual conference that was held in the U.S. in October 2006. Patient enrollment for Phase III clinical trials on prasugrel outside Japan was also completed in January 2007.

(2) Financial Position

a. Statement of Cash Flows

(Billions of yen)

	Fiscal 2006	Fiscal 2005	Change
Cash flows from operating activities	106.4	132.7	(26.3)
Cash flows from investing activities	45.3	(39.2)	84.5
Cash flows from financing activities	(40.7)	(50.1)	9.3
Effect of exchange rate changes on cash and cash equivalents	0.3	3.7	(3.3)
Net increase in cash and cash equivalents	111.3	47.1	64.1
Cash and cash equivalents, end of period	513.2	400.9	112.2

Cash and cash equivalents increased by ¥112.2 billion during the year ended March 31, 2007, to ¥513.2 billion. Contributing factors are summarized as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥106.4 billion, a decline of ¥26.3 billion compared with the previous year. The drop in operating cash flow mainly reflected lower income before income taxes and minority interests, higher income tax payments and charges for severance payments related to personnel downsizing.

Cash Flows from Investing Activities

Net cash provided by investing activities totaled ¥45.3 billion, compared with a cash outflow of ¥39.2 billion in the previous year. As the result of efforts to spin off non-pharmaceutical operations as independent businesses, transfers of shares in subsidiaries generated net proceeds of ¥91.0 billion, offsetting cash expenditure relating to the acquisition of Zepharma, Inc.

Cash Flows from Financing Activities

Cash used in financing activities amounted to ¥40.7 billion, a reduction in cash outflow of ¥9.3 billion compared with the previous year. The lack of treasury stock purchases during the year offset the higher sum paid as cash dividends following the ¥10 increase in dividend per share.

<Principal Cash Flow Indicators>

	Fiscal 2005	Fiscal 2006
Equity ratio (%)	77.5	77.5
Market capitalization ratio (%)	122.6	158.6
Interest-bearing debt ratio (years)	0.1	0.1
Interest coverage ratio (times)	593.9	670.1

Equity ratio: total equity/total assets

Market capitalization ratio: total market capitalization/total assets

Interest-bearing debt ratio: interest-bearing debt/operating cash flows

(Notes)

1. *All indicators are calculated on a consolidated basis.*
2. *Total market capitalization = closing stock price on the balance sheet date times the number of outstanding common shares at the balance sheet date (net of treasury shares)*
3. *Interest-bearing debt includes all consolidated balance sheet liabilities which are subject to an interest payment.*
4. *Operating cash flows equal to the amount of cash flows from operating activities in the consolidated statements of cash flows less the amounts of "interest paid" and "income taxes paid." Interest paid equals to the "interest paid" included in the consolidated statements of cash flows.*

(3) Forecast of Financial Results for Fiscal 2007 (From April 1, 2007 to March 31, 2008)

(Billions of yen)

	Fiscal 2006	Fiscal 2007	Change (Amount)	Change (%)
Net sales	929.5	837.0	(92.5)	(10.0)
Operating income	136.3	157.0	20.6	15.2
Ordinary income	152.0	165.0	12.9	8.5
Net income	78.5	92.0	13.4	17.1

The merger of Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. into the Company was completed on April 1, 2007. On the following day (April 2), DAIICHI SANKYO commenced business as an operating company focused primarily on prescription drug operations.

The various preparatory moves culminating in the completion of the business integration process have involved finding complete solutions to numerous major issues, including management system construction, operational and functional reorganizing, the integration of HR and IT systems, and workforce resizing. In the year ending March 2008, the DAIICHI SANKYO Group plans to leverage marketing power to reap the rewards of integration as quickly as possible. At the same time, the Company plans to focus on improving further the quality of management and on realizing increased operational efficiency.

On the sales front, in domestic prescription drug operations the Company plans to focus management resources on making the most efficient use of the 2,300-strong MR sales force to promote and expand sales of core strategic products such as antihypertensive agents Olmetec®, Artist® and Calblock®, the broad-spectrum oral antibacterial agent Cravit® and Urief®, an agent for relieving symptoms of dysuria. In OTC drug operations, the Company plans to generate growth by leveraging the effects of new product introductions. In overseas prescription drug operations, while exports of the antihyperlipidemic agent pravastatin are expected to decline further, the Company expects continued solid growth from the olmesartan franchise, which is currently producing rapid growth in sales. In addition, prospects for faster growth in the U.S. market are expected to receive a boost from the anticipated introduction of CS-8663, a combination drug containing olmesartan and the antihypertensive amlodipine, and from the anticipated approval of a new indication covering the treatment of type II diabetes for WelChol® (which, if approved, would mark the first extension of the use of an antihyperlipidemic agent into this field). In Europe, the Company plans to promote further gains in operational efficiency while maintaining a focus on building close and cooperative relationships with alliance partners to increase market share. Elsewhere, the Company plans to boost its global presence by working to strengthen the business base in markets across Asia, Central and Latin America.
In line with plans to focus resources on the pharmaceutical business, the Company expects reorganizing efforts in the fiscal years to March 2007 and March 2008 to reduce sales in the year ending March 2008 by ¥104.2 billion. Including the effects of changes in fiscal year-end at U.S. subsidiaries (¥31.5 billion), the aggregate negative year-on-year impact

on sales in the year ending March 2008 is projected to equal ¥135.7 billion. Taking such factors into account, the DAIICHI SANKYO Group projects a 10.0% decline in consolidated net sales to ¥837.0 billion. Excluding the aforementioned impact of restructuring (¥135.7 billion), sales from existing businesses are expected to grow by ¥43.2 billion, or 5.4% on a year-on-year basis.

On the cost side, the Company plans to invest aggressively in upgrading the drug discovery platform to realize the early development of innovative new drugs. Plans call for maintaining R&D investments at a suitable level to ensure that development remains on track with R&D pipeline stage-transition plans. Elsewhere, the Company aims to continue invest in overseas markets to realize rapid development of the business base in Europe and the U.S. The Company also expects to realize various cost synergies and other benefits from enhanced operational efficiency. At the same time, efforts will also continue in the fiscal year to March 2008 to establish non-pharmaceutical businesses as fully independent operations outside the Group. Taking such factors into account, the DAIICHI SANKYO Group projects a 15.2% increase in operating income to ¥157.0 billion and 8.5% growth in ordinary income to ¥165.0 billion. Excluding the aforementioned reorganizing effects, the Company forecasts real year-on-year growth of 30.7% in operating income and 22.7% in ordinary income. Although proceeds from the sale of businesses due to reorganizing are expected to decline, the Company expects such extraordinary gains to outweigh any business integration-related losses. Net income for the year ending March 2008 is forecast to reach ¥92.0 billion, an increase of 17.1% compared with the previous year.

The above forecasts assume average exchange rates for translating the results of overseas Group companies into yen of ¥115 against the U.S. dollar and ¥140 against the euro.

Effective the fiscal year ending March 2008, the Group’s European subsidiary DAIICHI SANKYO EUROPE GmbH will change its fiscal year-end from December to March. As a result, forecasts for the fiscal year ending March 2008 include a contribution from this company corresponding to the 15-month period from January 2007 to March 2008. This subsidiary recorded sales of approximately ¥12 billion for the period January–March 2007, and the impact on consolidated profits for the same period was immaterial.

(4) Basic policy on profit distribution and dividends for years ended March 2007 and ending March 2008

The Company has prioritized the distribution of profits generated by the DAIICHI SANKYO Group businesses as one of key management issues. Profit distribution is determined partly with regard to the level of return deemed commensurate with underlying business performance and capital efficiency. Dividends also reflect a comprehensive consideration of other factors such as the need to build up retained earnings to fund future business development and strategies for growth.

In the three-year period from April 2007 to March 2010, the Company plans as a rule to set the level of funds that are assigned to dividend payments and share buybacks equivalent to net income. The Company also plans to raise the level of dividends steadily going forward with the aim of achieving a dividend payout ratio of around 50% in the fiscal year ends March 2010, along with a dividend-on-equity (DOE) ratio of 5% or over. At the same time, the Company plans to adopt a flexible stance toward share buybacks. Undistributed retained earnings will be used primarily to fund investments targeting future growth, including moves to strengthen R&D, boost corporate collaboration, and reinforce overseas business development.

In line with this policy, the Company plans to pay total dividends of ¥60 per share for the fiscal year ended March 31, 2007 (including an interim dividend of ¥30 per share). This represents an increase of ¥10 in real terms compared with the previous year. For the fiscal year ending March 2008, the Company plans to pay total dividends of ¥70 per share (including an interim dividend of ¥35 per share).

(5) Business Risks

The following section provides an overview of the principal risks that could affect the business results and financial condition of the DAIICHI SANKYO Group. Any forward-looking statements or projections contained in this overview represent the best judgment of DAIICHI SANKYO Group management as of the end of the last fiscal year (March 31, 2006).

a. Research and Development Risk

Research and development of new drug candidates is an extremely 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. In addition, any changes in the terms of agreements with other third-parties governing R&D-related alliances, or the cancellation thereof, can also materially affect the outcomes of R&D programs.

b. Manufacturing and Procurement Risk

The DAIICHI SANKYO 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 Company’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 a material adverse impact on the Company’s business results and financial position.

c. 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, and the introduction of competing products within the same therapeutic area, could have a material impact on the Company’s business results and financial position.

Any changes in the terms of sales or technology transfer agreements, or the expiration or cancellation thereof, could have a material impact on the Company’s business results and financial position.

d. Legal and Regulatory Risk

Prescription drugs in Japan are subject to a variety of laws, regulations and ordinances. Trends in regulatory measures relating to the medical treatment systems and the national health insurance, most notably the NHI price revisions that occur every two years, could have a material impact on the Company’s business results and financial position. Similarly, sales of prescription drugs in overseas markets are also subject to a variety of legal and regulatory constraints.

e. Intellectual Property Risk

The business activities of the DAIICHI SANKYO 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 DAIICHI SANKYO Group by other parties could lead to a legal action by the Company to protect such rights. In either case, the resulting outcome could have a material impact on the Company’s business results and financial position.

f. 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. All DAIICHI SANKYO Group facilities operate on a self-regulated basis according to the internal standards designed to prevent the occurrence of any air or water pollution caused by plant emissions. The DAIICHI SANKYO Group also takes a proactive stance on environmental protection, for instance by employing substitute chemicals wherever possible to reduce a potential environmental impact of chemical substances used. Notwithstanding those efforts, there could be a material impact on the Company's business results and financial position, were the emissions of a DAIICHI SANKYO Group facility determined to have resulted in a serious environmental problem.

g. Litigation-related Risk

Besides potential antitrust issues, the DAIICHI SANKYO 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 a material impact on the Company's business results and financial position.

h. Currency Fluctuation Risk

Fluctuations in foreign currency exchange rates could be a financially adverse effect on the Company. The DAIICHI SANKYO 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 Company's business results and financial position.

