Fulfilling our vision...

DAIICHI SANKYO CO., LTD

Annual Report **2006**

Daiichi-Sankyo

Profile

Established on September 28, 2005, the DAIICHI SANKYO Group combines the 106-year history of Sankyo Co., Ltd. and the 90-year history of Daiichi Pharmaceutical Co., Ltd. It has already taken its first steps toward meeting new challenges in the world market. A new era will begin with the full integration and creation of DAIICHI SANKYO CO., LTD in April 2007. The DAIICHI SANKYO Group will continue to contribute to human health worldwide through R&D leading to products that meet a growing range of medical needs.

...of global pharmaceutical

Contents

Vision

Our vision for the future of DAIICHI SANKYO and the goals toward which we are working are contained in the phrase "Japan-Based Global Pharma Innovator." To meet the expectations of all stakeholders, we are determined to turn this vision into reality by achieving growth in the global pharmaceutical market, and by maximizing the corporate value of the DAIICHI SANKYO Group. As we work to achieve these goals, our strategic assets will be the drug development capabilities of both Sankyo and Daiichi Pharmaceutical, and their competitiveness in the Japanese market.

innovation

Forward-Looking Statements

This annual report contains forward-looking statements regarding the Company's plans, outlook, strategies and results for the future. All forward-looking statements are based on judgements derived from the information available to the Company at the time of publication. Certain risks and uncertainties could cause the Company's actual results to differ materially from any projections presented in this report. These risks and uncertainties include, but are not limited to, the economic circumstances surrounding the Company's business; competitive pressures; related laws and regulations; product development programs; and changes in exchange rates.

Consolidated Financial Highlights

"Marginal declines in revenues and income were predicted in fiscal 2005 (the year ended March 31, 2006). However, sales were ¥9.6 billion higher year on year, while operating income increased by ¥13.7 billion."

	Millions of yen			Millions of U.S. dollars
	2005	2005		2006	2006**
	Sankyo	Daiichi	Total*	DAIICHI SANKYO	DAIICHI SANKYO
For the year:					
Net sales	587,830	328,534	916,364	**925,918**	**7,914**
Operating income	84,925	56,064	140,989	**154,728**	**1,322**
Net income	48,282	37,175	85,457	**87,693**	**750**
Overseas sales	215,645	68,589	284,234	**307,265**	**2,626**
Overseas sales to net sales (%)	36.7	20.9	31.0	**33.2**	**33.2**
R&D costs	86,551	57,417	143,968	**158,716**	**1,357**
R&D costs to net sales (%)	14.7	17.5	15,7	**17.1**	**17.1**
Purchases of property, plant and equipment	33,794	14,798	48,592	**35,376**	**302**
Depreciation	28,811	15,947	44,758	**41,129**	**352**
At year-end:					
Total assets	976,230	546,555	1,522,785	**1,596,127**	**13,642**
Interest-bearing debt	23,813	24	23,837	**20,648**	**176**
Total liabilities, minority interests and shareholders' equity	976,230	448,563	1,424,793	**1,237,529**	**10,577**
Per share data (yen and U.S. dollars)					
Net income	¥111.78	¥137.95		**¥119.49**	**$1.021**
Cash dividends	40.0	40.0		**25.00*****	**0.214**

* The amounts below are simple totals of the figures of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd.
** The U.S. dollar amounts represent translations of Japanese yen, solely for convenience, at the rate of ¥117=US$1.00, the approximate exchange rate prevailing on March 31, 2006.
*** The company paid ¥25 per share as a subsidy of stock move on December 2005, instead of the interim dividend paid.

Integration Timetable

February Basic agreement on business integration
Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. reached a basic agreement on business integration and announced plans to establish a joint holding company in 2005.

May Announcement of integration plan
Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. sign a business integration agreement and announce a specific schedule and plans for integration synergies and other aspects.

April Integration of marketing and development functions in the U.S., establishment of DAIICHI SANKYO, INC.
Integration of healthcare businesses, establishment of DAIICHI SANKYO HEALTHCARE CO., LTD.
A U.S. business base is established in New Jersey. The healthcare operations of Sankyo and Daiichi Pharmaceutical are integrated to form DAIICHI SANKYO HEALTHCARE CO., LTD.

July Establishment of new organization in Europe (DSE)
Munich and London are selected as bases for European operations.

Feb. /May 2005 | Sep./Oct. 2005 | Apr./July 2006 | Mar./Apr. 2007

September Establishment of DAIICHI SANKYO CO., LTD
DAIICHI SANKYO CO., LTD is established as a joint holding company based on the vision of full integration.

October Start of domestic marketing collaboration and unification of R&D pipelines
With the Global Executive Meeting of Research and Development (GEMRAD) as its new decision-making organ for R&D, the DAIICHI SANKYO Group begins the task of unifying the R&D pipelines of Sankyo and Daiichi Pharmaceutical. Within Japan, medical representatives employed by Sankyo and Daiichi Pharmaceutical begin to collaborate on the distribution of information about key products.

March Restructuring of non-pharmaceutical operations as independent businesses outside of the DAIICHI SANKYO Group
Non-pharmaceutical operations will be spun off from the DAIICHI SANKYO Group as independent businesses, creating a structure that will allow DAIICHI SANKYO to focus solely on the creation of innovative pharmaceutical products.

April Completion of full Group integration
DAIICHI SANKYO will make the transition from a joint holding company into an operating holding company. Operational and information systems will be fully integrated, and a new personnel system will be introduced.

KIYOSHI MORITA

[*Representative Director and Chairperson*]

TAKASHI SHODA

[*Representative Director, President and CEO*]

“We have reached an exciting stage in our history with the formation of the DAIICHI SANKYO Group. We now begin to see clear manifestations of the plentiful spirit and energy that will drive our future growth, such as the establishment of new R&D pipelines and the start of the progressive integration of our business operations. We are determined to build a market profile based on our integrated corporate identity, and to establish a role for the DAIICHI SANKYO Group as a Japan-Based Global Pharma Innovator. The day when this vision will turn into reality is steadily drawing closer.”

Our Future as a Japan-Based Global Pharma Innovator

Global Trends in the Pharmaceutical Market

About 18 months ago, on February 25, 2005, Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. announced that they had reached basic agreement on the integration of their business operations. DAIICHI SANKYO COMPANY, LIMITED was founded on September 28, 2005 as a joint holding company, and its first business year, fiscal 2005, ended on March 31, 2006. The first integrated companies, U.S.-based DAIICHI SANKYO, INC. and DAIICHI SANKYO HEALTHCARE CO., LTD., commenced business operations under the new structure in April 2006.

In fiscal 2005, the global pharmaceutical market was worth $566 billion (approximately ¥65 trillion). It is expected to expand to $850 billion (approximately ¥100 trillion) by fiscal 2010. As we begin to build a future for the DAIICHI SANKYO Group as a Japan-Based Global Pharma Innovator, our most important tasks are to establish corporate goals and develop business strategies based on these trends in the world market.

The pharmaceutical industry is fiercely competitive. American companies have an important advantage because the world's biggest market is also their home market. At the same time, there are signs that competition is starting to divide winners from losers in this market.

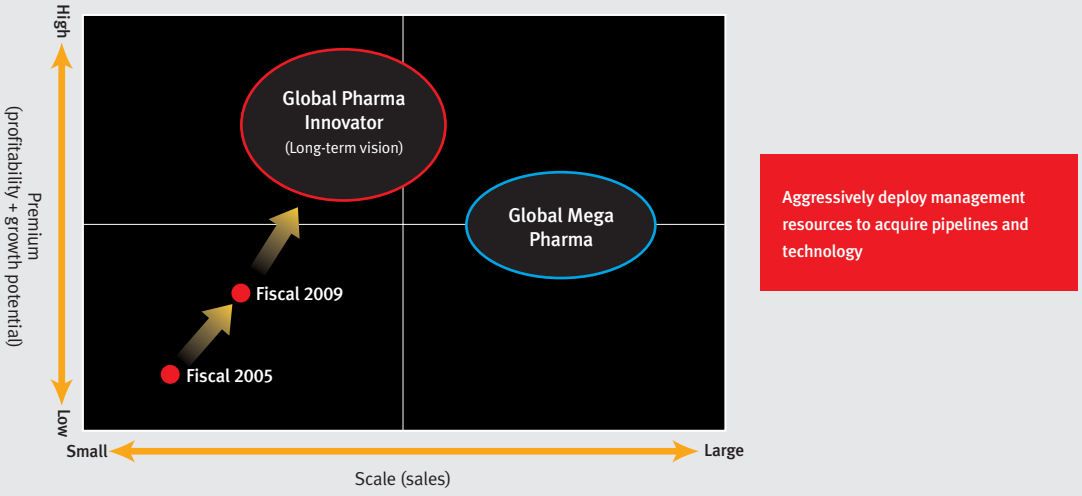
While the expansion of sales is not our only goal, it is significant that DAIICHI SANKYO ranked 20th in the world in a global comparison of sales by pharmaceutical companies in 2005. As a result of the business integration, we have already established the basic business structure needed to compete successfully in the fiercely competitive global market. To ensure our success, we will continue to strengthen our growth potential.

Management Policies of the DAIICHI SANKYO Group

The DAIICHI SANKYO Group's management policies are based on a "mission management" approach, under which all employees are expected to act in accordance with our corporate philosophy, which is to meet the medical needs of people worldwide through the continuing creation of innovative pharmaceutical products and services.

When formulating our integration plans, we also defined our vision for DAIICHI SANKYO ten years from now. We have also developed a strategy for the achievement of our corporate targets, especially in terms of financial value. Components of that strategy include our target product portfolio, key policies, and resource investment policies. Our medium-term management plan covers a three-year period and will be used as a framework for the management of yearly performance targets. We are currently studying the specific content of the first medium-term management plan, which will be launched in fiscal 2007. It will be announced as soon as the details have been finalized.

Working to become a Global Pharma Innovator



Our corporate philosophy is to meet the health needs of people worldwide through the continuing creation of innovative pharmaceutical products and services. To achieve this, we must create pharmaceutical products that precisely match unmet medical needs. We also need to supply accurate information at all times from the R&D through to the post-market stage. Our approach to the realization of this goal is contained in our vision, which sees the DAIICHI SANKYO Group as a Japan-based Global Pharma Innovator. We will work to maximize our corporate value by turning this vision into reality.

Japan-Based Global Pharma Innovator

This vision consists of three key concepts, which are explained in detail below:

Japan-Based

This phrase means simply that the DAIICHI SANKYO Group originated in Japan. While we are currently ranked third among pharmaceutical manufacturers in Japan, our global presence still needs to be expanded. The word "Japan-Based" will be meaningless until the DAIICHI SANKYO Group realizes its full potential and achieves recognition in the global market as well as in Japan. To reach this level, we will need to achieve corporate growth in excess of the annual 5-6% predicted for the world market for pharmaceutical products.

The activities of individual employees will also play a key role in our efforts to build a global presence. As representatives of DAIICHI SANKYO, employees must play a leadership role in the pharmaceutical industry through their activities in their specific areas of involvement, such as management, research, development, production or marketing. The pharmaceutical industry is a strategic pillar of the Japanese economy in the 21st century, and we are determined to become a leading company in this industry through our corporate performance and the contributions made by individual employees.