i. Other Risks

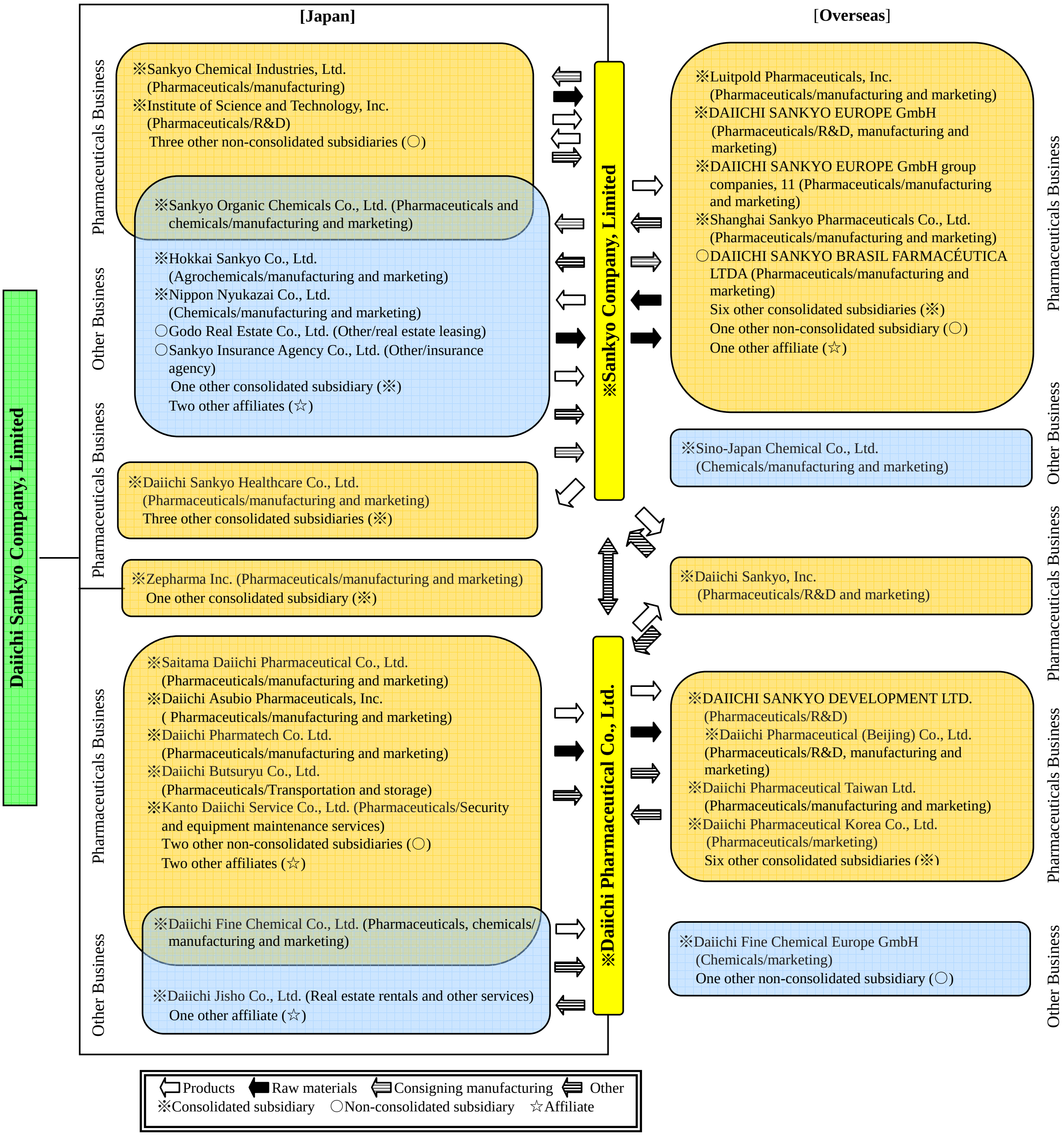
Other risks besides those noted above that could have a material impact on the Company's business results and financial position include the suspension of its business activities due to an earthquake or other large-scale natural disaster; the interruption of the Company's computer systems due to a network-mediated virus or other causes; changes in stock prices and interest rates; and collection issues on accounts and loans receivable due to default by a customer or a country specific problem at the customer.

2. State of the Group

DAIICHI SANKYO COMPANY, LIMITED ("DAIICHI SANKYO" or the "Company") is a joint holding company established on September 28, 2005 through the joint stock transfer implemented by Sankyo Company, Limited ("Sankyo") and Daiichi Pharmaceutical Co., Ltd. ("Daiichi")

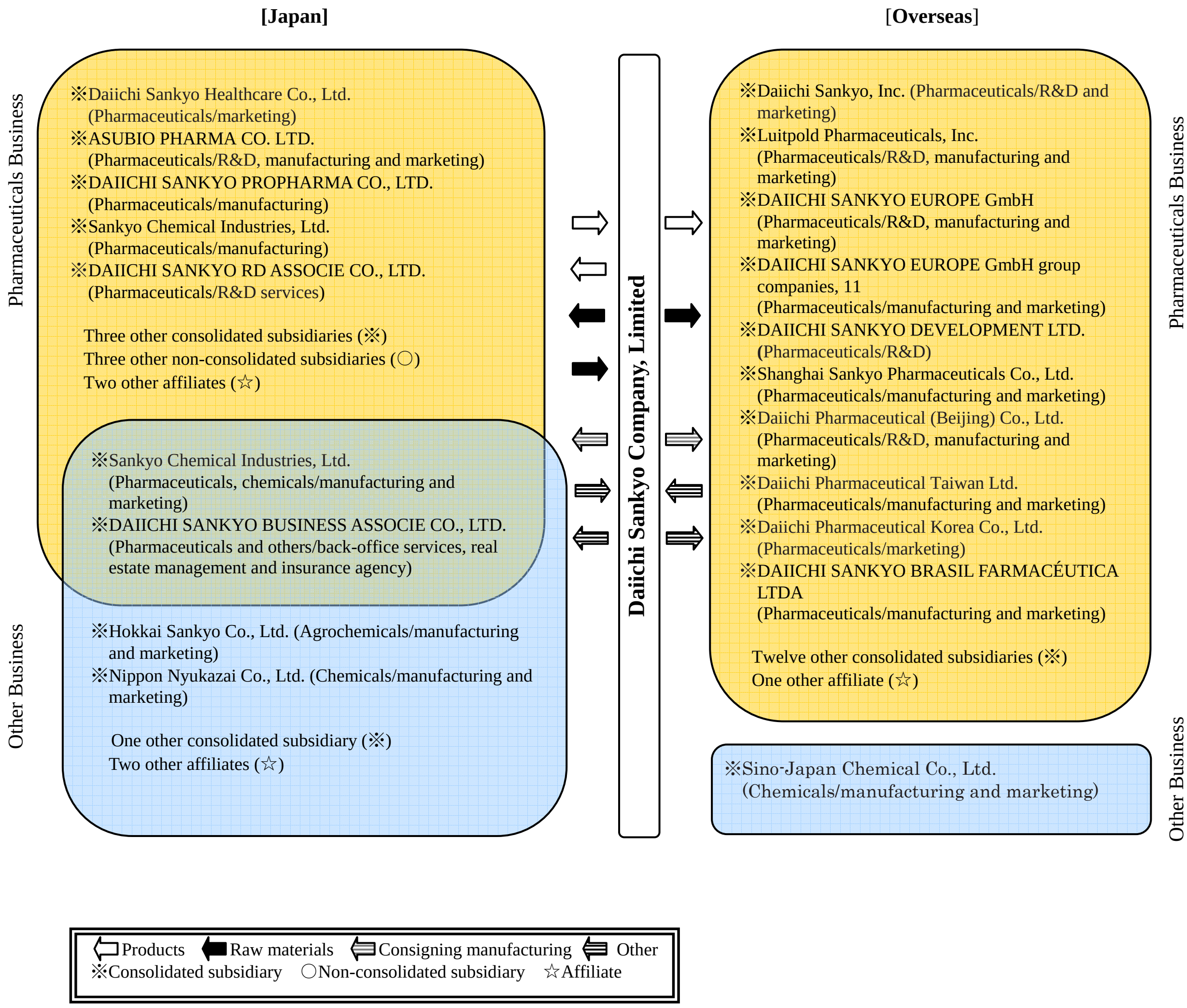
The DAIICHI SANKYO Group (the "Group") consists of the Company, its four wholly owned direct subsidiaries and their 60 subsidiaries and 6 affiliates, for a total of 71 companies. The Group's principal business is the manufacture and sale of pharmaceuticals etc.

The following chart illustrates the organization of the DAIICHI SANKYO Group as of March 31, 2007.



The DAIICHI SANKYO Group has been reorganized through measures such as merger of Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. into the Company, as of April 1, 2007. For reference, the new organizational Chart of the Group is as follows:

Organization of the DAIICHI SANKYO Group as of April 1, 2007



Consolidated Subsidiaries

Name	Location	Capital (Million of yen)	Principal business operations	% of voting rights held (indirect holdings)	Relationship
Consolidated subsidiaries					
Sankyo Co., Ltd.	Chuo-ku, Tokyo	68,793	Pharmaceuticals	100.0	Management contract Concurrent directors
Daiichi Pharmaceutical Co., Ltd.	Chuo-ku, Tokyo	45,246	Pharmaceuticals	100.0	Management contract Concurrent directors
Daiichi Asubio Pharma Co., Ltd.	Minato-ku, Tokyo	11,000	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Daiichi Fine Chemical Co., Ltd.	Takaoka-shi, Toyama	2,276	Pharmaceuticals Other	100.0 [100.0]	
Saitama Daiichi Pharmaceutical Co., Ltd.	Kasukabe-shi, Saitama	1,005	Pharmaceuticals	100.0 [100.0]	
Zepharma Inc.	Chuo-ku, Tokyo	300	Pharmaceuticals	100.0	
Sankyo Organic Chemicals Co., Ltd.	Takatsu-ku, Kawasaki-shi, Kanagawa	300	Pharmaceuticals Other	93.4 [93.4]	Concurrent directors
Daiichi Pharmatech Co., Ltd.	Chuo-ku, Tokyo	100	Pharmaceuticals	100.0 [100.0]	
Daiichi Sankyo Healthcare Co., Ltd.	Chuo-ku, Tokyo	100	Pharmaceuticals	100.0 [100.0]	
Sankyo Chemical Industries, Ltd.	Chuo-ku, Tokyo	65	Pharmaceuticals	100.0 [100.0]	
Daiichi Butsuryu Co., Ltd.	Sumida-ku, Tokyo	50	Pharmaceuticals	100.0 [100.0]	
Institute of Science and Technology, Inc.	Shinagawa-ku, Tokyo	20	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Kanto Daiichi Service Co., Ltd.	Edogawa-ku, Tokyo	10	Pharmaceuticals	100.0 [100.0]	
Hokkai Sankyo Co., Ltd.	Kitahiroshima-shi, Hokkaido	331	Other	80.0 [80.0]	
Nippon Nyukazai Co., Ltd.	Chuo-ku, Tokyo	300	Other	100.0 [100.0]	Concurrent directors
Daiichi Jisho Co., Ltd.	Chuo-ku, Tokyo	100	Other	100.0 [100.0]	
Daiichi Sankyo INC.	New Jersey, U.S.	24.9 million U.S. dollars	Pharmaceuticals	100.0 [100.0]	
Luitpold Pharmaceuticals, Inc.	New York, U.S.	200 thousand U.S. dollars	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO EUROPE GmbH	Munich, Germany	16 million euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO UK LTD.	Amersham, UK	19.5 million pounds	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO EAPAÑA S.A.	Madrid, Spain	120 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO ITALIA S.p.A.	Rome, Italy	120 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO PORTUGAL LDA.	Porto Salvo, Portugal	349 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO AUSTRIA GmbH	Vienna, Austria	18 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO SCHWEIZ AG	Thalwil, Switzerland	3 million Swiss Francs	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO NEDERLAND B.V.	Zwanenburg, the Netherlands	18 thousand euros	Pharmaceuticals	100.0 [100.0]	

Name	Location	Capital (Million of yen)	Principal business operations	% of voting rights held (indirect holdings)	Relationship
DAIICHI SANKYO BELGIUM N.V. S.A.	Louvain-La-Nueve, Belgium	62 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO ALTKIRCH S.A.R.L	Altkirch, France	457 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO DEUTSCHLAND GmbH	Munich, Germany	40 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO FRANCE S.A.S.	Rueil Malmaison, France	2,182 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO DEVELOPMENT, Ltd.	London, UK	400 thousand pounds	Pharmaceuticals	100.0 [100.0]	
Daiichi Fine Chemical Europe GmbH	Dusseldorf, Germany	511 thousand euros	Other	100.0 [100.0]	
Daiichi Pharmaceutical (Beijing) Co., Ltd.	Beijing, China	63,800 thousand U.S. dollars	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Shanghai Sankyo Pharmaceutical Co., Ltd.	Shanghai, China	53,000 thousand U.S. dollars	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Daiichi Pharmaceutical Taiwan Ltd.	Taipei, Taiwan	80 million NT dollars	Pharmaceuticals	100.0 [100.0]	
Daiichi Pharmaceutical Korea Co., Ltd.	Seoul, Korea	3,000 million W	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Sino-Japan Chemical Co., Ltd.	Taipei, Taiwan	144 million NT dollars	Other	52.0 [52.0]	Concurrent directors
Other 17 companies					
Affiliated companies accounted for by the equity method					
Sanofi-Pasteur-Daiichi Vaccines Co., Ltd.	Edogawa-ku, Tokyo	310	Pharmaceuticals	50.0 [50.0]	Concurrent directors
Hitachi Pharma Evolutions, Ltd.	Shinagawa-ku, Tokyo	250	Other	49.0 [49.0]	
Other one company					

(Notes)

1. The information under the principal business operations column indicates the name of operating segment used in the segments information, to which the respective entity belong.
2. Figures in parentheses under the percentage of voting rights held column refer to the percentage of ownership held indirectly through other subsidiaries.

3. Management Policy

(1) Principal Management Policy

The vision of the Group is to become a “global pharma-innovator” that meets the medical needs of people worldwide by continuously developing innovative pharmaceuticals and related services. As a leading company in Japan’s pharmaceutical industry, DAIICHI SANKYO aims to develop a continuous stream of innovative drugs, and to expand its operations, built upon a global business bases, in the world’s major countries, and thereby to become a global player with its strong competitiveness in certain therapeutic areas.

In pursuit of this vision, the Company is determined to create three corporate values: economic value for shareholders through strong growth generated by innovative products; social value for the society by fulfilling a contributory role as a good corporate citizen; and human value by enhancing human development of the employees through proactive support for skill improvement.

(2) Business Performance Targets

The DAIICHI SANKYO Group aims to greatly enhance its earning power through the synergies created by the business integration, and a steady sales growth from its existing mainstay products and contribution by new products, while maintaining R&D spending at a level required to pursue the “global pharma-innovator” status. The performance goals for the fiscal year ending March 31, 2010 have been set at net sales of ¥960.0 billion and operating income of ¥240.0 billion.

(3) Medium- to Long-Term Management Strategies and Challenges

For the DAIICHI SANKYO Group, the ongoing integration process is an opportunity to make it prepared to take its first step as a Japan-based “global pharma-innovator.” The Company is actively tackling the issues discussed below as part of this process.

a. Early Realization of Fruits of Complete Integration

In line with the business integration schedule, the first step in the creation of the DAIICHI SANKYO Group was the establishment of the Company as a joint holding company in September 2005 via a stock transfer. Operational integration then progressed in several areas, involving the restructuring of Group companies. The business integration process was finally completed in April 2007 with the merger of Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. into the holding company.

Going forward, the DAIICHI SANKYO Group aims to attain world-class levels of operational efficiency through steady realization of integration synergies. At the same time, the Group plans to strengthen operational management and business development functions and to boost HR development.

b. Concentration on the Pharmaceutical Business

To promote superior earnings and consistent growth, the DAIICHI SANKYO Group plans to concentrate on the pharmaceutical business consisting of prescription drug and healthcare product operations. The ongoing aim is to establish all non-pharmaceutical businesses as fully independent operations outside the Group.

As of the end of March 2007, this goal had been achieved for all of the major non-pharmaceutical Group firms, including Wakodo Co., Ltd., Daiichi Pure Chemicals Co., Ltd., Daiichi Radioisotope Laboratories, Ltd. and Sankyo Agro Co., Ltd. Going forward, the Company remains focused on pursuing the goal of attaining “Global Pharma Innovator” status, involving further restructuring of Group subsidiaries where deemed appropriate.

c. Enhancement of Innovative Drug Discovery

In order to achieve its goal of developing innovative new drugs to fulfill unsatisfied medical needs, the Company is working to build an R&D operation with specific management objectives. The principal objectives include (1) a global R&D organization of an appropriate scale; (2) sufficient scale to support innovative research in key therapeutic areas; (3) retention and development of researchers for in-house discovery of key drug candidates; and (4) effective and efficient control of development projects coupled with timely decision-making.

Integration of the R&D management functions of Sankyo and Daiichi to create global development capabilities has been a top management priority within the overall integration process. Global development processes commenced in October 2005. As part of this process, the Company established the Global Executive Meeting of Research and Development (GEMRAD) as a single deliberative body to facilitate global R&D-related decision-making. GEMRAD has designated the four target therapeutic areas for the DAIICHI SANKYO Group as cardiovascular, glucose metabolism, cancer, and autoimmune conditions/rheumatoid arthritis. Selection of drug development candidates within each of these targets has been undertaken, with an additional priority evaluation of candidate drugs also being conducted. The top-priority development projects have been selected on this basis, and separate project teams are focusing on the development of each candidate drug.

d. Enhancement of Earnings Bases in Japan and Overseas

Integration of the domestic prescription drug businesses has resulted in a combined sales force of about 2,300 medical representatives (MRs), affording DAIICHI SANKYO superior marketing power in terms of quality and quantity. Integration has also facilitated further strengthening of relationships with medical wholesalers operating on a national scale, thereby enabling the implementation of a distribution strategy that can extract maximum value from economies of scale. Beginning in April 2007, the Company plans to concentrate its marketing power on promoting sales of the leading products, thereby increasing sales and creating a stronger base of sales operations within the domestic market.

In overseas markets, the Company plans to take full advantage of larger economies of scale created by the integration and thereby achieve substantial increases in product value by conducting both development and marketing in-house for certain high-priority projects, particularly in the United States. To this end, management recognizes a critical need in the expansion of overseas development and marketing bases in the United States and other markets. The Company plans to focus on such expansion through various means, including selective acquisition of external resources based on an alliance- and M&A-centered strategy.

In the healthcare product business, Daiichi Sankyo Healthcare Co., Ltd. recommenced operations in April 2007 following the absorption of Zepharma, Inc. Through organic integration, this move will serve to focus capabilities in R&D, sales and marketing to facilitate the expansion of sales of existing brands as well as new products. Going forward, the Company plans to focus on reinforcing the earnings base by upgrading brand assets and constructing a low-cost operational structure.

e. Basic policy regarding moves toward large-scale acquisition of Company stock

The Company believes that it is the sole prerogative of shareholders to decide whether or not to respond to any moves toward large-scale acquisition of Company stock. The Company does not deny the potentially significant impact that transfers of control of the Company may have in terms of stimulating business enterprise. In line with this thinking, the Company has not prepared any specific takeover defenses.

Nonetheless, the Company would consider it a self-evident duty of the Company management to oppose any takeover plans whose aims were generally considered inappropriate (such as schemes to ramp up the share price) or that would otherwise be deemed detrimental to the value of the Company or the mutual interests of shareholders. Accordingly, the Company will continue monitoring closely share transactions and changes in shareholders. In the event any moves toward large-scale acquisition of Company stock are noticed, the Company would assemble a panel of outside experts to evaluate any takeover proposal and to determine carefully the impact of such on the value of the Company and the mutual interests of shareholders. If any proposal were deemed detrimental to such interests, the Company would institute appropriate anti-takeover measures in response to individual cases.

(4) Other significant management-related matters

a. In the United States, numerous lawsuits seeking damages and other compensation were brought against Warner-Lambert Company and other pharmaceutical companies by certain patients who took the diabetes drug Rezulin, which had been sold until March 2000 using a compound whose generic name is troglitazone supplied by the Sankyo Company, Limited, a wholly-owned subsidiary of the Company. A U.S. subsidiary of the Company, Sankyo Pharma Inc. (currently, Daiichi Sankyo, Inc.), is named as a defendant in a small portion of these cases, and it is defending these cases in cooperation with Warner-Lambert. In these cases, the compensation demanded from all defendants includes claims for both compensatory and punitive damages.