Global

Given the size of the global market, we anticipate that the overseas operations of the DAIICHI SANKYO Group will overtake its domestic operations in terms of business scale in the near future. Based on our existing products and key products in the development pipeline, we estimate that overseas sales will account for approximately 50%

of total sales by fiscal 2010. Our goal is to raise the contribution to at least 60% by fiscal 2015 by implementing three key policies. First, we must expand our operations in other countries. Second, we must ensure that products in the development pipeline are brought to market effectively. Third, we must attract external resources.

Our priority markets are Japan, North America and Europe, where we are already active. In addition to the big three markets, however, we will also work to develop our business operations in markets that offer growth potential, especially China and South America.

To build global business operations based in Japan, we will need to build a cross-functional management structure that accommodates functional and geographical perspectives. These perspectives will be reflected in the organizational structure that we have already started to build in readiness for April 2007. In the long-term, it is likely that we will also need to build a transnational organization to link our operations throughout the world.

Pharma Innovator

This term describes our vision for DAIICHI SANKYO as a company that is customer-focused, able to identify unmet medical needs of people throughout the world, and clearly has the means to meet those needs through the continuous supply of innovative pharmaceutical products. There are many potential benefits from the creation of innovative pharmaceutical products, including the creation of totally new therapies, the improvement of existing therapies, the facilitation of drug administration, the alleviation of side effects, the improvement of patients' quality of life, and the reduction of health costs.

DAIICHI SANKYO will give priority to projects targeting unmet medical needs in areas that offer excellent opportunities for growth and profit and are in keeping with our goal of raising our global presence. We will focus mainly on new drugs that can be classified as first-in-class and best-in-class. The aim is to build drug development pipelines that will be lead to the development of new products with the potential to rank among the best three products in the world for the treatment of specific diseases.

Our current priority with regard to R&D pipelines is to commercialize a new product with global market potential to succeed the hypertension drug *Olmesartan* as quickly as possible. We will accelerate development and commercialization of distinctive new products that match health needs and can be clearly differentiated from competing products as best-in-class. Candidates include the anti-platelet agent *Prasugrel* (CS-747), and the orally administered anti-Xa drug DU-176b.

Three Components of Enhanced Corporate Value

We believe that the enhancement of corporate value requires improvement in three key areas. The first of these is economic value. DAIICHI SANKYO aims to be a company with superior earning power and the ability to generate a high added-value premium. We are determined to meet the expectations of all stakeholders, especially shareholders, by harnessing our strong growth potential to the improvement of corporate value.

The second component of corporate value is social value. We want DAIICHI SANKYO to exist in harmony with society while making a significant contribution as one its valued members. In addition to the contributions made through our core activities as a developer of highly effective new drugs, we will also work actively to contribute to society in other areas, including the advancement of regional communities and efforts to overcome environmental problems.

Human value is the third component of corporate value. Human resources are especially important to our achievement of growth as a global enterprise. We aim to create a corporate environment in which people recognized as professionals can achieve success and realize their full

potential. In line with our strong focus on human resource development, employees who help to create customer value will be given opportunities to advance and succeed.

Long-Term Innovation and Progress

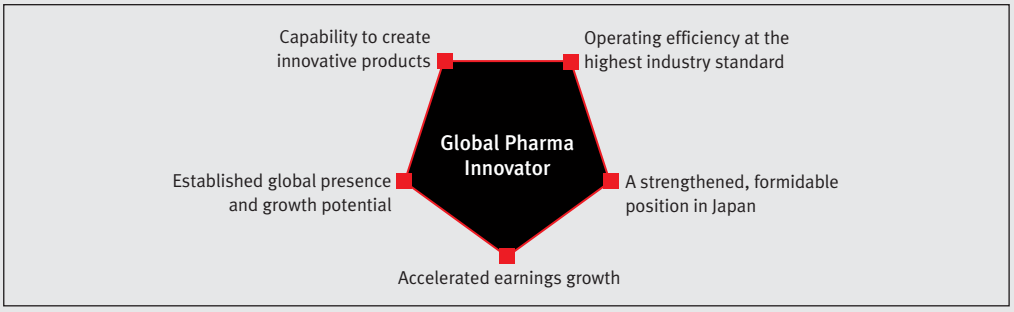
Our top priority under the first medium-term management plan is to set a steady course toward the achievement of our vision for the DAIICHI SANKYO Group. In particular, we must maximize the benefits of management integration. By fiscal 2007, we aim to have completed the concentration of our activities into the core area of pharmaceuticals, and to have maximized the synergy benefits of the integration, placing us at the top of the industry in terms of productivity and income structure.

Another important focus will be the improvement of our corporate value through further consolidation of our business base. We will strengthen our business base, especially in Japan, North America and Europe through the expansion of sales of existing products, and the accelerated development of new products. By accelerating key development projects, we aim to strengthen our new drug pipelines as the basis for growth beyond fiscal 2010.

Performance in Fiscal 2005

Net sales were expected to decline year-on-year in fiscal 2005, but in fact there was a ¥9.6 billion increase to ¥925.9 billion. Reasons for this growth included higher domestic sales of the hypertension drug Olmetec®, a one-off payment relating to approval for the manufacture and sale of the antiplatelet agent Plavix, and increased sales of Cravit®, a broad-spectrum synthetic antibacterial agent. Factors that had a negative impact on sales included reduced bulk exports of the antihyperlipidemic agent *Pravastatin*, and the transfer of sales rights for Espo and Gran. Operating income increased to ¥154.7 billion.

Vision for Business Integration



Maximizing Corporate Value

Customers
- Fulfill medical needs with innovative pharmaceuticals and services

Employees
- Equitable placement and promotion
- Appropriate compensation based on work and performance

Support for career development

Society
- Corporate activity based on high ethical standards
- Promotion of environmental management
- Contribute to medical and pharmaceutical science

Shareholders
- Enhanced shareholder value
- Return value to shareholders through dividends that are among the highest in Japan

We will maximize our corporate value to the benefit of all shareholders.

Management Priorities for Fiscal 2006

In fiscal 2006, there are three key management priorities for the DAIICHI SANKYO Group and for its two business corporations, Sankyo and Daiichi Pharmaceutical:

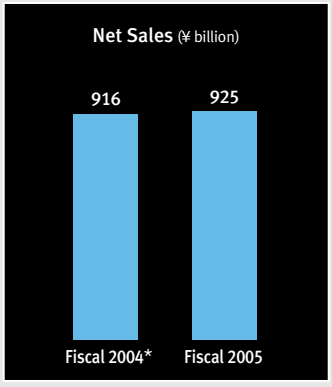
- The establishment of a strong global corporate presence through the achievement of numerical targets
- The creation of growth potential through R&D
- The completion of management integration

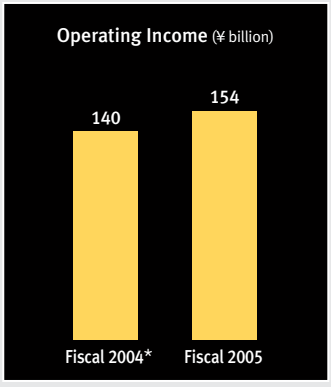
Our performance forecasts for fiscal 2006 are net sales of ¥865 billion, an operating income of ¥108 billion. These projected declines in sales and income take several factors into account, including an extremely harsh income environment, the cost of forward investment and other measures designed to put the Group on a growth course after full integration, and the exclusion of non-pharmaceutical activities from the Group.

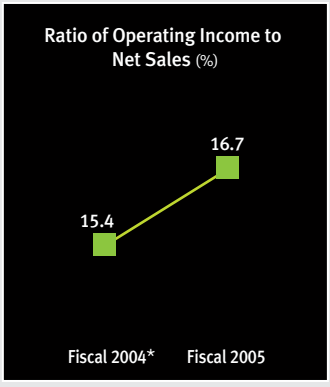
While some factors will support sales performance, including increased sales of *Olmesartan*, there will be a significant decline in bulk exports of *Pravastatin*, in part because of the expiration of patent protection in the U.S. Sales will also be adversely affected by the April 2006 review of drug prices under Japan's National Health Insurance reimbursement system, and the exclusion of non-pharmaceutical activities from the Group.

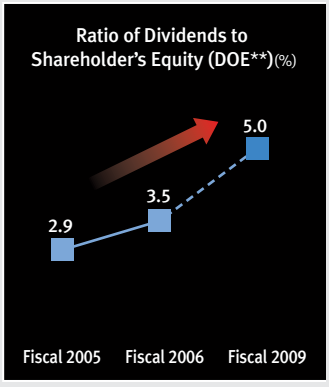
Factors that are likely to cause a reduction in operating income include a decline in gross profit on sales due to a lower net sales figure, increased R&D investment and higher sales promotion

Key Indicators and Dividend Policy









* For fiscal 2004, the charts show simple totals of the figures of Sankyo and Daiichi Pharmaceutical

** DOE denotes dividends to shareholders' equity per share

DOE= dividend payout ratio x ROE

expenses relating to market expansion initiatives for *Olmesartan*.

This challenging business environment is reflected in the following specific priorities for the DAIICHI SANKYO Group in fiscal 2006:

- Further expansion of domestic and overseas sales of *Olmesartan*
- Realization of benefits from collaboration on domestic business operations
- Effective marketing of new products, such as Urief® and Loxonin® Pap
- Efficient operation of business activities in Europe and North America
- Early achievement of cost synergies
- In-depth review of R&D projects
- Efficient start-up of Daiichi Sankyo Healthcare Co., Ltd. and completion of integration with Zepharma Inc.

In fiscal 2006, we will step up the pace of preparations for integration in April 2007. At the same time, the entire DAIICHI SANKYO Group will focus its efforts on the realization of these management priorities.

Full Integration and Beyond

The ultimate goal of the integration is to build a future for the DAIICHI SANKYO Group as a Japan-Based Global Pharma Innovator. This business integration is significant for five reasons. First, it will strengthen our ability to create groundbreaking new drugs. Second, it will create the most efficient operating structure in the industry. Third, it will allow us to build a solid presence in the world market. Fourth, it will ensure superior competitiveness in the Japanese market. Finally, it will give us excellent growth potential. We will maximize our corporate value by realizing these five benefits of integration.

Our first priority in fiscal 2006 will be to minimize any disruptions that may occur during the management integration process, and to complete the process successfully.

Returns to Shareholders

Business performance and capital efficiency are key considerations in our policy on profit distribution. Decisions are influenced by a variety of factors, including the need to finance investment in new growth strategies and build up internal reserves. One of our medium-term targets with regard to dividends is to raise our dividend-on-equity (DOE) ratio to 5% through gradual increments in the period to fiscal 2009. To promote profit sharing, we will implement a flexible program of share buy-back schemes in addition to dividends.

KIYOSHI MORITA
Representative Director and Chairman

TAKASHI SHODA
Representative Director, President and CEO

“A key strength of the DAIICHI SANKYO Group is its powerful R&D capabilities, which have brought numerous new drugs to the global market. Integration will strengthen our R&D infrastructure, and we will maintain a steady flow of new products through the combined creative energies of our researchers and efficient R&D investments that focus on our areas of expertise. Throughout our organization, people are working toward a shared goal, which is to contribute to the health of people worldwide by creating groundbreaking new drugs in our laboratories in Japan, and developing these products at our global sites.”