   Costs incurred by the Sankyo Company, Limited and its subsidiaries relating to litigation concerning this drug (including any damages) are covered by an indemnity provision in the license agreement with Warner-Lambert. DAIICHI SANKYO has inherited these indemnification rights.

b. With its local U.S. licensees as co-plaintiffs, Daiichi Pharmaceutical Co., Ltd., a subsidiary of the Company, filed a patent infringement lawsuit in a U.S. district court against the Mylan Group, which had filed an application for a generic version of levofloxacin. The U.S. Court of Appeals for the Federal Circuit ruled in favor of Daiichi in December 2005, and the Mylan Group subsequently did not appeal its cases to the Supreme Court. Teva Pharmaceuticals and three other remaining co-defendants also did not appeal their cases to the Court of Appeals for the Federal Circuit following a ruling issued in May 2006 by the U.S. District Court for the District of New Jersey in favor of Daiichi. Separately, in October 2006 Daiichi filed a patent infringement lawsuit against Lupin Pharmaceuticals in the U.S. District Court for the District of New Jersey after the latter firm filed an application for a generic version of the same drug.

c. Sankyo Company, Limited., a wholly owned subsidiary of DAIICHI SANKYO COMPANY, Limited, and its U.S. subsidiary, Daiichi Sankyo, Inc., commenced litigation against Mylan Pharmaceuticals, Inc. which has filed in the United States District Court for the District of New Jersey for infringement of Sankyo (currently DAIICHI SANKYO)'s U.S. patent covering olmesartan medoxomil, the active ingredient in Sankyo's antihypertensive drug, Benicar®. Mylan has filed an Abbreviated New Drug Application with the Food and Drug Administration seeking to market a generic version of Benicar®.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

		As of March 31, 2006			As of March 31, 2007			Change
	See Note	Amount		%	Amount		%	Amount
ASSETS								
I Current assets:								
1. Cash and time deposits			223,979			232,614		
2. Trade notes and accounts receivable			240,173			197,158		
3. Marketable securities			274,510			373,896		
4. Mortgage-backed securities			16,500			15,000		
5. Inventories			121,694			107,758		
6. Deferred tax assets			40,911			63,364		
7. Other current assets			41,313			26,773		
Allowance for doubtful accounts			(599)			(724)		
Total current assets			958,483	60.1		1,015,840	62.1	57,357
II Non-current assets:								
1. Property, plant and equipment:								
(1) Buildings and structures		164,047			142,534			
(2) Machinery, equipment and vehicles		47,888			40,010			
(3) Land		48,892			38,011			
(4) Construction in progress		10,010			12,013			
(5) Other		18,874	289,712	18.1	16,288	248,857	15.2	(40,855)
Total property, plant and equipment, net								
2. Intangible assets:								
(1) Goodwill, net		9,788			18,569			
(2) Other intangible assets, net		26,378	36,166	2.3	41,584	60,153	3.7	23,987
3. Investments and other assets:								
(1) Investment securities		256,338			262,240			
(2) Long-term loans		6,154			1,615			
(3) Prepaid pension costs		17,307			18,021			
(4) Deferred tax assets		7,403			8,890			
(5) Other assets		25,090			21,636			
Allowance for doubtful accounts		(529)	311,763	19.5	(421)	311,983	19.0	219
Total non-current assets			637,643	39.9		620,994	37.9	(16,648)
Total assets			1,596,126	100.0		1,636,835	100.0	40,708

(Millions of yen)

	See Note	As of March 31, 2006 Amount		As of March 31, 2006 %	As of March 31, 2007 Amount		As of March 31, 2007 %	Change Amount
LIABILITIES								
I Current liabilities:								
1. Trade notes and accounts payable			65,596			56,435		
2. Short-term bank loans			13,547			8,560		
3. Accounts payable			–			89,591		
4. Income taxes payable			26,169			27,573		
5. Deferred tax liabilities			31			–		
6. Allowance for sales returns			657			1,315		
7. Allowance for sales rebates			2,204			2,471		
8. Allowance for contingent losses			3,379			3,498		
9. Other current liabilities			125,246			92,062		
Total current liabilities			236,833	14.9		281,510	17.2	44,677
II Non-current liabilities:								
1. Long-term debt			3,374			1,533		
2. Deferred tax liabilities			23,926			36,145		
3. Accrued retirement and severance benefits			68,321			35,062		
4. Accrued directors' and corporate auditors' retirement and severance benefits			3,140			1,037		
5. Accrued soil remediation costs			2,850			3,956		
6. Other non-current liabilities			8,540			5,441		
Total non-current liabilities			110,154	6.9		83,176	5.1	(26,977)
Total liabilities			346,987	21.8		364,687	22.3	17,699
MINORITY INTERESTS								
Minority interests			11,609	0.7		–	–	–
SHAREHOLDERS' EQUITY								
I Common stock			50,000	3.1		–	–	–
II Additional paid-in-capital			179,858	11.3		–	–	–
III Retained earnings			936,513	58.7		–	–	–
IV Net unrealized gain on investment securities			80,254	5.0		–	–	–
V Foreign currency translation adjustments			735	0.0		–	–	–
VI Treasury stock at cost			(9,832)	(0.6)		–	–	–
Total shareholders' equity			1,237,529	77.5		–	–	–
Total liabilities, minority interests and shareholders' equity			1,596,126	100.0		–	–	–

(Millions of yen)

	See Note	As of March 31, 2006 Amount		%	As of March 31, 2007 Amount		%	Change Amount
NET ASSETS								
I Shareholders' capital								
1. Common stock			–	–		50,000		
2. Additional paid-in-capital			–	–		179,860		
3. Retained earnings			–	–		971,483		
4. Treasury stock at cost			–	–		(9,997)		
Total shareholders' capital			–	–		1,191,346	72.8	–
II Valuation translation and other adjustments								
1. Net unrealized gain on investment securities			–	–		72,358		
2. Foreign currency translation adjustments			–	–		4,951		
Total valuation translation and other adjustments			–	–		77,310	4.7	–
III Minority interests			–	–		3,491	0.2	–
Total net assets			–	–		1,272,148	77.7	–
Total liabilities and net assets			–	–		1,636,835	100.0	–

(2) Consolidated Statements of Income

(Millions of yen)

	See Note	Fiscal 2005 (For the year ended March 31, 2006) Amount		%	Fiscal 2006 (For the year ended March 31, 2007) Amount		%	Change Amount
I Net sales			925,918	100.0		929,506	100.0	3,588
II Cost of sales	*1		290,735	31.4		265,200	28.5	(25,534)
Gross profit			635,182	68.6		664,306	71.5	29,123
III Selling, general and administrative expenses:								
1. Advertising and promotional expenses		74,690			100,672			
2. Salaries and bonuses		98,570			104,123			
3. Retirement and severance costs		4,899			7,553			
4. Research and development expenses	*1	158,716			170,662			
5. Other		143,577	480,454	51.9	144,980	527,992	56.8	47,537
Operating income			154,728	16.7		136,313	14.7	(18,414)
IV Non-operating income:								
1. Interest income		3,326			7,725			
2. Dividend income		1,995			3,547			
3. Derivative income		–			2,639			
4. Rent income		1,148			–			
5. Other income		4,480	10,951	1.2	6,088	20,001	2.2	9,050
V Non-operating expenses:								
1. Interest expense		313			251			
2. Loss on disposal and write-down of inventories		1,587			1,485			
3. Charitable contributions		1,099			592			
4. Equity in net losses of affiliated companies		349			17			
5. Amortization of start-up costs		361			–			
6. Other expenses		2,253	5,964	0.7	1,881	4,228	0.5	(1,736)
Ordinary income			159,714	17.2		152,086	16.4	(7,627)
VI Extraordinary gains:								
1. Gain on sales of property, plant and equipment	*2	4,897			4,314			
2. Gain on sales of investments in affiliates		1,179			59,347			
3. Gain on sales of investment securities		649			8,221			
4. Gain on adjustment of prior-year R&D expenses		–			1,608			
5. Gain from the return of the substitutional portion of the employees' pension fund to the government		163	6,890	0.8	–	73,492	7.9	66,601

(Millions of yen)

		Fiscal 2005 (For the year ended March 31, 2006)			Fiscal 2006 (For the year ended March 31, 2007)			Change
	See Note	Amount		%	Amount		%	Amount
VII Extraordinary losses:								
1. Loss on disposal of property, plant and equipment	*3	5,550			3,622			
2. Loss on business integration	*4	9,893			82,479			
3. Loss on impairment of property, plant and equipment	*5	5,253			4,916			
4. Restructuring charge	*6	1,153			3,609			
5. Provision for soil remediation costs		2,850			2,875			
6. Loss on valuation of investment securities		346			686			
7. Supplemental retirement benefit costs		160			287			
8. Provision for contingent losses	*7	3,379			166			
9. Loss on sale of investment securities		–			22			
10. Loss on settlement of vitamin-related anti-trust litigations	*8	1,125	29,712	3.2	–	98,666	10.6	68,953
Net income before income taxes and minority interests			136,892	14.8		126,912	13.7	(9,979)
Income tax expense — current		54,207			64,710			
Income tax expense — deferred		(5,011)	49,196	5.3	(16,631)	48,078	5.2	(1,117)
Minority interests in net income of subsidiaries			3	0.0		283	0.0	280
Net income			87,692	9.5		78,549	8.5	(9,142)

(3) Consolidated Statement of Retained Earnings and Statement of Changes in Net Assets

Consolidated Statement of Retained Earnings

(Millions of yen)

	See Note	Fiscal 2005 (For the year ended March 31, 2006) Amount	
ADDITIONAL PAID-IN CAPITAL			
I Additional paid-in capital, beginning of year			180,027
II Decrease in additional paid-in capital:			
Loss on reissuance of treasury stock		169	169
IV Additional paid-in capital, end of year			179,858
RETAINED EARNINGS			
I Retained earnings, beginning of year			956,658
II Increase in retained earnings:			
Net income		87,692	87,692
III Decrease in retained earnings:			
1. Cash dividends		17,311	
2. Share transfer payment		17,167	
3. Bonuses to directors and corporate auditors		405	
4. Retirement of treasury stock		72,419	
5. Loss on reissuance of treasury stock		298	
6. Decrease due to changes in scope of consolidation		235	107,837
IV Retained earnings, end of year			936,513

Consolidated Statement of Changes in Net Assets

Fiscal 2006 (for the year ended March 31, 2007) (Millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in-capital	Retained earnings	Treasury stock at cost	Total shareholders' capital
Balance as of March 31, 2006	50,000	179,858	936,513	(9,832)	1,156,539
Changes during the fiscal year					
Dividends (Note)			(18,226)		(18,226)
Dividends			(21,870)		(21,870)
Directors’ and corporate auditors' bonuses (Note)			(343)		(343)
Net income			78,549		78,549
Acquisition of treasury stock				(172)	(172)
Reissuance of treasury stock		2		7	10
Reduction due to addition of new subsidiaries to scope of consolidation			(3,007)		(3,007)
Reduction due to decrease in number of equity-method affiliates			(131)		(131)
Changes other than shareholders’ capital, net					–
Total changes during the fiscal year	–	2	34,970	(164)	34,807
Balance as of March 31, 2007	50,000	179,860	971,483	(9,997)	1,191,346

	Valuation translation and other adjustments			Minority interests	Total net assets
	Net unrealized gain on investment securities	Foreign currency translation adjustments	Total valuation translation and other adjustments		
Balance as of March 31, 2006	80,254	735	80,989	11,609	1,249,138
Changes during the fiscal year					
Dividends (Note)					(18,226)
Dividends					(21,870)
Directors’ and corporate auditors' bonuses (Note)					(343)
Net income					78,549
Acquisition of treasury stock					(172)
Reissuance of treasury stock					10
Reduction due to addition of new subsidiaries to scope of consolidation					(3,007)
Reduction due to decrease in number of equity-method affiliates					(131)
Changes other than shareholders’ capital, net	(7,895)	4,216	(3,679)	(8,118)	(11,797)
Total changes during the fiscal year	(7,895)	4,216	(3,679)	(8,118)	23,009
Balance as of March 31, 2007	72,358	4,951	77,310	3,491	1,272,148

(Note) These items are the appropriation of retained earnings resolved at the annual meeting of shareholders held in June 2006.

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	See Note	Fiscal 2005 (For the year ended March 31, 2006) Amount	Fiscal 2006 (For the year ended March 31, 2007) Amount	Change Amount
I Cash flows from operating activities:				
Net income before income taxes and minority interests		136,892	126,912	
Depreciation		41,128	39,986	
Loss on impairment of property, plant and equipment		5,253	4,916	
Amortization of goodwill		1,424	3,595	
Increase (decrease) in allowance for doubtful accounts		(27)	5	
Decrease in accrued retirement and severance benefits		(3,314)	(28,547)	
Increase (decrease) in prepaid pension costs		(1,813)	(714)	
Interest and dividend income		(5,322)	(11,273)	
Interest expense		313	251	
Gain (loss) on sales of investment securities		–	(8,562)	
Gain (Loss) on sales of investments in affiliates		–	(58,076)	
(Gain) loss on sales of property, plant and equipment		653	(692)	
Loss on penalty and settlement		1,125	–	
Equity in net income(losses) of affiliated companies		349	17	
Decrease in trade notes and accounts receivable		11,651	16,794	
Decrease in inventories		8,251	1,684	
Increase (decrease) in trade notes and accounts payable		(6,990)	3,294	
Increase in accounts payable and accrued expense		–	56,551	
Other, net		(7,661)	11,391	
Subtotal		181,914	157,537	(24,376)
Interest and dividends received		5,285	11,099	
Interest paid		(313)	(251)	
Penalty and legal settlement paid		(1,125)	–	
Income taxes paid		(53,001)	(61,954)	
Net cash provided by operating activities		132,759	106,429	(26,330)

(Millions of yen)

	See Note	Fiscal 2005 (For the year ended March 31, 2006) Amount	Fiscal 2006 (For the year ended March 31, 2007) Amount	Change Amount
II Cash flows from investing activities:				
Purchases of time deposits		(5,140)	(6,620)	
Proceeds from maturities in time deposits		4,409	5,403	
Purchases of marketable securities		(86,578)	(148,217)	
Proceeds from sales of marketable securities		119,972	165,048	
Acquisitions of property, plant and equipment		(41,798)	(28,066)	
Proceeds from sales of property, plant and equipment		5,471	11,449	
Acquisitions of intangible assets		(6,788)	(14,886)	
Acquisitions of investment securities		(38,975)	(37,482)	
Proceeds from sales of investment securities		16,095	14,157	
Acquisition of investments in subsidiaries from minority interests		(10,268)	(570)	
Acquisition of investments in newly consolidated subsidiaries		–	(27,210)	
Proceeds from sales of investments in consolidated subsidiaries resulting in changes in scope of consolidation		642	91,019	
Net decrease (increase) in short-term loans receivable		–	16,136	
Payment for loans receivable		(2,451)	(1,365)	
Proceeds from collection of loans receivable		1,837	5,893	
Other, net		4,313	16,616	
Net cash provided by (used in) investing activities		(39,258)	45,305	84,564
III Cash flows from financing activities:				
Net increase (decrease) in short-term bank loans		(2,286)	1,312	
Proceeds from long-term debt		1,110	–	
Repayments of long-term debt		(1,204)	(297)	
Purchases of treasury stock		(16,610)	(172)	
Proceeds from sale of treasury stock		2,919	10	
Dividends paid		(17,326)	(40,049)	
Share transfer payments		(17,167)	–	
Other, net		460	(1,571)	
Net cash used in financing activities		(50,106)	(40,768)	9,337
IV Effect of exchange rate changes on cash and cash equivalents		3,793	399	(3,394)
V Net increase in cash and cash equivalents		47,188	111,365	64,177
VI Cash and cash equivalents, beginning of year		354,102	400,967	46,865
VII Increase (decrease) in cash and cash equivalents due to changes in scope of consolidation		(322)	877	1,200
VIII Cash and cash equivalents, end of year		400,967	513,211	112,243

Basis of Presentation and Summary of Significant Accounting Policies for the Preparation of Consolidated Financial Statements

Item	Fiscal 2005 (For the year ended March 31, 2006)	Fiscal 2006 (For the year ended March 31, 2007)
1. Scope of consolidation	(1) Consolidated subsidiaries: 57 Principal consolidated subsidiaries: In Japan Sankyo Co., Ltd. Daiichi Pharmaceutical Co., Ltd. Daiichi Asubio Pharma. Co., Ltd., Daiichi Fine Chemical Co., Ltd. Daiichi Radioisotope Laboratories, Ltd. Daiichi Pure Chemicals Co., Ltd., Daiichi Pharmatech Co., Ltd. Wakodo Co., Ltd. Sankyo Agro Co., Ltd. Nippon Nyukazai Co., Ltd. Sankyo Lifetech Co., Ltd. Overseas Daiichi Sankyo, INC. Luitpold Pharmaceuticals, Inc. Sankyo Pharma GmbH Nippon Daiya Valve Co., Ltd., Kyushu Sankyo Co., Ltd. and Sankyo Foods Co., Ltd., which were consolidated subsidiaries of Sankyo Co. Ltd. were excluded from the scope of consolidation because of the sale of their shares and other reasons. F.P Kakou Co., Ltd. was excluded from the scope of consolidation in this fiscal year because of the sale of their shares. In addition, Daiichi Pharmaceutical Co. Ltd. sold off a part of its investments in two subsidiaries, Tokyo Iyaku Shiki Co., Ltd. and Nishimura Shiki Co. Consequently, the Company has excluded the two companies from consolidation and now accounts for them under the equity method. Daiichi Fine Chemicals Inc. completed its liquidation procedures and is no longer consolidated. Dismed AG, previously a consolidated subsidiary of Sankyo Co., Ltd., merged with another consolidated subsidiary, as did the following four former consolidated subsidiaries of Daiichi Pharmaceutical Co., Ltd.: Kansai Daiichi Service Co., Ltd.; Daiichi Technos Co., Ltd.; Daiichi Suntory Biomedical Research Ltd.; and Daiichi Pharmaceutical (China) Co., Ltd. On March 31, 2006, Sankyo Pharma, Inc., a consolidated subsidiary of Sankyo Co., Ltd., and Daiichi Pharma Holdings, Inc., Daiichi Pharmaceutical Corporation, and Daiichi Medical Research, Inc., the latter three former consolidated subsidiaries of Daiichi Pharmaceutical Co., Ltd., merged to form Daiichi Sankyo, INC. The Company also began consolidating Daiichi Sankyo Healthcare Co., Ltd., Sankyo Grundstücks GmbH & Co. and Object München AG, which was established during the year.	(1) Consolidated subsidiaries: 54 Principal consolidated subsidiaries: In Japan Sankyo Co., Ltd. Daiichi Pharmaceutical Co., Ltd. Daiichi Asubio Pharma. Co., Ltd. Daiichi Fine Chemical Co., Ltd. Zepharma Inc. Daiichi Pharmatech Co., Ltd. Daiichi Sankyo Healthcare Co., Ltd. Nippon Nyukazai Co., Ltd. Overseas Daiichi Sankyo, INC. Luitpold Pharmaceuticals, Inc. DAIICHI SANKYO EUROPE GmbH Due to the sale of shares in Wakodo Co., Ltd., Fuji Flour Milling Co., Ltd. and four other companies, these subsidiaries were excluded from the scope of consolidation from the beginning of this fiscal year, yet they were included as part of retained earnings as of the beginning of the year. Sankyo Agro Co., Ltd., Daiichi Radioisotope Laboratories, Ltd., Daiichi Pure Chemicals Co., Ltd. and four other subsidiaries were excluded from the scope of consolidation during this fiscal year due to the sale of their shares. Formerly non-consolidated subsidiaries, Shanghai Sankyo Pharmaceuticals Co., Ltd. and Taiwan Sankyo Pharmaceutical Co., Ltd., were newly included in the scope of consolidation from the beginning of this fiscal year due to their increased materiality. Zepharma Inc., which was acquired in this fiscal year, was newly included in the scope of consolidation from the beginning of the fiscal year. Daiichi Sankyo Propharma Co., Ltd. and six other companies, which were all established during this fiscal year, were also newly included in the scope of consolidation.

Item	Fiscal 2005 (For the year ended March 31, 2006)	Fiscal 2006 (For the year ended March 31, 2007)
	(2) Non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd., Godo Real Estate Co. Ltd. and Shanghai Sankyo Pharmaceuticals Co., Ltd.) are small and are not material to the consolidated financial statements when measured by the amounts of total assets, net sales, net income (based on the Company's ownership percentage), retained earnings (based on the Company's ownership percentage), and other indicators. They have therefore been excluded from the scope of consolidation.	(2) Non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd. and Godo Real Estate Co. Ltd.) are small and are not material to the consolidated financial statements when measured by the amounts of assets, sales, net income (based on the Company’s ownership percentage), retained earnings (based on the Company’s ownership percentage), and other indicators. They have therefore been excluded from the scope of consolidation.
2. Application of the Equity Method	(1) Non-consolidated subsidiaries accounted for under the equity method: 0 Affiliated companies accounted for under the equity method: 5 Name of principal company: Sanofi Pasteur Daiichi Vaccine Co., Ltd (2) Net income (based on the Company's equity percentage), retained earnings (based on the Company's equity percentage), and other indicators of those non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd., Godo Real Estate Co. Ltd. and Shanghai Sankyo Pharmaceuticals Co., Ltd.) and affiliated companies (including Tokyo Yakugyo Kaikan Co., Ltd.) that have not been accounted for under the equity method are not material or significant to the Company as a whole. Therefore, these companies have not been accounted for under the equity method, but are rather reported in the Company's investment account under the cost method.	(1) Non-consolidated subsidiaries accounted for under the equity method: 0 Affiliated companies accounted for under the equity method: 3 Names of principal company: Sanofi Pasteur Daiichi Vaccine Co., Ltd Two affiliated companies were excluded from the scope of application of the equity method because of decreases of investment equity resulting from the sale of their shares. (2) Net income (based on the Company's equity percentage), retained earnings (based on the Company's equity percentage), and other indicators of those non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd. and Godo Real Estate Co. Ltd.) and affiliated companies (including Tokyo Yakugyo Kaikan Co., Ltd.) that have not been accounted for under the equity method are not material or significant to the Company as a whole. Therefore, these companies have not been accounted for under the equity method, but are rather reported in the Company's investment account under the cost method.
3. Interim Period-End of Consolidated Subsidiaries	The fiscal year-end of certain consolidated subsidiaries is December 31. In preparing the consolidated financial statements, the Company uses the financial statements of these companies as of their fiscal year-end. For major intervening transactions that occurred between the fiscal year-end of those companies and March 31, appropriate adjustments have been made in the consolidated financial statements. Name of subsidiaries that have fiscal year-end on December 31: Luitpoid Pharmaceuticals, Inc., Daiichi Asubio Pharmaceuticals, Inc., Sankyo Pharma GmbH and its 12 subsidiaries as well as Daiichi Pharmaceutical (Beijing) Co., Ltd. and 5 other subsidiaries. Following its merger with Daiichi Pharma Holdings, Inc. et al, Sankyo Pharma, Inc. changed its fiscal-year end to March 31. However, for the current fiscal year, the Company consolidated Sankyo Pharma’s financial statements as of December 31, 2005.	The fiscal year-end of certain consolidated subsidiaries is December 31. In preparing the consolidated financial statements, the Company uses the financial statements of these companies as of their fiscal year-end. For major intervening transactions that occurred between the fiscal year-end of those companies and March 31, appropriate adjustments have been made in the consolidated financial statements. Name of subsidiaries that have fiscal year-end on December 31: Daiichi Asbio Pharmaceutical, INC. DAIICHI SANKYO EUROPE GmbH, and its 11 subsidiaries as well as Daiichi Pharmaceutical (Beijing) Co., Ltd., shanghai Sankyo Pharmaceuticals Co., Ltd. and 5 other subsidiaries.