The Core Technology Research Laboratories, which conduct basic research, form a central pillar of our R&D system. They are responsible for developing and improving fundamental technologies, establishing next-generation drug development methods and searching organic substances for potential lead compounds.

One promising field of research is the application of information about protein structures to the development of new drugs. This approach entails structurally analyzing substances linked to target proteins before screening for promising candidate substances. Further research then leads to the modification of lead compounds.

TAKASHI ONUKI

[*R&D Division*]

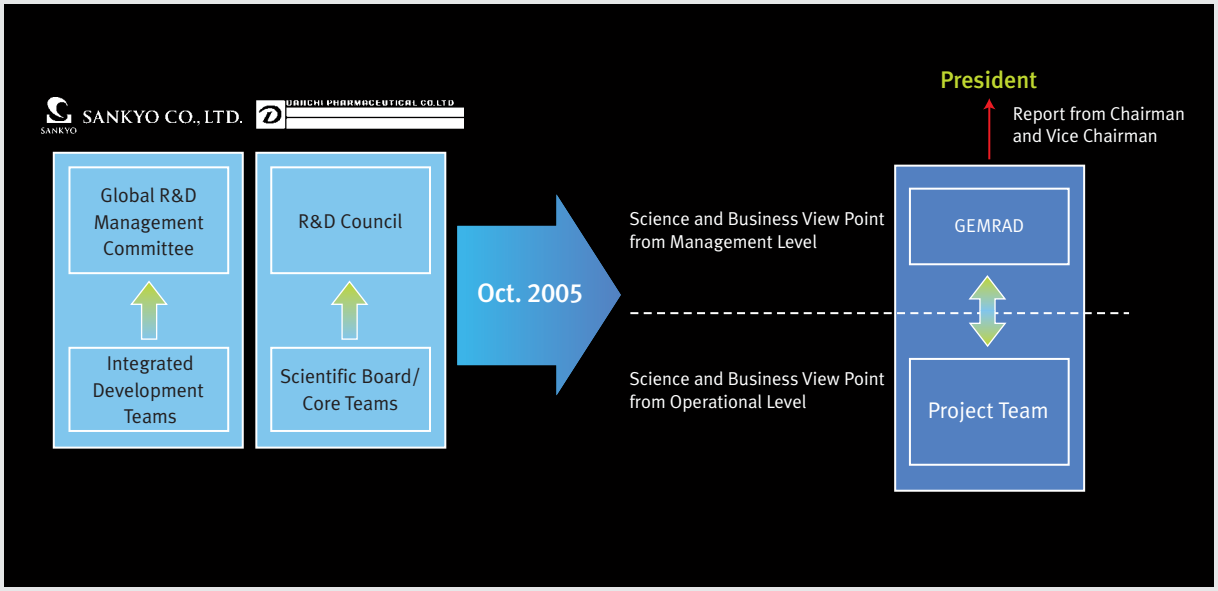
We aim to deepen the integration of our R&D pipelines through swift development of groundbreaking new drugs.

R&D Pipeline Integration a Top Priority

Pharmaceutical R&D requires huge investments of money and time. Because Sankyo and Daiichi Pharmaceutical's areas of expertise are relatively similar, DAIICHI SANKYO will be able to strengthen its R&D pipelines both qualitatively and quantitatively by intensifying its activities in these fields. By allocating resources provided by the integration efficiently and effectively, we will be able to meet the rising R&D cost while also increasing the pace of development. We will direct our expertise toward innovative research in six areas: cardiovascular diseases, glucose metabolic disorders, infectious diseases, cancer, immunological allergic diseases and bone and joint diseases. Our aim is to create products that will be first-in-class and best-in-class for unmet medical needs.

Developing pharmaceuticals is inevitably a battle with time. Our entire organization is currently working to maintain steady progress toward full integration in April 2007. A particular priority in this context is the integration of our R&D operations. The establishment of DAIICHI SANKYO in September 2005 was preceded by the formation of a team with members drawn from both companies. This team has since continued to

Research and Development



deliberate on key aspects, including the integration of decision-making processes, and the unification of development pipelines.

In October 2005, the Global Executive Meeting of Research and Development (GEMRAD) was created as the DAIICHI SANKYO Group's supreme decision-making organ for R&D activities. GEMRAD is now working to integrate R&D pipelines and rank projects in order of priority.

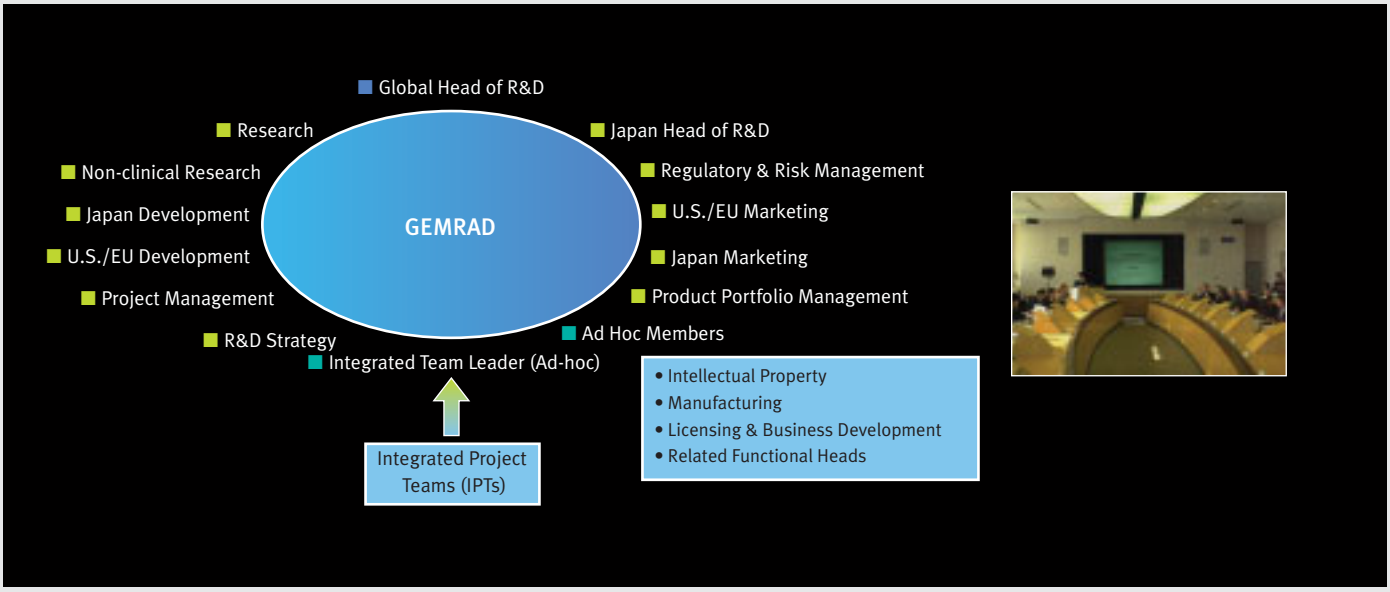
GEMRAD

The Global Executive Meeting of Research and Development (GEMRAD) has ultimate authority to make R&D-related decisions. It provides global management in this area across all functional categories and regions, including key decisions about R&D pipeline priorities and the proper allocation of budgetary resources. The GEMRAD members who meet to discuss these matters represent a wide spectrum of organizational units in the DAIICHI SANKYO Group, from departments directly involved in R&D to marketing and licensing departments and departments responsible for product portfolios in Japan and overseas.

R&D Pipeline Integration

Since October 2005, GEMRAD has continually reviewed and assessed the major development projects of Sankyo and Daiichi Pharmaceutical as part of its preparations for R&D pipeline integration. After prioritizing projects on the basis of shared criteria, GEMRAD selected the top five development projects. These will now be regularly assessed, and their relative priorities may be reviewed from time to time.

GEMRAD Structure



Priority Projects

Prasugrel (CS-747)

Phase 1 testing showed this platelet inhibitor to be rapidly effective in reducing platelet aggregation. From time to time, other platelet inhibitors fail to produce the anticipated reduction in platelet aggregation when administered at the standard dosage to some patients. There is evidence that the incidence of these "non-responders" may be extremely low with *Prasugrel*. We are currently conducting Phase 3 trials in the U.S. and Europe in collaboration with Eli Lilly and Company. The aim of the trials, which target acute coronary syndrome patients who have undergone percutaneous coronary intervention (PCI), is to register 13,000 cases in preparation for an approval application in the second half of 2007. We are also implementing our own Phase 1 trials in Japan.

DU-176b

DU-176b is an orally administered inhibitor for blood coagulation factor Xa. Because of its excellent oral absorbability, it may be possible to administer the drug in single daily doses. Compared with existing anticoagulants, such as Warfarin and Heparin, DU-176b has been found to have both a stronger anti-clotting effect and a substantially lower risk of hemorrhaging occurring as a side effect. This characteristic is expected to facilitate control of administration, making the drug easier to use. There is fierce competition to develop factor Xa inhibitors. We aim to step up the pace of development with a view to establishing DU-176b as a first-in-class product. We are currently making preparations for our own Phase 2b trials in the U.S, Europe and Japan concerning the use of the product in the prevention and treatment of venous thromboembolism and cardiogenic cerebral infarction associated with atrial fibrillation.

CS-8663

CS-8663 combines the angiotensin Ⅱ receptor blocker (ARB) *Olmesartan*, which is used to reduce blood pressure, and the calcium channel blocker (CCB) Amlodipine, both of which are already on the market. Like an earlier combination product containing *Olmesartan* and the diuretic drug Hydrochlorothiazide, which was marketed in the U.S and Europe, it further extends the range of hypertension treatments available to patients. In the U.S. and Europe, 40-50% of hypertension sufferers are treated with drugs, and it is estimated that around one-half of these people reach their target blood pressure. CS-8663 is expected to help more patients to reach their target blood pressure and has the potential to satisfy unmet medical needs. Currently it is

"As researchers, we must continue to challenge ourselves to find new ways of helping people suffering from disease."

Prioritized Development Projects (As of March 2006)

Project Name	Class
Prasugrel (CS-747)	Anti-platelet
DU-176b	Factor Xa inhibitor (anticoagulant)
CS-8663	*Olmesartan* & Amlodipine combination
DJ-927 oral	Taxane antineoplastic agent
DZ-697b	Anti-platelet

intended for use as a secondary therapy for hypertension patients who cannot be treated effectively with a single drug. Phase 3 trials are in progress in the U.S and Europe. In Japan, we are implementing Phase 2 trials for a combination of *Olmesartan* and our own CCB, Calblock®.

DJ-927

Derived from taxane, a type of chemotherapy drug that inhibits cell growth by stopping cell divisions, DJ-927 is an anticancer chemotherapeutic drug that can be administered orally. It can be used to treat a wide spectrum of tumors and is expected to be effective in the treatment of colorectal cancer, which cannot be treated effectively with existing taxane derivatives. Phase 2a trials have been completed in the U.S and Europe, and the results are currently being evaluated. Phase 1 trials have been completed in Japan.

DZ-697b

DZ-697b is a new type of platelet aggregation inhibitor. Unlike existing anti-platelet drugs, DZ-697b inhibits platelet aggregation induced by shear stress. While it inhibits platelet aggregation induced by high shear stress, it has the desirable effect of more weakly inhibiting platelet aggregation induced by low shear stress, leading to a lower risk of hemorrhaging. In the initial stages of clinical trials, the drug was found to have a rapid, long-lasting effect. It was also found that high dosages did not increase the duration of hemorrhaging. We are currently conducting Phase 1 trials in the U.S, Europe and Japan with a view to having DZ-697b approved for use in the treatment of cerebral infarction, acute coronary syndrome and microcirculation disorders.

Development Code Number	Generic Name	Dosage Form/Route	Indication/Class
Cardiovascular diseases			
CS-747	*Prasugrel*	Oral	Acute coronary syndrome / Anti-platelet agent
—	Hepatocyte growth factor DNA plasmid	Injection	Peripheral arterial diseases, Coronary arterial diseases / Vascular regeneration therapy by HGF-DNA
DU-176b	—	Oral	Atrial fibrillation, Venous thromboembolism / Oral factor Xa inhibitor
CS-9803	—	Injection	Acute myocardial infarction / Delta PKC inhibitor
CS-8663☆	*Olmesartan medoxomil*, Amlodipine besilate	Oral	Hypertension / Angiotensin Ⅱ receptor antagonist, Calcium blocker
CS-866DM☆	*Olmesartan medoxomil*	Oral	Diabetic nephropathy / Angiotensin Ⅱ receptor antagonist
CS-866RN☆	*Olmesartan medoxomil*	Oral	Chronic glomerulonephritis / Angiotensin Ⅱ receptor antagonist
CS-866AZ☆	*Olmesartan medoxomil*, Azelnidipine	Oral	Hypertension / Angiotensin Ⅱ receptor antagonist, Calcium blocker
CS-866CMB☆	*Olmesartan medoxomil*, Hydrochlorothiazide	Oral	Hypertension / Angiotensin Ⅱ receptor antagonist, Diuretic
SUN 4936h	Carperitide (Recombinant)	Injection	Acute heart failure / α-human atrial natriuretic peptide
DZ-697b	—	—	Anti-platelet agent
CS-3030	—	—	Oral factor Xa inhibitor
Glucose metabolic disorders			
CS-011	Rivoglitazone	Oral	Diabetes / Glitazone agent that improves insulin resistance
CS-917	—	Oral	Diabetes / Gluconeogenesis inhibitor
WelChol DM☆	Colesevelam hydrochloride	Oral	Diabetes
SUN E7001	(Trivial name) Glucagon like Peptide-1	—	Diabetes
Infectious diseases			
DF-098	*Haemophilus influenzae* type b conjugate vaccine	Injection	Prevention of *Haemophilus influenzae* type b invasive infections
DU-6859a	Sitafloxacin hydrate	Injection Oral	New quinolone
CS-023	—	Injection	Antibiotic (Carbapenem type)
SUN A0026	Faropenem medoxomil	Oral	Antibiotic (Penem type)
DX-619	—	—	New quinolone
CS-758	—	—	Azole antifungal
CS-8958	—	—	Anti-influenza
DC-159a	—	—	New quinolone
Cancer			
DJ-927	—	Oral, Injection	Cancer chemotherapeutic (Taxane deriv.)
CS-7017	—	—	PPARγ activator
CS-1008	—	—	Anti-DR5 antibody
Immunological allergic diseases			
CS-712	—	Oral	Cedar pollen pollinosis / Oral immune desensitization
DW-908e	—	—	VLA-4 inhibitor
CS-0777	—	—	Immunomodulator
Bone/Joint diseases			
CS-706	—	Oral	Anti-inflammatory and analgesic
CS-600G☆	Loxoprofen sodium	Gel	Anti-inflammatory and analgesic
SUN E3001	(Trivial name) Human parathyroid hormone [hPTH]	Nasal Spray (Liquid type)	Osteoporosis
OCIF	—	—	Osteoporosis
Others			
DD-723	—	Injection	Ultrasound contrast media
SUN Y7017	Memantine hydrochloride	Oral	Dementia of Alzheimer type / NMDA receptor antagonist
SUN N4057	—	Injection	Acute ischemic stroke / Serotonin (5-HT) 1A receptor agonist
KMD-3213	Silodosin	Oral	Treatment of dysuria associated with benign prostatic hyperplasia / Selective alpha 1A blocker
CS-088	*Olmesartan*	Eyedrops	Glaucoma / Angiotensin Ⅱ receptor antagonist
DL-8234☆	Interferon-β	Injection	Hepatitis C (with Ribavirin)
CS-1401E☆	Fentanyl citrate	Injection	Pain relief during anesthesia
SUN0588r	Sapropterin hydrochloride (Tetrahydrobiopterin)	Oral	Hyperphenylalaninemia
SUN11031	—	—	Cachexia Anorexia nervosa
SUN N8075	—	—	Acute ischemic stroke
CS-011	—	—	Dry eye

 ☆ additional indications, new formulations etc.

(As of May 2006)

Origin	Developer	Region	Stage				
			Phase1 preparation, preclinical	Phase1	Phase2	Phase3	Application
Sankyo, Ube Industries	Sankyo, Eli Lilly	U.S./EU					
	Sankyo	Japan					
AnGes MG (Sales agreement)	AnGes MG	U.S./EU				peripheral arterial diseases	
					coronary arterial diseases	peripheral arterial diseases	
		Japan		coronary arterial diseases			
Daiichi	Daiichi	U.S./EU					
		Japan					
KAI pharmaceuticals	Sankyo, KAI pharmaceuticals	U.S./EU					
Sankyo	Sankyo	U.S./EU					
Sankyo	Sankyo	Japan					
Sankyo	Sankyo	Japan					
Sankyo	Sankyo	Japan					
Sankyo	Sankyo	Japan					
Daiichi Asubio	Astellas US	U.S./EU				Out-licensed to Astellas U.S.	
Daiichi	Daiichi	U.S./EU					
		Japan					
Sankyo	Sankyo	U.S./EU					
Sankyo	Sankyo	U.S./EU					
		Japan					
Sankyo, Metabasis	Sankyo	U.S./EU					
Genzyme	Sankyo	US					
Daiichi Asubio	Daiichi Asubio	Japan					
Sanofi Pasteur (Sales agreement with joint venture)	Sanofi Pasteur - Daiichi Vaccines	Japan					
Daiichi	Daiichi	U.S.					
		Japan					
Sankyo	Roche	U.S./EU				Out-licensed to Roche	
	Sankyo	Japan			Application on December 2005 (out-licensed to Replidyne)		
Daiichi Asubio	Replidyne	North America					
Daiichi	Daiichi	U.S./EU					
		Japan					
Sankyo	Sankyo	U.S./EU					
Sankyo	Sankyo	U.S./EU					
		Japan					
Daiichi	Daiichi	U.S./EU/JP					
Daiichi	Daiichi	U.S./EU					
		Japan					
Sankyo	Sankyo	U.S./EU					
Sankyo	Sankyo	U.S./EU					
Sankyo	Sankyo	Japan					
Daiichi	Daiichi	U.S./EU					
		Japan					
Sankyo	Sankyo	U.S./EU					Preparation for Phase 3
Sankyo	Sankyo	Japan					
Daiichi Asubio	Chugai	Japan				Out-licensed to Chugai	
Sankyo	Sankyo	U.S./EU					
GE Healthcare	Daiichi	Japan					Mild to moderate dementia of Alzheimer type
Merz	Daiichi Asubio	Japan					Severe dementia of Alzheimer type
Daiichi Asubio	Daiichi Asubio	U.S./EU					
Kissei	Daiichi	China					
Sankyo	Sankyo, Santen	U.S./EU					
		Japan					
Toray	Daiichi, Toray	Japan					
Janssen	Doctor-initiated Investigation	Japan					Out-licensed to BioMarin
Daiichi Asubio	BioMarin	U.S./EU					
Daiichi Asubio	Daiichi Asubio	U.S./EU					
		Japan					
Daiichi Asubio	Daiichi Asubio	U.S./EU					
		Japan					
Sankyo	Santen	Japan		Out-licensed to Santen			

“In April 2006, the integration of Sankyo and Daiichi Pharmaceutical was completed in the U.S., a year ahead of the other regions of DAIICHI SANKYO. In our New Jersey and San Diego offices, we work to maximize the tremendous potential of our innovative products, such as Benicar®, as well as products in our pipeline. Our goal to become a significant driver of the overall growth of the DAIICHI SANKYO family energizes our daily activities.”

Daiichi Sankyo, Inc is headquartered in New Jersey, USA, where clinical development and commercial operations are located. Opportunities for research alliances are evaluated at the California, USA research institute. The U.S. organization will play a central role for clinical development and commercialization of DAIICHI SANKYO’s pipeline products, significantly impacting our overall growth strategy.

left, KETUL PATEL
right, TONY MEDITZ
[*Sales and Marketing Division*]

We will use global-scale marketing to build a strong corporate presence worldwide.

Building Marketing Infrastructure to Accelerate Global Expansion

To realize its vision, the DAIICHI SANKYO Group needs to bring promising and innovative new drugs to the world market. We also need to build highly competitive marketing systems. In fiscal 2005, DAIICHI SANKYO Group recorded overseas sales of approximately ¥300 billion. The percentage contribution to consolidated net sales has risen steadily over the years and currently stands at 33.2%. Major reasons for this growth include sales of the antihyperlipidemic agent *Pravastatin* (sold in Japan as Mevalotin®) and the broad-spectrum oral antibacterial agent *Levofloxacin* (sold in Japan as Cravit®) to licensees, increased sales of *Olmesartan* (sold as Benicar® in the U.S. and as Olmetec® in Japan and Europe), which is sold globally by DAIICHI SANKYO, and the establishment of our own overseas sales organizations.