Item	Fiscal 2005 (For the year ended March 31, 2006)	Fiscal 2006 (For the year ended March 31, 2007)
		(Supplemental Information) Daiichi Sankyo INC. and Luitpold Pharmaceuticals Inc. changed their fiscal year-end from December 31 to March 31 effective this fiscal year. As a result, while the financial statements of these subsidiaries as of December 31, 2005 were used in the preparation of the Consolidated Financial Statements for the fiscal year ended March 2006, due to this change in fiscal year-end, the consolidated financial statements for the fiscal year ended March 2007 include 15-month results of the two subsidiaries (for the period from January 1, 2006 to March 31, 2007). The net effect of this change in fiscal year-end on the consolidated statement of income for the fiscal year ended March 31, 2006 was an increase in net sales, operating income, ordinary income, income before income taxes and minority interests, and net income of ¥31,514 million, ¥9,030 million, ¥10,575 million, ¥9,587 million and ¥5,830 million, respectively.

Please note that information other than the scope of consolidation, the application of the equity method and the fiscal year-end of consolidated subsidiaries has been omitted herein because there were no significant changes. Please refer to the relevant section of the Company's most recent Securities Report (*yuka-shoken-hokokusho*) filed with the Financial Services Agency on June 29, 2006.

Changes in the Basis of Presentation and Significant Accounting Policies for the Preparation of Consolidated Financial Statements

Fiscal 2005 (For the year ended March 31, 2006)	Fiscal 2006 (For the year ended March 31, 2007)
――――――	(Accounting Standard for Directors' and Corporate Auditors' Bonus) Under the previous accounting standard, bonuses to directors and corporate auditors were recorded as appropriations of retained earnings. Effective in the fiscal year ended March 2007, the Company adopted the provisions of "the ASBJ Accounting Standard for Directors' Bonuses" (ASBJ Statement No. 4; November 29, 2005), under which such bonuses are expensed as incurred on an accrual basis. As a result of adopting this accounting standard, each of operating income, ordinary income and net income before income taxes was decreased by ¥305 million for the year ended March 31, 2007.
――――――	(Accounting Standard for Presentation of Net Assets in the Balance Sheet) Effective in the fiscal year ended March 2007, the Company adopted the provisions of "the ASBJ Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Statement No. 5; December 9, 2005) and the related "Implementation Guidance on the Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8; December 9, 2005). Total shareholders' equity at March 31, 2007 that would have otherwise been reported under the previous accounting standard was ¥ 1,268,656 million. The presentation of net assets in the consolidated balance sheets as of March 2007 conforms to the requirements of the corporate accounting regulations (Ministry of Justice Regulation No. 13 dated February 7, 2006).
――――――	(Accounting Standard for Business Combination) Effective from the fiscal year ended March 2007, the Company 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).

Changes in Presentation

Fiscal 2005 (For the year ended March 31, 2006)	Fiscal 2006 (For the year ended March 31, 2007)
――――――	**Consolidated Balance Sheets** Accounts payable (¥39,491 million in the previous year) which was included in "Other current liabilities" in the previous year, has been presented as a separate line item in this fiscal year because the balance became more than 5 percent of total liabilities and net assets.
――――――	**Consolidated statements of income** Rent income, which was presented as a separate line item under non-operating income for the fiscal year ended March 2006, was included in "Other income" for the fiscal year ended March 2007 because the amount involved (¥1,062 million for this fiscal year) represented less than 10% of total non-operating income for the fiscal year.
――――――	**Consolidated Statements of Cash Flows** "Gain on sales of investment securities" (¥(673) million for the fiscal year ended March 2006), "Gain on sales of investments in affiliates" (¥(804) million for the fiscal year ended March 2006), and "Decrease in accounts payable and accrued expense" (¥(3,361) million for the fiscal year ended March 2006) that were included in "Other, net" under cash flows from operating activities in the prior fiscal year, have been presented as separate line items in this fiscal year because of their increased materiality.

(Notes to Consolidated Statements of Income)

Fiscal 2005
(Year ended March 31, 2006)

*1. Breakdown of research and development expenses included in selling, general and administrative expenses and manufacturing overhead expenses

	(Millions of yen)
Selling, general and administrative expenses	158,716
Manufacturing overhead expenses	–

*2. Breakdown of gain on sale of property, plant and equipment

	(Millions of yen)
Buildings and structures	1
Machinery, equipment and vehicles	33
Land	4,860
Other	2

*3. Breakdown of loss on disposal of property, plant and equipment

	(Millions of yen)
Buildings and structures	1,773
Machinery, equipment and vehicles	422
Land	44
Other	514
Other intangible assets	1,308

In addition, expenses for disposal of property, plant and equipment totaled ¥1,487 million.

*4. Loss on business integration
The loss represents one-time costs associated with integration of the pharmaceutical operations of the Sankyo Group and the Daiichi Group. The amount consisted of the following:

	(Millions of yen)
Expenses associated with the integration of overseas operations	7,086
Expenses associated with the integration of healthcare business	968
Other research and consulting expenses	1,838

Fiscal 2006
(Year ended March 31, 2007)

*1. Breakdown of research and development expenses included in selling, general and administrative expenses and manufacturing overhead expenses

	(Millions of yen)
Selling, general and administrative expenses	170,662
Manufacturing overhead expenses	–

*2. Breakdown of gain on sale of property, plant and equipment

	(Millions of yen)
Buildings and structures	11
Machinery, equipment and vehicles	13
Land	4,286
Other	2

*3. Breakdown of loss on disposal of property, plant and equipment

	(Millions of yen)
Buildings and structures	1,075
Machinery, equipment and vehicles	798
Land	899
Other	327
Other intangible assets	25

In addition, expenses for disposal of property, plant and equipment totaled ¥497 million.

*4. Loss on business integration
The loss represents one-time costs associated with integration of the pharmaceutical operations of the Sankyo Group and the Daiichi Group. The amount consisted of the following:

	(Millions of yen)
Supplemental retirement benefits etc.	54,211
IT system related expenses	11,096
Expenses associated with the consolidation and closure of operating locations	3,255
Expenses associated with the integration of overseas operations	3,225
Expenses associated with the integration of healthcare business	3,353
Other research and consulting expenses	7,336

Fiscal 2005
(Year ended March 31, 2006)

*5. Loss on impairment of property, plant and equipment

The Daiichi Sankyo Group (the Company and consolidated subsidiaries) classifies its assets held and used for its business operations into asset groups on the basis of operating segments in the management reporting in consideration of similarities of products or operating activities, consistency within the Group, and future maintenance sustainability. On the other hand, leased assets and idle assets that are not directly used for its business operations are grouped on a properly by properly basis.

For the current fiscal year, the Daiichi Sankyo Group recorded an impairment loss on the following asset groups:

Location	Function	Asset Type	Status
Iwaki, Fukushima	Onahama Plant (manufacturing facilities of pharmaceuticals)	Buildings and structures Machinery, equipment and vehicles	Idle
Shiraishi-ku, Sapporo	Former Sapporo Distribution Center facility	Land	Idle
Shimotsuke Tochigi	Former Tochigi Research Center facility	Buildings, land, etc.	Idle
Tsuchiura, Ibaraki	Company housing, etc.	Land	Idle
Sanbu-gun, Chiba	Chiba plant site	Land	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 ¥5,253 million were recorded as a loss on impairment in the extraordinary losses.

The impairment loss consisted of ¥2,442 million associated with buildings and structures, ¥1,888 million associated with machinery, equipment and vehicles, ¥901 million associated with land and ¥20 million associated with other assets.

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

*6. Restructuring charge

To concentrate on the pharmaceutical business, the Company has been carrying out a reorganization of its peripheral businesses. As part of this reorganization, the Company sold certain investments in affiliated companies. Restructuring charge includes a loss on such sales of investments and expenses paid to external advisers.

*7. Provision for contingent losses

The amount represents an estimated amount of penalty arising out of the product purchase commitments that contain a minimum purchase provision.

*8. Loss on settlement of vitamin-related anti-trust litigations

The amount represents fines resulting from an unsuccessful appeal against the EC ruling that the Company participated in a vitamin cartel.

Fiscal 2006
(Year ended March 31, 2007)

*5. Loss on impairment of property, plant and equipment

The Daiichi Sankyo Group (the Company and consolidated subsidiaries) classifies its assets held and used for its business operations into asset groups on the basis of operating segments in the management reporting in consideration of similarities of products or operating activities, consistency within the Group, and future maintenance sustainability. On the other hand, leased assets and idle assets that are not directly used for its business operations are grouped on a properly by properly basis.

For the current fiscal year, the Daiichi Sankyo Group recorded an impairment loss on the following asset groups:

Location	Function	Asset Type	Status
Shimotsuke, Tochigi	Former Tochigi Research Center facility	Buildings, etc.	Idle
Tosu, Saga	Former Kyuhsu Distribution Center facility	Buildings, land, etc.	Idle
Kasukabe, Saitama	Former Tokyo Distribution Center facility	Buildings	Idle
Iwaki, Fukushima, etc.	Dormitory/ recuperation 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 ¥4,916 million were recorded as a loss on impairment in the extraordinary losses.

The impairment loss consisted of ¥2,103 million associated with buildings and structures, ¥32 million associated with machinery, equipment and vehicles, ¥407 million associated with land, ¥4 million associated with other assets and ¥2,368 million associated with software.