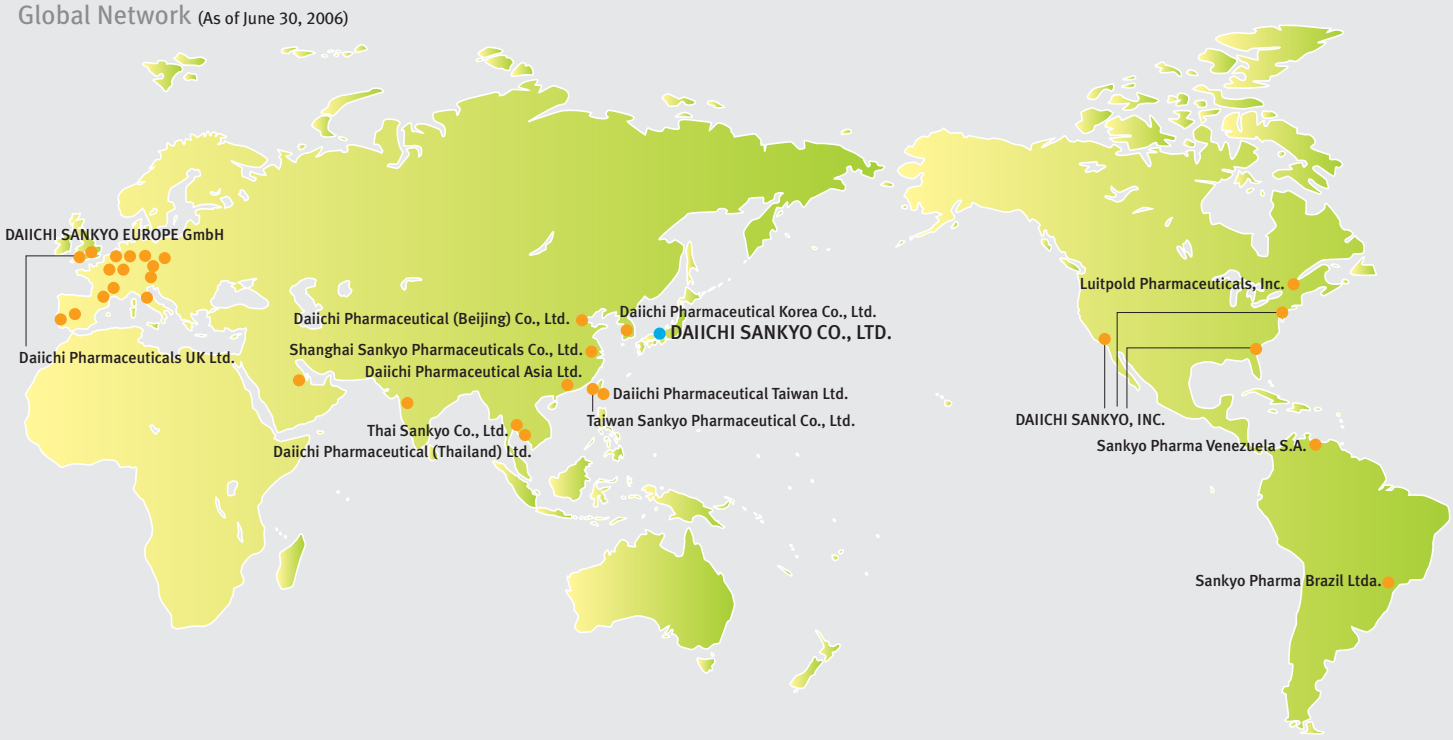
The DAIICHI SANKYO Group has already created many world-class drugs, such as *Pravastatin* and *Levofloxacin*. However, our ability to market these products overseas was limited by corporate size and other factors, and we were forced to rely on out-licensing to European and American companies for most of our overseas sales. Since the 1990s, we have worked to build our own sales networks in North America and Europe, and we are at last equipped to sell our own products through our own means. The first product to be sold in this way is *Olmesartan*.

Almost 5,000 DAIICHI SANKYO Group medical representatives are currently active in various parts of the world, including Japan, the U.S., Europe and Asia. These people adapt their marketing activities to local characteristics, especially the differing health systems of the countries in which they operate. Through continuous information activities, our medical representatives help to enhance the value of our products and fulfill our mission to meet the healthcare needs of people throughout the world.

We will continue these efforts to strengthen our global sales infrastructure. Our aim is to maximize sales of *Olmesartan* and the other major new products that will follow it in the future.

“Every day, we derive great satisfaction from providing customers with information about products that can make a real difference to people’s health, such as Olmetec® and Cravit®.”

Global Network (As of June 30, 2006)



Japan—Further Strengthening of Sales Organization

In Japan, we face an extremely challenging business environment. To curb increases in social security costs resulting from a rapidly aging society, the government aims to implement various measures, such as health-care system reforms involving a shift to integrated healthcare and medical fee reimbursement system. The government is also encouraging the use of generic drugs.

Conditions in fiscal 2006 were especially difficult because of the biennial review of drug prices under Japan's National Health Insurance reimbursement system. This time the review resulted in price reductions averaging 6.7% at the industry level.

Sankyo and Daiichi Pharmaceutical will continue to implement their own marketing activities until the integration process is completed in April 2007. However, their combined sales force, which is among the strongest in Japan with approximately 2,500 medical representatives, is already engaged in information distribution activities relating to their flagship products, Olmetec® and Cravit®.

We will continue to build a product portfolio capable of maintaining top market shares in many fields, including circulatory system conditions. We are also determined to build a solid income base by maintaining high-level marketing activities in Japan, including visits to medical professionals by highly productive medical representatives, and the reinforcement of distribution infrastructure.

The U.S.—DAIICHI SANKYO, INC. Established, Marketing Infrastructure to be Expanded

Ahead of full integration in April 2007, Sankyo and Daiichi Pharmaceutical have merged their U.S. subsidiaries to form DAIICHI SANKYO, INC. The new company has approximately 900 sales representatives. Currently it is selling products that include Benicar®, WelChol®, Evoxac®, and Floxin Otic®. Sales in fiscal 2005 amounted to approximately ¥76 billion.

Benicar® has been marketed since May 2002 in collaboration with Forest Laboratories, Inc. Sales have risen dramatically, and the product is now ranked third based on market share in terms of new prescriptions written, despite the fact that it was initially ranked seventh. We aim to strengthen our marketing infrastructure further in readiness for the launching of new products. These include *Prasugrel* (CS-747), which is currently undergoing Phase 3 trials in preparation for an application in the second half of 2007; CS-8663, which is now at Phase 3 trial in preparation; and WelChol DM, which is also currently undergoing Phase 3 trials and for which an application will probably be filed in the fourth quarter of 2006.

Europe—Concentration on Ethical Pharmaceuticals

In July 2006, our European subsidiary was renamed as DAIICHI SANKYO EUROPE GmbH. This company has a sales force of approximately 800 medical representatives based at its headquarters in Germany, and at offices in Austria, Belgium, Spain, Italy, the Netherlands, Portugal, Switzerland, the U.K. and France.

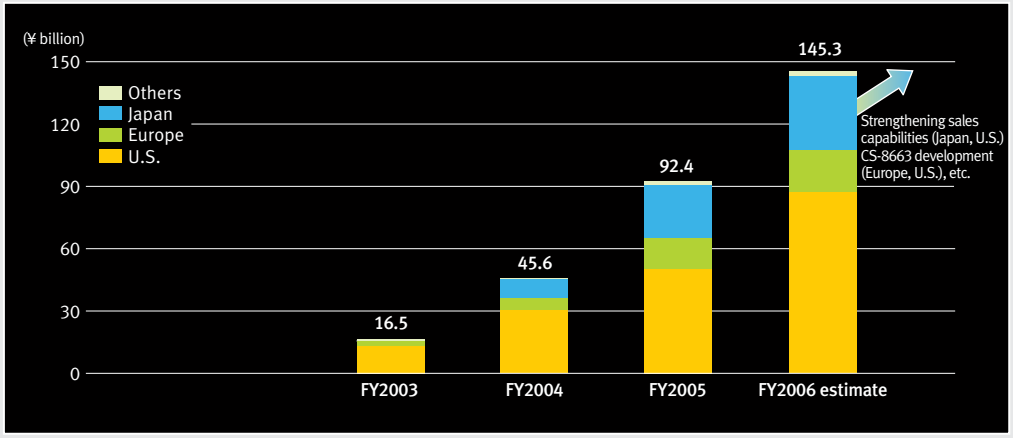
Olmetec® was initially launched in Germany in October 2002 and has subsequently been introduced in various other European markets. Currently, we are working to expand sales with the Italian pharmaceutical group Menarini as our sales partner.

We plan to concentrate on ethical pharmaceuticals, and in fiscal 2005 our over-the-counter (OTC drug) products were sold to the German pharmaceutical company STADA Arzneimittel AG. Future plans call for further strengthening of our sales force with a view to increasing sales of products developed by DAIICHI SANKYO as a percentage of total sales.

Main Prescription Drug Sales (¥ million)

Product name	Indication/Effect	Launch	FY2003	FY2004	FY2005
Pravastatin	antihyperlipidemic agent		205,400	166,700	**143,200**
Japan	**Mevalotin®**	October 1989	101,800	82,500	**75,200**
Export sales etc.			95,100	73,800	**62,500**
Europe (Sales by subsidiaries)			8,500	10,400	**5,500**
Levofloxacin	oral antibacterials		82,400	90,300	**97,600**
Japan	**Cravit®**	December 1993	47,400	47,100	**50,200**
Export sales			20,800	24,200	**29,500**
Royalties			14,200	19,000	**17,900**
Olmesartan	antihypertensive		16,500	45,600	**92,400**
Japan	**Olmetec®**	May 2004	—	9,000	**25,600**
U.S.	**Benicar®**	October 2002	13,200	30,300	**50,300**
Europe	**Olmetec®**	October 2002	2,400	5,800	**14,700**
Omnipaque®	non-ionicity contrast agent	October 1987	35,700	34,200	**34,700**
Loxonin®	non-steroidal analgesic and anti-inflammatory agent	July 1986	27,400	28,600	**29,000**
Panaldine®	anti-platelet agent	September 1981	31,300	28,600	**28,300**
Venofer®	treatment for iron deficiency anemia	Novmber 2000	17,100	19,400	**22,600**
Artist®	long-acting beta-blocker	May 1993	13,800	15,600	**18,200**
WelChol®	antihyperlipidemic agent	June 2000	14,000	12,600	**14,800**
Kremezin®	treatment for chronic renal failure	December 1991	13,000	13,600	**13,000**

Olmetec®/Benicar® (*Olmesartan*) Sales Trends



	FY2003	FY2004	FY2005	FY2006 estimate	(¥ billion)
Japan	0	9.0	25.6	35.4	
U.S.*	13.2	30.3	50.3	87.0*	
Europe	2.4	5.8	14.7	20.6	
Others	0.9	0.5	1.8	2.3	
Total	16.5	45.6	92.4	145.3	

*Fiscal 2006 for U.S. subsidiary DAIICHI SANKYO, INC. spans 15 months

Product Strategies

Antihypertensives—Benicar®/Olmetec®

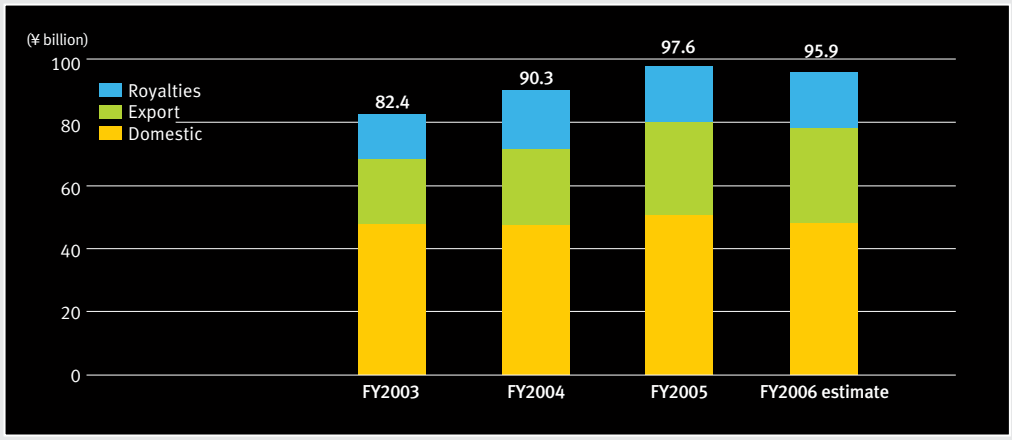
The antihypertensive drug Benicar®/Olmetec® (generic name: *Olmesartan medoxomil*) is a best-in-class substance. It is the most powerful angiotensin receptor blocker in terms of its ability to reduce blood pressure, and it also provides excellent protection for the organs.