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

*6. Restructuring charge

Same as Fiscal 2005

*7. Provision for contingent losses

Same as Fiscal 2005

*8. Loss on settlement of vitamin-related anti-trust litigations

―――――

(Segment Information)

a. Information by Operating Segment

(Millions of yen)

Fiscal 2005 (Year ended March 31, 2006)	Pharmaceuticals	Other	Total	Eliminations & corporate	Consolidated
I Net sales and operating income					
Net sales					
(1) Outside customers	784,666	141,251	925,918	–	925,918
(2) Inter-segment sales and transfers	790	4,024	4,814	(4,814)	–
Total	785,457	145,275	930,733	(4,814)	925,918
Operating expenses	637,342	139,129	776,472	(5,282)	771,190
Operating income	148,114	6,146	154,260	467	154,728
II Assets, depreciation and capital expenditures					
Assets	1,429,425	169,659	1,599,084	(2,957)	1,596,126
Depreciation	35,795	5,333	41,128	–	41,128
Impairment loss	5,253	–	5,253	–	5,253
Capital expenditures	28,967	6,408	35,375	–	35,375

(Millions of yen)

Fiscal 2006 (Year ended March 31, 2007)	Pharmaceuticals	Other	Total	Eliminations & corporate	Consolidated
I Net sales and operating income					
Net sales					
(1) Outside customers	837,115	92,391	929,506	–	929,506
(2) Inter-segment sales and transfers	352	3,297	3,650	(3,650)	–
Total	837,467	95,689	933,157	(3,650)	929,506
Operating expenses	706,098	91,312	797,411	(4,218)	793,193
Operating income	131,369	4,376	135,745	567	136,313
II Assets, depreciation and capital expenditures					
Assets	1,559,252	78,964	1,638,216	(1,381)	1,636,835
Depreciation	36,569	3,417	39,986	–	39,986
Impairment loss	4,916	–	4,916	–	4,916
Capital expenditures	42,397	3,886	46,283	–	46,283

(Notes)

1. Method of classifying operating segments: Classification into ‘Pharmaceuticals’ and ‘Other’ is based on consideration of product type, market characteristics and other factors.
2. Principal products in each operating segment

   Pharmaceuticals: Prescription drugs and medicine, and healthcare products
   Other: Food products, agrochemicals, chemicals, and other
3. Change in accounting policies

   Fiscal 2006

   As disclosed in the Changes in Significant Accounting Principles and Policies for the Preparation of Consolidated Financial Statements effective in the fiscal year ended March 2007 the Company adopted the ASBJ Accounting Standard for Directors’ Bonuses (ASBJ Statement No. 4; November 29, 2005). Compared with the previous accounting method, the effect of adopting this standard was to increase operating expenses in the “Pharmaceuticals” segment by ¥231 million and in the “Other” segment by ¥74 million, and to decrease operating income in the respective operating segments by the same amounts.

b. Information by Geographic Segment

(Millions of yen)

Fiscal 2005 (Year ended March 31, 2006)	Japan	North America	Other	Total	Eliminations & corporate	Consolidated
I Net sales and operating income						
Net sales						
(1) Outside customers	752,793	116,061	57,063	925,918	–	925,918
(2) Inter-segment sales and transfers	21,553	18,212	5,805	45,572	(45,572)	–
	774,347	134,274	62,869	971,490	(45,572)	925,918
Operating expenses	644,098	108,816	62,690	815,605	(44,414)	771,190
Operating income	130,249	25,457	178	155,885	(1,157)	154,728
II Assets	1,452,287	132,455	59,040	1,643,783	(47,656)	1,596,126

(Millions of yen)

Fiscal 2006 (Year ended March 31, 2007)	Japan	North America	Other	Total	Eliminations & corporate	Consolidated
I Net sales and operating income						
Net sales						
(1) Outside customers	667,851	191,466	70,188	929,506	–	929,506
(2) Inter-segment sales and transfers	81,943	41,239	17,044	140,227	(140,227)	–
	749,795	232,706	87,232	1,069,734	(140,227)	929,506
Operating expenses	637,080	195,421	79,602	912,104	(118,910)	793,193
Operating income	112,714	37,285	7,630	157,630	(21,316)	136,313
II Assets	1,454,251	183,523	94,756	1,732,531	(95,696)	1,636,835

(Notes)

1. Method of classifying geographic segments
   Geographic segments are classified on the basis of geographic proximity.
2. Countries and regions included in each segment other than Japan
   North America: the United States
   Other: Germany, the United Kingdom, France, Spain, Italy, Taiwan and others
3. Change in accounting policies
   Fiscal 2006
   As disclosed in the Changes in the Basis of Presentation and Significant Accounting Policies for the Preparation of Consolidated Financial Statements, effective from the fiscal year ended March 2007 the Company adopted the ASBJ Accounting Standard for Directors' Bonuses (ASBJ Statement No. 4; November 29, 2005). Compared with the previous accounting method, the effect of adopting this standard was to increase operating expenses in the "Japan" segment by ¥305 million and to decrease operating income by the same amount.

c. Overseas Sales

(Millions of yen)

Fiscal 2005 (For the year ended March 31, 2006)	North America	Europe	Other Areas	Total
Overseas net sales	182,614	98,440	26,210	307,265
Consolidated net sales				925,918
Percentage of overseas net sales to consolidated net sales (%)	19.7	10.6	2.9	33.2

(Millions of yen)

Fiscal 2006 (For the year ended March 31, 2007)	North America	Europe	Other Areas	Total
Overseas net sales	241,850	84,327	30,523	356,700
Consolidated net sales				929,506
Percentage of overseas net sales to consolidated net sales (%)	26.0	9.1	3.3	38.4

(Notes)

1. Method of classifying countries and regions
   Countries and regions are classified on the basis of geographic proximity.
2. Countries and regions included in each area
   North America: the United States and Canada
   Europe: Germany, the United Kingdom, Spain, Italy, Ireland, France, Switzerland and others
   Other areas: Asia, the Middle East, Latin America and others
3. Overseas net sales are sales of the Company and its consolidated subsidiaries which were transacted in countries or regions outside of Japan.

(Per Share Information)

Fiscal 2005 (Year ended March 31, 2006)		Fiscal 2006 (Year ended March 31, 2007)	
Net assets per share	¥1,696.97	Net assets per share	¥1,740.26
Net income per share (basic)	¥119.49	Net income per share (basic)	¥107.75
Net income per share (diluted)	¥119.47	Diluted net income per share is not presented, because the Company does not have any dilutive shares.	

(Note) Calculations of basic and diluted net income per share were based on the following numerators and denominators:

	Fiscal 2005 (Year ended March 31, 2006)	Fiscal 2006 (Year ended March 31, 2007)
Net income per share (basic):		
Net income (millions of yen)	87,692	78,549
Amount not available for common shareholders (millions of yen)	350	–
(Including directors' and corporate auditors' bonuses paid from net income of) (millions of yen)	[350]	–
Net income available for dividends on common shares (millions of yen)	87,342	78,549
Weighted-average number of common shares outstanding during the year (1,000 shares)	730,938	729,029
Net income per share (diluted):		
Adjustments to net income (millions of yen)	–	–
Additional dilutive common shares (1,000 shares)	136	–
Including dilutive effect of stock options of (1,000 shares)	[136]	–
Descriptions of potentially dilutive common shares that were not included in the computation of diluted net income per share because of their anti-dilutive effect	Two share subscription right plans (related to 1,001 thousand shares) issued by Daiichi and one share purchase option plan (related to 3,760 units of options) issued by Sankyo. All outstanding stock options have been cancelled prior to the fiscal year-end.	――――

(Subsequent Events)

Fiscal 2005 (For the year ended March 31, 2006)	Fiscal 2006 (For the year ended March 31, 2007)
1. Acquisition of Zepharma Inc. The Company and Astellas Pharma Inc. agreed that the Company would acquire all of the outstanding shares of Zepharma Inc., a wholly-owned subsidiary of Astellas Pharma Inc. A written agreement was entered into on March 31, 2006, and the transaction was closed on April 13, 2006. (1) Purpose of acquisition To strengthen the healthcare business in the area of non-prescription drugs (2) Name of company selling the shares Astellas Pharma Inc. (3) Name of the company acquired; nature of business; and its size Name: Zepharma Inc. Nature of business: Development and sale of drugs, non-prescription drugs, cosmetics, foods, etc. Capital: ¥300 million Sales: ¥22.0 billion (Amount for the year ended March 31, 2006) (4) Date of acquisition April 13, 2006 (5) Number of shares purchased; cost of acquisition; and percentage of ownership held upon acquisition Number of shares purchased: 6,000 shares Cost of acquisition: ¥35.5 billion Percentage of ownership held upon acquisition: 100% (6) Source of financing The full amount was paid out of on-hand cash	―――

Fiscal 2005 (For the year ended March 31, 2006)	Fiscal 2006 (For the year ended March 31, 2007)
2. Sale of Wakodo Co., Ltd. At its Board of Directors' Meeting held on April 24, 2006, Sankyo Co., Ltd., a wholly owned subsidiary of the Company, approved to apply for a sale of the shares of its subsidiary, Wakodo Co., Ltd., in response to a tender offer to be made by Asahi Breweries, Ltd. for Wakodo shares. The sale of the shares was completed with the conclusion of the tender offer in May 2006. (1) Reasons for sale To concentrate management resources on the pharmaceutical business, the Company has been reassessing its involvement in non-pharmaceutical businesses. In the course of this reassessment, a tender offer to purchase Wakodo Co. Ltd.'s shares was proposed by Asahi Breweries, Ltd., who has valued highly of both the nature of Wakodo's business and the growth prospects of that business. The Company has concluded to accept the tender offer taking into consideration Asahi Breweries' management's pursuit of customer satisfaction and quality, its technologies and know-how, and its variety of sales channels that would contribute to the future development of Wakodo's business, as well as the price and other terms of the tender offer. (2) Name of buyer Asahi Breweries, Ltd. (3) Date of sale April 25, 2006 Date of public notice of the tender offer May 15, 2006 Last day of the tender offer period May 19, 2006 Commencement date of settlement (4) Name of subsidiary; nature of business; and nature of transactions with the Company Name: Wakodo Co., Ltd. Nature of business: Manufacture and sale of powdered baby milk; baby foods; vending machine foods; household food items; commercial-use milk powder; pharmaceuticals; non-prescription drugs; cosmetics; sanitary goods; and general merchandise Transactions with the Company: None (5) Number of shares to be sold; sale price; gain or loss on sale and ownership percentage upon disposition Number of shares to be sold: 3,533,000 Sale price: ¥27.9 billion Gain on sales: ¥19.8 billion Ownership percentage upon disposition: 0%	―――――

Footnote information relating to lease transactions, marketable and investment securities, derivative transactions, retirement benefits, stock options, income taxes and related-party transactions has been omitted herein as such additional disclosure is not considered necessary for fair presentation of this report of consolidated financial results.

5. Non-Consolidated Financial Statements

(1) Non-Consolidated Balance Sheets

(Millions of yen)

		As of March 31, 2006			As of March 31, 2007			Change
	See Note	Amount		%	Amount		%	
ASSETS								
I Current assets:								
1. Cash and time deposits			41,900			5,320		
2. Prepaid expenses			–			286		
3. Deferred tax assets			172			349		
4. Other receivables			1.380			574		
5. Income tax refunds receivable			14,541			–		
6. Other current assets			193			2		
Total current assets			58,187	4.8		6,532	0.5	(51,654)
II Non-current assets								
1. Property and equipment		32			32			
(1) Buildings		4	27		14	18		
Less accumulated depreciation		12			13			
(2) Furniture, tools and fixtures		1	11		4	8		
Less accumulated depreciation			39	0.0		27	0.0	(12)
Total property and equipment, net								
2. Intangible assets, net								
(1) Trade marks			296			278		
(2) Other			0			0		
Total intangible assets, net			296	0.0		278	0.0	(18)
3. Investments and other assets:								
(1) Investments in affiliated companies			1,150,654			1,183,019		
(2) Investment securities, other than stock			–			3		
(3) Deferred tax assets			16			13		
(4) Other assets			83			95		
Total investments and other assets			1,150,755	95.2		1,183,131	99.5	32,376
Total non-current assets			1,151,090	95.2		1,183,436	99.5	32,345
Total assets			1,209,278	100.0		1,189,969	100.0	(19,308)

(Millions of yen)

	See Note	As of March 31, 2006 Amount		%	As of March 31, 2007 Amount		%	Change
LIABILITIES								
I Current liabilities:								
1. Short-term borrowings			–			25,000		
2. Accounts payable			2,110			1,387		
3. Accrued expenses			165			383		
4. Income taxes payable			138			290		
5. Consumption taxes payable			45			27		
6. Advance receipts			8			11		
Total current liabilities			2,467	0.2		27,100	2.3	24,632
Total liabilities			2,467	0.2		27,100	2.3	24,632
SHAREHOLDERS' EQUITY								
I Common stock			50,000	4.1		–	–	–
II Additional paid-in-capital:								
1. Capital surplus		1,083,349			–			
2. Other capital surplus:								
(1) Gain on reissuance of treasury stock		0			–			
Total additional paid-in-capital			1,083,350	89.6		–	–	–
III Retained earnings:								
1. Unappropriated retained earnings		73,545			–			
Total retained earnings			73,545	6.1		–	–	–
IV Treasury stock at cost			(84)	(0.0)		–	–	–
Total shareholders' equity			1,206,810	99.8		–	–	–
Total liabilities, and shareholders' equity			1,209,278	100.0		–	–	–
NET ASSETS								
I Shareholders' capital:								
1. Common stock			–	–		50,000	4.2	
2. Additional paid-in-capital:								
(1) Capital surplus		–			179,858			
(2) Other additional paid-in capital		–			903,494			
Total additional paid-in-capital			–	–		1,083,352	91.0	
3. Retained earnings:								
(1) Other retained earnings:								
Retained earnings carried forward		–			29,766			
Total retained earnings			–	–		29,766	2.5	
4. Treasury stock at cost:			–	–		(249)	(0.0)	
Total shareholders' capital			–	–		1,162,869	97.7	–
Total net assets			–	–		1,162,869	97.7	–
Total liabilities and net assets			–	–		1,189,969	100.0	–

(2) Non-Consolidated Statements of Income

(Millions of yen)

		Fiscal 2005 (Year Ended March 31, 2006)			Fiscal 2006 (Year Ended March 31, 2007)			Change
	See Note	Amount		%	Amount		%	
I Operating revenue								
1. Management fee income		3,155			6,141			
2. Dividend income		73,501	76,656	100.0	―	6,141	100.0	(70,514)
II Operating expenses:								
1. Directors' and corporate auditors' compensation, salaries and bonuses		528			1,233			
2. Retirement and severance costs		30			75			
3. Welfare benefit expenses		57			130			
4. Depreciation expense		22			45			
5. Outsourcing service fees		440			1,482			
6. Corporate advertising expenses		869			1,714			
7. Other		758	2,707	3.5	1,099	5,780	94.1	3,072
Operating income			73,948	96.5		361	5.9	(73,587)
III Non-operating income								
1. Interest income		2			34			
2. Additional income tax refunds		―			42			
3. Other income		2	4	0.0	0	77	1.3	73
IV Non-operating expenses								
1. Interest expense		―			168			
2. Start-up costs		361			―			
3. Other expenses		0	361	0.5	―	168	2.8	(192)
Ordinary income			73,591	96.0		269	4.4	(73,321)
V Extraordinary gains			―	―		―	―	
VI Extraordinary losses								
1. Loss on elimination upon merger of investments in affiliated companies		―	―	―	3,488	3,488	56.8	3,488
Net income (loss) before income taxes			73,591	96.0		(3,218)	(52.4)	(76,809)
Income tax expense―current		235			311			
Income tax expense―deferred		(189)	45	0.1	(173)	137	2.2	91
Net income (loss)			73,545	95.9		(3,355)	(54.6)	(76,901)
Unappropriated retained earnings, end of year			73,545			―		

(3) Non-Consolidated Statement of Appropriation of Retained Earnings and Statement of Changes in Net Assets

Non- Consolidated Statement of Appropriation of Retained Earnings

(Millions of yen)

		Fiscal 2005 (Year Ended March 31, 2006)	
		Approval date at the annual meeting of shareholders: June 29, 2006	
	See Note	Amount	
I Unappropriated retained earnings, end of fiscal year			73,545
II Appropriations:			
Dividends		18,374	18,374
III Unappropriated retained earnings carried forward to the next fiscal year			55,170

Non-Consolidated Statement of Changes in Net Assets

Fiscal 2006 (for the year ended March 31, 2007)

(Millions of yen)

	Shareholders' capital								Total net assets
	Common stock	Additional paid-in-capital			Retained earnings		Treasury stock at cost	Total Shareholders' capital	
		Capital surplus	Other additional paid-in-capital	Total additional paid-in-capital	Other retained earnings: Retained earnings carried forward	Total retained earnings			
Balance as of March 31, 2006	50,000	1,083,349	0	1,083,350	73,545	73,545	(84)	1,206,810	1,206,810
Changes during the fiscal year									
Transfer from capital surplus		(903,491)	903,491	–				–	–
Dividends(Note)					(18,374)	(18,374)		(18,374)	(18,374)
Dividends					(22,048)	(22,048)		(22,048)	(22,048)
Net loss					(3,355)	(3,355)		(3,355)	(3,355)
Acquisition of treasury stock							(172)	(172)	(172)
Reissuance of treasury stock			2	2			7	10	10
Changes other than shareholders' capital, net									–
Total changes during the fiscal year	–	(903,491)	903,493	2	(43,778)	(43,778)	(164)	(43,941)	(43,941)
Balance as of March 31, 2007	50,000	179,858	903,494	1,083,352	29,766	29,766	(249)	1,162,869	1,162,869

(Note) These items are the appropriation of retained earnings resolved at the annual meeting of shareholders held in June 2006.

(Subsequent Events)

Fiscal 2005
(September 28, 2005 to March 31, 2006)

1. Acquisition of Zepharma Inc.

The Company and Astellas Pharma Inc. agreed that the Company would acquire all of the outstanding shares of Zepharma Inc., a wholly-owned subsidiary of Astellas Pharma Inc. A written agreement was entered into on March 31, 2006, and the transaction was closed on April 13, 2006.

(1) Purpose of acquisition
To strengthen the healthcare business in the area of non-prescription drugs

(2) Name of company selling the shares
Astellas Pharma Inc.

(3) Name of the company acquired; nature of business; and its size
Name: Zepharma Inc.
Nature of business: Development and sale of drugs, non-prescription drugs, cosmetics, foods, etc.
Capital: ¥300 million
Sales: ¥22.0 billion
(Amount for the year ended March 31, 2006)

(4) Date of acquisition
April 13, 2006

(5) Number of shares purchased; cost of acquisition; and percentage of ownership held upon acquisition
Number of shares purchased: 6,000 shares
Cost of acquisition: ¥35.5 billion
Percentage of ownership held upon acquisition: 100%

(6) Source of financing
The full amount was paid out of on-hand cash

Fiscal 2006
(April 1, 2006 to March 31, 2007)

1. Acquisition by merger of Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. by the Company

Pursuant to a merger agreement entered into on November 30, 2006, Sankyo Company, Limited (“Sankyo”) and Daiichi Pharmaceutical Co., Ltd. (“Daiichi”), wholly-owned subsidiaries, were merged into the Company on April 1, 2007.

(1) Names of parties to the business combination, legal form of the business combination, the name of the combined entity, and a summary of the transaction including its purpose

a. Names of parties to the business combination

- Combining entity:

Name	Nature of business
Daiichi Sankyo Company, Limited (the “Company”)	Management and supervision of subsidiaries

- Combined entities:

Name	Nature of business
Sankyo Company, Limited	Manufacture, sales, export and import of pharmaceuticals and other products
Daiichi Pharmaceutical Co., Ltd.	Manufacture, sales, export and import of pharmaceuticals and other products

b. Legal form of the business combination and the name of the combined entity

This business combination took place in the form of an acquisition by merger between entities under common control, in which the Company was the surviving entity and both Sankyo and Daiichi were the dissolved entities. The name of the combined entity is Daiichi Sankyo Company, Limited.

c. Summary of the transaction including its purpose

In accordance with the original plan of integration, the purpose of the merger is, by merging the two subsidiaries into the Parent holding company, to create a foundation on which the Company strives to transform itself into a Japan-based “Global Pharma Innovator.” The merger did not involve any issuance of new shares or other increase in capital.

(2) Summary of accounting treatment

Under the provisions of “Accounting Standard for Business Combination,” the transaction was accounted for as a business combination among entities under common control. At March 31, 2007, the Company recorded a ¥3,488 million “Loss on elimination upon merger of investments in affiliated companies” for the difference between the amount of shareholder’s capital received by the Company as part of the net assets of the dissolved subsidiaries and the book value of its investments in these subsidiaries immediately prior to the merger.

<table>
<tr><th>Fiscal 2005
(September 28, 2005 to March 31, 2006)</th><th>Fiscal 2006
(April 1, 2006 to March 31, 2007)</th></tr>
<tr><td></td><td>
2. Spin-off of the pharmaceutical manufacturing operation of former Sankyo Company, Limited into Daiichi Sankyo Propharma Co., Ltd.

Pursuant to a spin-off agreement between Daiichi Sankyo Propharma Co., Ltd. (“Daiichi Sankyo Propharma”) and Sankyo Company, Limited (“Sankyo”), wholly owned subsidiaries, entered into on November 30, 2006, the Company spun off the manufacturing operation of former Sankyo related to pharmaceuticals and other products on April 1, 2007, and the operation was then contributed to Daiichi Sankyo Propharma Co. In addition, Daiichi Sankyo Propharma acquired by merger Daiichi Pharmatech Co., Ltd., a manufacturing subsidiary of former Daiichi Pharmaceutical Co., Ltd. on April 1, 2007.

(1) Names of parties to the business combination, legal form of the business combination, the name of the combined entity, and a summary of the transaction including its purpose

a. Names of parties to the business combination

• Combining entity:

<table>
<tr><th>Name</th><th>Nature of business</th></tr>
<tr><td>Daiichi Sankyo Propharma Co., Ltd.</td><td>Manufacture, consigned manufacture, sales, export and import of pharmaceuticals and other products</td></tr>
</table>
• Combined entities:

<table>
<tr><th>Name</th><th>Nature of business</th></tr>
<tr><td>Daiichi Sankyo Company, Limited</td><td>Manufacture of (former Sankyo’s) pharmaceuticals and other products</td></tr>
</table>
b. Legal form of the business combination and the name of the combined entity

This business combination took place in the form of a spin-off and contribution between entities under common control, in which Daiichi Sankyo Propharma Co., Ltd. was the successor entity and the Company was the entity that span-off the operation. The name of the combined entity is Daiichi Sankyo Propharma Co., Ltd.

c. Summary of the transaction including its purpose

The purpose of the transaction is, by integrating manufacturing operations for pharmaceuticals and other products, to efficiently achieve a steady supply of products, and high-quality and low-cost manufacturing. The merger did not involve any issuance of new shares or other increase in capital.

(2) Summary of accounting treatment

Under the provisions of “Accounting Standard for Business Combination,” the transaction was accounted for as a business combination among entities under common control. The Company’s shareholders’ capital (additional paid-in capital) was reduced by the amount of net assets, excluding those related to deferred tax assets and liabilities, of the operation transferred from the Company to the subsidiary on April 1, 2007.
</td></tr>
</table>