Angiotensin receptor blockers (ARBs) are a relatively new type of drug. In addition to their powerful action against hypertension, they are also extremely safe. These characteristics are reflected in sales growth in markets throughout the world. In North America and Europe, there has been growth in sales of drugs that combine ARBs with diuretics. This combination enhances the antihypertensive effect and also improves compliance with administration regimes.

Benicar®/Olmetec® first went on sale under its U.S. name, Benicar®, in May 2002. In October of the same year it was launched in Germany under its European name, Olmetec®, and in May 2004 it went on sale in the Japanese market, also as Olmetec®. It is currently sold in 36 countries. Our global sales target when the product was first launched was ¥100 billion. Sales were already over ¥90 billion in fiscal 2005, when the product was still only in its fourth year. In the medium-term, we aim to make Benicar®/Olmetec® a flagship product for the DAIICHI SANKYO Group, with sales in excess of ¥200 billion.

Partnership
Japan: Kowa Company Ltd. (joint sales),
SANWA KAGAKU KENKYUSHO CO., LTD. (joint sales promotion)
U.S.: Forest Laboratories, Inc. (joint sales promotion)
Europe: Menarini Group (joint sales), Pfizer (joint sales) etc.
Middle and South America: Schering-Plough Corporation (joint sales)
Australia, HK, Other Asian countries etc.: Pfizer (sales)

Cravit® (*Levofloxacin*) Sales Trends



	FY2003	FY2004	FY2005	FY2006 estimate	(¥ billion)
Royalties	14.2	19.0*	17.9	18.0	
Export	20.8	24.2	29.5	30.3	
Domestic	47.4	47.1	50.2	47.6	
Total	82.4	90.3	97.6	95.9	

*As the accounting period for royalties from the U.S. market in fiscal 2004 has been changed, it is shown for 15 months.

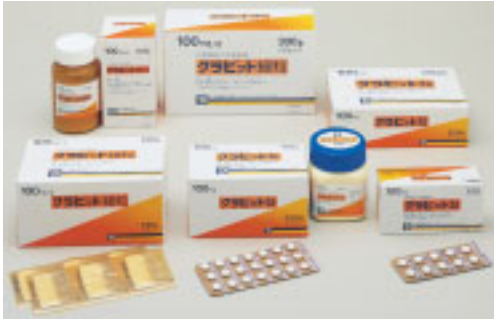
Broad-Spectrum Oral Antibacterial Agent—Cravit®

The broad-spectrum oral antibacterial agent Cravit® is a new quinolone compound. It has gained a reputation as a highly effective product that is also extremely safe.

First launched in Japan in 1993, Cravit® has become a familiar product in the healthcare sector because of its powerful antibacterial performance and broad-spectrum coverage against numerous infectious diseases. It is currently sold in 115 countries (*1) and used by over 400 million patients. Cravit® is sold overseas through partner companies under various names, including Levaquin® in the U.S. and Tavanic® and Levoxacin® in Europe.

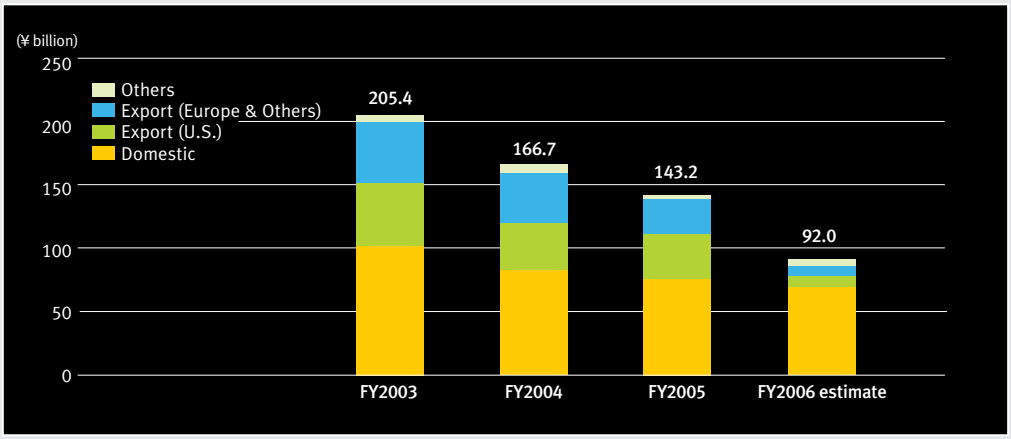
Cravit® is marketed in particular as a respiratory quinolone (*2). It is backed by extensive scientific documentation in the respiratory disease field and is highly respected by medical professionals. It remains a leading product in the new quinolone market. Cravit® has yielded strong sales for several years and is seen as a foundation product for the DAIICHI SANKYO Group.

(*1) Includes countries where the product is sold by partner companies under another name.
(*2) A quinolone antibacterial agent known for its high effectiveness against respiratory diseases such as pneumonia.



Partnership
The U.S.: Ortho McNeil Pharmaceuticals, Inc. (sales)
Europe: Sanofi-Aventis, GlaxoSmithKline (sales)

Mevalotin® (*Pravastatin*) Sales Trends



	FY2003	FY2004	FY2005	FY2006 estimate	(¥ billion)
Export	98.3	77.0	64.5	19.2	
Domestic	101.8	82.5	75.2	68.2	
Others	5.3	7.2	3.5	4.6	
Total	205.4	166.7	143.2	92.0	

Antihyperlipedemic—Mevalotin®

The antihyperlipedemic drug Mevalotin® was launched in Japan in 1989 as the world's first HMG-CoA reductase inhibitor. Since then it has been sold in around 100 countries for use in the treatment of diseases caused by high cholesterol, and in the prevention of myocardial infarction. Overseas, the product is sold mainly by Bristol-Myers Squibb as Pravachol.

Initially patented in Japan, Mevalotin® was subsequently patented in the U.K. and Germany in August 2004. In 2006, we obtained patents in the U.S., which is the world's biggest market, and France, which is the biggest market in Europe.

The Japanese patent expired in October 2002, and generic products have been on the market since July 2003. We have responded by enhancing our information distribution activities, which are backed by extensive accumulated evidence. In November 2005, we announced the results of a large-scale clinical study of Japanese subjects, which showed that Mevalotin® was extremely safe and extremely effective. As a leading company in the field of hyperlipidemic conditions, we will continue to supply high-quality information based on accumulated knowledge and evidence, especially in the Japanese market.


Global Pharma
Vision

“A key part of the integration process is to bring together two different corporate cultures into a new organization with its own culture. To accomplish this, it is crucial to use all communication channels available. We emphasize dynamic communication in our efforts to build a corporate culture capable of self-reform and accepting challenges, and I actively arrange communication forums to spread information.”

The Corporate Integration Department currently coordinates the integration process with a view to achieving full integration by April 2007. Within this department, several task forces have been set up, and these are also participating in the design of the new organization.

MASAYA TAMAE

[*Corporate Division*]

Our goal is to complete the business integration process and build a future for the DAIICHI SANKYO Group as a Japan-Based Global Pharma Innovator.

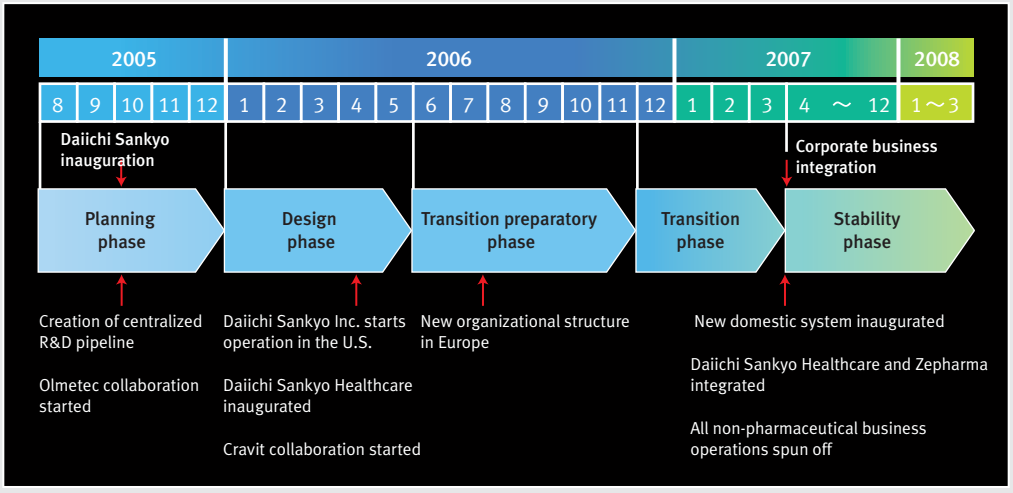
Strengthening Our Global Expansion Potential through Business Integration

The world economy is expected to remain buoyant, reflecting sustained growth in the U.S., economic recovery in Europe and Japan, and the robust growth of the emerging economies of China and other Asian countries. Japan's economy continues to follow a gradual recovery trend, driven by an improvement in business earnings. There are also signs that Japan is emerging from the deflationary spiral of recent years.

Key influences on business conditions for the pharmaceutical industry include a continuing worldwide trend toward the reduction of expenditure on healthcare and drugs. Within Japan, too, there has been a resurgence of debate over health reform and moves to improve the efficiency of healthcare delivery systems are likely to accelerate. There are clear signs that these changes are likely to result in accelerated separation of the industry into winners and losers, based on the drug development capabilities and overseas expansion capabilities of individual companies. The nature of the pharmaceutical industry will be fundamentally changed by these events.

By combining their strengths in anticipation of these changes, Sankyo and Daiichi Pharmaceutical will be able to reap synergy benefits that will help the resulting corporate group to become a world leader in the two companies' respective areas of expertise. The decision to integrate was taken after it was concluded that this would result in the formation of a global corporate group with its own powerful sales resources in Japan and overseas. The establishment of DAIICHI SANKYO COMPANY LIMITED as a joint holding company on September 28, 2005 marked the start of a new future for the DAIICHI SANKYO Group.

Progress in Business Integration



“In advancing the preparations for unification, we always first and foremost consider what is best for DAIICHI SANKYO.”

Business integration has expanded the strategic options for all business activities, from R&D to production and sales. We have also been able to build globally competitive R&D pipelines focused primarily on the fields of cardiovascular disease, infectious disease and cancer. We will continue to strengthen our pipelines through prioritized investment in R&D.

Integration has the potential to bring a dramatic improvement in earning power, since it allows the DAIICHI SANKYO Group to develop and sell major products using its own global resources, which would not have been feasible for either of the companies individually. Though the Japanese market as a whole is stagnating, there is an opportunity for the DAIICHI SANKYO Group, with its backbone sales force of over 2,500 medical representatives, to gain an overwhelming market share.

DAIICHI SANKYO will enhance its business efficiency by concentrating its management resources into its pharmaceutical business. We aim to accelerate our income growth by maximizing the sales and cost synergies resulting from integration as quickly as possible. High income growth will provide the funds necessary to fuel R&D investment, which is essential to our global competitiveness. We aim to build a solid presence in Japan and in the world market by continually creating innovative new pharmaceuticals and services, allowing us to respond to the world’s health needs as a Japan-Based Global Pharma Innovator.

Further Efficiency Improvements with Full Integration

Sankyo and Daiichi Pharmaceutical will complete their integration process in April 2007, and DAIICHI SANKYO will then commence operations as a business corporation. In preparation for business integration, a specialist team with members from each company is currently examining related matters, including shared group infrastructure, business areas covered by integration, functions, organizations and operational processes. The aim of these studies is to develop policies based on each company’s strengths and areas of excellence. The ultimate aim is to create the best possible structures for the integrated company, even if this requires total rebuilding.

The integration process has been divided into four phases: planning, design, transition preparation and transition. We are currently in the transition preparation phase. Based on the blueprint created for the new company during the design phase, we are formulating and preparing the transition plan, preparing for the establishment of the new company, and designing, developing and testing systems.

In October 2005, we established the Global Executive Meeting of Research and Development (GEMRAD) as a new decision-making organ for the R&D activities of the DAIICHI SANKYO Group. GEMRAD is now taking steps to optimize these activities, including the unification of R&D pipelines and prioritization of goals.

In addition, we commenced joint sales promotion activities in Japan for Olmetec® in November 2005 and Cravit® in April 2006. These efforts are already starting to yield results.

Integration in Japan was preceded by the integration of operations in the U.S, resulting in the establishment of DAIICHI SANKYO, INC. in April 2006. We aim to strengthen our sales organization in the U.S, which is our most important market. We also plan to integrate our development systems in the U.S and Europe to create a structure to support swift, high-quality development on a global scale.

Integration in Japan started with the healthcare business, and DAIICHI SANKYO HEALTHCARE commenced business operations in April 2006. We have also acquired Zepharma Inc. The early establishment of a robust management infrastructure capable of supporting continued investment in R&D and brand development in the healthcare segment is an essential part of our preparations for the full integration of Daiichi Pharmaceutical and Sankyo by April 2007. We aim to achieve rapid growth in the healthcare area by using the full potential of the brands that we have built over many years, while also strengthening our competitiveness in other areas, such as the development of OTC-switched drugs based on ethical pharmaceutical products. Our medium- to long-term goal is to build a business with sales of ¥100 billion.

Building a Future as a Japan-Based Global Pharma Innovator

Although DAIICHI SANKYO has, through business integration, signaled its intention to compete globally, we have only just begun. Business integration is our first milestone. Our ultimate vision is to become a Japan-Based Global Pharma Innovator, and enjoy a solid presence in the world market and a flagship position in the Japanese pharmaceutical industry, which is one of the leading growth industries that will form the foundation for Japan's role in the 21st century as a country dedicated to creative science and technology.

Corporate integration must encompass both the business "hardware", such as organizations, functions and mechanisms, and the "software" aspects, such as values and culture. We recognize that integration on both of these levels is essential if we are to achieve industry leadership based on the efficiency of our business operations. The sharing of our corporate philosophies, visions and values, and the fusion of the best in our corporate DNAs are absolutely essential.

Reaching this goal will not be an easy, and cannot be done through the efforts of just a few people. Every employee will need to approach the task with strong motivation and ambitious goals. The power and ability of each individual is the source of our corporate competitiveness and value. If every employee continuously appraises his or her performance with a view to improvement, the cumulative effect will be enhanced management quality, the expansion of corporate value and the achievement of true global competitiveness.

Fiscal 2006 will be the year in which we complete our business integration, further strengthen our competitiveness and generate new synergies. We will start fiscal 2007 as a truly integrated entity, the DAIICHI SANKYO Group, and confidently embark on our new voyage toward our future as a Japan-Based Global Pharma Innovator.

Building a Corporate Culture of Self-Renewal and a Challenging Spirit

We believe that people are our most important management resource. The achievements of a business organization ultimately consist of the cumulative achievements of individual employees. The human resource policy of DAIICHI SANKYO states that to maximize organizational achievements we must nurture professionals and provide working conditions in which they can achieve excellent results as individuals.

Integration will be an excellent opportunity for all employees to take a new look at their strengths and fields of specialization, and ascertain what is expected of them by their coworkers. We all need to polish our specialties and build our strengths. Together we will strengthen our potential as individuals and as an organization, so that we can develop a corporate culture based on self-renewal and accepting challenges.

Daiichi-Sankyo

Social Contribution Activities

Commitment to Corporate Social Responsibility

We will work to ensure that the behavior of our organization and that of individual employees are based on high ethical values and in keeping with social and environmental expectations. As a life-related company, DAIICHI SANKYO has an important responsibility to ensure that its products are safe and effective. It also has social responsibilities in relation to compliance and environmental protection. In recent years, society has been shocked on numerous occasions by news of deception, fraud and deceit. We are keenly aware that such betrayals of society's trust can instantly destroy a company's reputation and place its very survival in jeopardy. We will therefore continue to take great care to comply with laws and regulations, including those relating to the handling of personal information, and to show consideration for society and the environment.

Our Social Contribution Initiatives

Sankyo and Daiichi Pharmaceutical have sponsored a variety of sports activities, such as family soccer clinics and the All-Japan Lifesaving Championship, and artistic and cultural activities, such as performances by the Shiki Theatre Company musical and drama group and the Mito Chamber Orchestra. Other social contribution activities include giving public lectures on general health-related themes. We will continue to support these activities as DAIICHI SANKYO.

Family Soccer Clinic Jointly Hosted by DAIICHI SANKYO Group and the J-League Pro-Footballers Association

The "Family Soccer Clinic" was established in 2005 with the active cooperation of J-League players. The purpose is to encourage children to discover the pleasure of sport through soccer and to contribute to their healthy physical and mental development. Employees of the DAIICHI SANKYO Group are helping to run this initiative on a voluntary basis, thereby gaining a greater awareness of the importance of voluntary activities.

Scene from "The Phantom of the Opera", performed by the Shiki Theater Company (photo by Atsutoshi Shimosaka)

Sponsoring the Shiki Theater Company

The DAIICHI SANKYO Group supports established artists and artistic groups as part of its contributions to global health culture. As a major part of these activities, the group has been supporting the Shiki Theater Company since 1986, and is at present sponsoring the Andrew Lloyd Webber masterpiece "The Phantom of the Opera".

Corporate Governance

We recognize the improvement of shareholder value as a key management priority. This is reflected in our determination to maintain high standards of compliance and transparency in our business activities, to ensure that our decision-making is prompt and appropriate, and to strengthen our supervision of management and executive actions.

Our directors serve for one year. The purpose of this policy is to create an optimized management structure in which the executive responsibilities of directors are clearly defined and enable us to adapt flexibly to changes in the business environment.

By electing four directors from outside of the Group, we have ensured management transparency while strengthening supervisory functions across the entire range of operations. The Board of Directors normally meets once a month to make decisions on business operations and supervise the performance of directors' duties. The Operating Officers who carry out business operations are selected by the Board of Directors for one-year terms of office. They are given responsibility for specific aspects of corporate operations under the direction of a representative director. Employees with advanced specialist capabilities in relation to their areas of responsibility are appointed as Operating Officers.

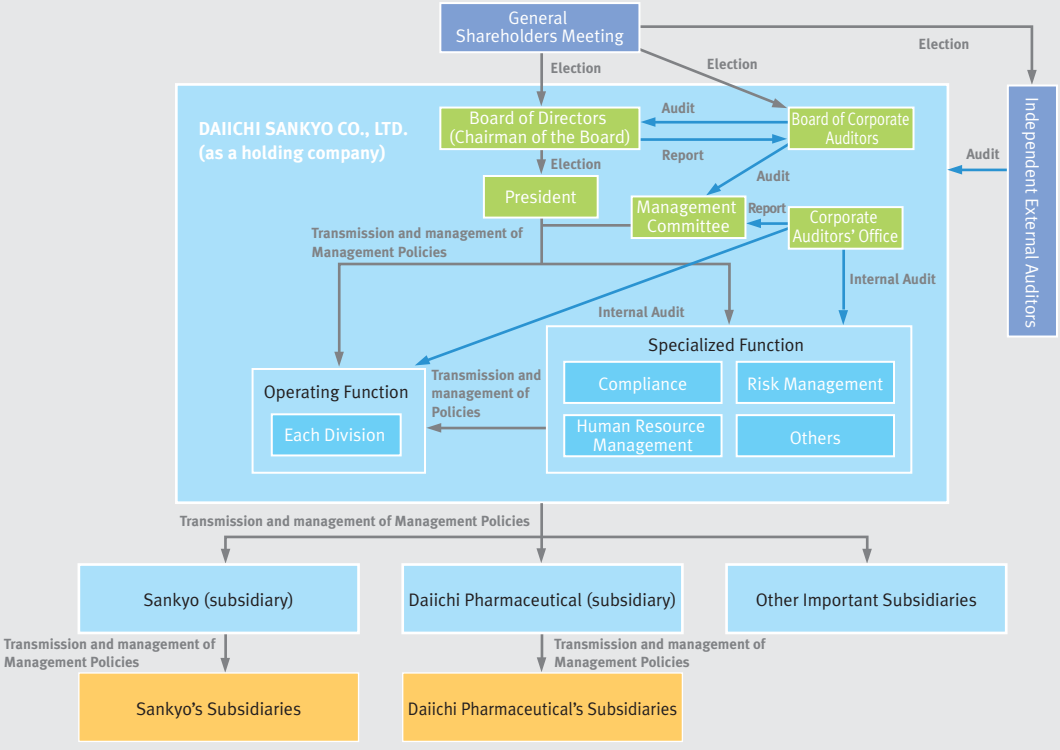
The Management Committee meets in principle twice a week. Participants discuss the performance of operations and work to improve our ability to make prompt, appropriate management decisions.

DAIICHI SANKYO has adopted the corporate auditor system. Our four-member Board of Auditors, which includes outside auditors, audits management activities to ensure compliance with laws and regulations and management soundness. In accordance with our audit plan, internal audits are implemented by the Board of Auditors. Areas covered by these audits include compliance systems, risk management systems and internal control systems.

Risk Management

We define risks as situations that, as a result of serious incidents, accidents or problems, have the potential to cause serious harm to the corporate activities of DAIICHI SANKYO. We have formulated internal risk management regulations in which we have defined activities intended to anticipate and prevent such risks, or to minimize the impact in the unlikely event that losses are incurred as a result of a risk factor.

Corporate Governance Structure



Board of Directors

Front row (from left):	Board Member	Representative Directors and Chairperson	Representative Directors and President	Board Member
	Yasuhiro Ikegami	Kiyoshi Morita	Takashi Shoda	Hiroyuki Nagasako

Back row (from left):	Outside Board Member	Outside Board Member	Board Member	Board Member	Outside Board Member	Outside Board Member
	Jotaro Yabe	Kunio Nihira	Tsutomu Une	Yukio Sugimura	Yoshifumi Nishikawa	Katsuyuki Sugita

Directors

Representative Directors and Chairperson	Kiyoshi Morita
Representative Directors and President	Takashi Shoda
Board Member	Hiroyuki Nagasako
Board Member	Yasuhiro Ikegami
Board Member	Tsutomu Une
Board Member	Yukio Sugimura
Outside Board Member	Kunio Nihira
Outside Board Member	Yoshifumi Nishikawa
Outside Board Member	Jotaro Yabe
Outside Board Member	Katsuyuki Sugita

Corporate Auditors

Corporate Auditor	Kozo Wada
Corporate Auditor	Atsuo Inoue
Outside Corporate Auditor	Kaoru Shimada
Outside Corporate Auditor	Koukei Higuchi

Corporate Officers

Corporate Officer	Yoshikazu Takano
Corporate Officer	Manabu Sakai
Corporate Officer	Akihiko Ozawa
Corporate Officer	Toshio Takahashi
Corporate Officer	Akio Ozaki
Corporate Officer	Toshiro Minotani

Financial Section

Contents

Consolidated Financial Summary DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2006	2006
Operating Results:		
Net sales	¥925,918	$7,913,829
Cost of sales	290,736	2,484,923
Selling, general and administrative expenses	321,738	2,749,897
Research and development expenses	158,716	1,356,547
Interest expense	313	2,675
Income before income taxes and minority interests	136,892	1,170,018
Net income	87,693	749,513
Net income per share of common stock (yen and U.S.dollars)	119.49	1.02
Dividends paid	17,327	148,094
Financial Position:		
Total current assets	958,483	8,192,162
Net property, plant and equipment	289,713	2,476,179
Total assets	1,596,127	13,642,111
Total current liabilities	236,833	2,024,214
Total long-term liabilities	110,155	941,496
Total shareholders' equity	1,237,529	10,577,171
Financial Indicators (% and persons):		
Pre-tax profit margin (Income before income taxes and minority interests in net income of consolidated subsidiaries to net sales)	14.8	14.8
Net profit margin (Net income to net sales)	9.5	9.5
Return on shareholders' equity (Net income to average shareholders' equity)	7.3	7.3
Shareholders' equity to total assets	77.5	77.5
Research and development expenses as a percentage of net sales	17.1	17.5
Number of employees	18,434	18,434

Operating Results and Financial Analysis

THE STATE OF THE CORPORATE GROUP

DAIICHI SANKYO CO., LTD. was established as a joint stock holding company through a transfer of shares on September 28, 2005. Because the period under review was the Company's first accounting period, there are no year-on-year comparisons in this report. The results for the current period were calculated by adding the consolidated results of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. for the period from April 1, 2005 to March 31, 2006, to the results for DAIICHI SANKYO for the period from September 28, 2005 to March 31, 2006.

The DAIICHI SANKYO Group consists of 82 companies, including DAIICHI SANKYO and its 2 subsidiaries, together with the 71 subsidiaries and 8 affiliates of Sankyo and Daiichi Pharmaceutical. Its main business activities are the manufacture and sale of pharmaceuticals, but it also manufactures and sells other products, such as foodstuffs, agricultural chemicals and chemical products.

OVERVIEW OF PERFORMANCE

The world pharmaceutical market continued to show reasonable growth, driven primarily by the U.S. market. However, market participants had to cope with an increasingly borderless market environment, ever more stringent standards for newly developed drugs, and escalating competition among global mega-companies in the areas of R&D and sales.

There were also changes in the Japanese market, which increasingly showed the effects of measures to curb health expenditure, including the conversion of national university hospitals into independent administrative corporations, and the adoption of comprehensive assessment systems for hospitalization and treatment costs in a growing number of institutions. Another challenge in the business environment was the intensification of competition among major drug manufacturers, including foreign manufacturers, who have become a major presence in the Japanese market.

The DAIICHI SANKYO Group's marketing activities in this environment continued to be guided by a fundamental commitment to product safety and effectiveness. We have sought to ensure the appropriate use of our products by providing users and professionals with accurate information.

Consolidated net sales in our first accounting period (the period ended March 31, 2006) amounted to ¥925.9 billion. As for sales in Japan, the main changes were the contributions of the antihypertensive drugs Olmetec® and Calblock, the broad-spectrum oral antibacterial agent Cravit®, and Artist®, which is used to treat high blood pressure, angina, and chronic heart failure. In the United States, the bulk synthetic antibacterial agent *Levofloxacin* and the antihypertensive drug Benicar® contributed to sales, while Olmetec® contributed to sales in Europe.

We worked to maximize income by reducing costs. The cost of sales amounted to ¥290.7 billion, or 31.4% of net sales. Selling, general and administrative expenses amounted to ¥480.5 billion, and operating income was ¥154.7 billion. As for other income (expenses), expenses amounted to ¥17.8 billion, resulting in a net income of ¥87.7 billion.

SALES BY BUSINESS SEGMENT

■ Pharmaceuticals

This business segment consists of the prescription drug business and the healthcare (OTC drug) business. In this segment, the DAIICHI SANKYO Group manufactures and sells prescription drugs, OTC drugs and quasi-drugs (a Japanese classification for regulated, non-prescription drugs). Sales in this segment amounted to ¥784.7 billion.

Within Japan, the effects of government measures to curb health expenditure, including increased efforts to encourage the use of generic drugs, continued to spread through the market for prescription drugs. A review of drug prices under Japan's National Health Insurance reimbursement system resulted in price cuts averaging 6.7% across the pharmaceutical industry. This brought additional uncertainty to the market environment.

Sales of the antihyperlipidemic agent Mevalotin® decreased in this market environment. However, higher sales of the broad-spectrum oral antibacterial agent Cravit® and the antihypertensive drug Olmetec®, as well as a one-off payment relating to the approval of the manufacture and sale of the anti-platelet agent Plavix, helped to boost sales in Japan to ¥431.4 billion.

Overseas sales of prescription drugs benefited from increased demand for the antihypertensive drug sold as Benicar® in the U.S. and Olmetec® in Europe, and firm trends in sales of the synthetic antibacterial agent *Levofloxacin*. Despite decreased sales of the antihyperlipidemic agent *Pravastatin*, caused by the expiration of patent protection and increased competition in the U.S., exchange gains resulting from the depreciation of the yen helped to push overseas sales to ¥289.5 billion.

Market stagnation and the emergence of competing products were reflected in slower sales of the hair-growth accelerator Karoyan Gush and the vitamin C preparation Cystina C. However, sales of Lamisil AT, an OTC-switched product used to treat athlete's foot and ringworm, were buoyant, and total sales in this segment reached ¥27.9 billion.

■ Other Activities

This segment includes food products, agrochemicals and chemicals. Sales amounted to ¥141.3 billion.

The DAIICHI SANKYO Group plans to focus its resources on the pharmaceutical business. To this end, the Company plans to spin off the non-pharmaceutical businesses as independent enterprises, and thereby to realize greater operational efficiency.

PERFORMANCE BY GEOGRAPHICAL SEGMENT

■ Japan

Consolidated net sales amounted to ¥752.8 billion. Key factors influencing sales performance in the area of pharmaceuticals included slower domestic sales of the antihyperlipidemic agent Mevalotin® and slower exports of *Pravastatin* bulk. On the positive side, there was growth in sales of the antihypertensive drug Olmetec® and the broad-spectrum oral antibacterial agent Cravit® and exports of *Levofloxacin* bulk, as well as a one-off payment relating to approval for the manufacture and sale of the anti-platelet agent Plavix.

■ North America

Consolidated net sales amounted to ¥116.1 billion. The main change affecting the pharmaceutical business was a dramatic increase in sales of the antihypertensive drug Benicar®.

■ Europe and Other Regions

Consolidated net sales amounted to ¥57.1 billion. While sales of the antihyperlipidemic agent Mevalotin® were slower, there was a pleasing increase in sales of the antihypertensive drug Olmetec®.

GROSS PROFIT ON SALES

The cost of sales was ¥290.7 billion (31.4% of net sales), and gross profit on sales was ¥635.2 billion. These results reflect our efforts to improve our cost structure and reduce the number of products with high cost ratios, as well as the reduction of manufacturing costs through the restructuring of the factories of Daiichi Pharmaceutical Co., Ltd. as separate companies.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses, excluding R&D expenses, were ¥321.7 billion. R&D expenses amounted to ¥158.7 billion, or 17.1% of net sales.

The R&D activities of the DAIICHI SANKYO Group focus primarily on pharmaceutical products, but the Group also conducts R&D for its other business segments. In the pharmaceutical segment, the aim is to create innovative world-class drugs and bring them to market as quickly as possible by concentrating R&D investment into priority fields. The ultimate goal of our R&D activities is the evolution of the DAIICHI SANKYO Group into a Japan-Based Global Pharma Innovator.

The establishment of an integrated decision-making organization for R&D is a crucial aspect of the integration of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. By unifying the R&D management of both companies, we aim to accelerate priority projects with the potential to drive future corporate growth.

Products under development by Sankyo Co., Ltd. include Loxonin® Patch (generic name: sodium loxoprofen), an analgesic and anti-inflammatory drug designed to be absorbed through the skin. This product was approved in January 2006 and went on sale in May. Daiichi Pharmaceutical Co., Ltd. and Kissei Pharmaceutical Co., Ltd. have jointly developed the dysuria drug Urief (generic name: silodosin) and the anti-platelet agent Plavix (generic name: clopidogrel sulfate). These products were approved in January 2006 and went on sale in May. In September 2005, Daiichi Pharmaceutical reached agreement on the transfer of all commercial rights for Plavix to the Sanofi-Aventis Group. Under this agreement, the manufacturing and sales approvals gained in March were taken over by Sanofi-Aventis K.K., which is the Japanese subsidiary of Sanofi-Aventis. DAIICHI SANKYO will continue to cooperate with Sanofi-Aventis in the manufacturing and promotion of the product.

In January 2006, Sankyo acquired exclusive worldwide development, manufacturing and sales rights for KAI-9803 from Kai Pharmaceuticals, Inc. This drug, which is currently undergoing Phase 1 and 2 trials in the United States, has been assigned the development number CS-9803 by DAIICHI SANKYO. It will be used to treat myocardial infarction and cerebral infarction. DAIICHI SANKYO will continue to develop this product in cooperation with Kai Pharmaceuticals.

Among the products under development by Sankyo was CS-505, which was to be used to treat arteriosclerotic disease. However, during Phase 2 trials in the U.S., this substance failed to produce the anticipated effects, and development by the DAIICHI SANKYO Group was therefore discontinued. The DAIICHI SANKYO Group also decided to discontinue development of Fidarestat, which was being developed in collaboration with Sanwa Kagaku Kenkyusho Co., Ltd. for use in the treatment of diabetic neuropathy. This decision was based on our policy of concentrating R&D resources into selected areas.

The results of a mega-study involving the Sankyo product *Pravastatin* (DAIICHI SANKYO name: Mevalotin®) were presented at the November 2005 conference of the American Heart Association. This study commenced in 1993 as a contract research project for the Japanese Ministry of Health, Labor and Welfare (then the Ministry of Health). Around 8,000 hyperlipemia patients participated in the study, the purpose of which was to monitor effects of primary preventive treatment for cardiovascular disease through observations spanning more than five years. It was the first study on this scale ever implemented in Japan. The results provided new evidence of the importance of hyperlipemia treatment in Japan. DAIICHI SANKYO will continue to disseminate appropriate and accurate information about the results to medical professionals.

R&D expenses in this segment amounted to ¥153.6 billion. Expenses on R&D in other areas was ¥5.1 billion. Most of this spending related to food products, agrochemicals and chemicals.

OPERATING INCOME

Operating income in the consolidated accounting period ended March 31, 2006 amounted to ¥154.7 billion, or 16.7% of net sales. The pharmaceuticals segment contributed ¥148.1 billion of this total, and other business activities ¥6.1 billion.

OTHER INCOME (EXPENSES)

Other income (expenses) amounted to expenses of ¥17.8 billion. This total includes interest and dividend income of ¥5.3 billion, loss on disposal and write-down of inventories of ¥1.6 billion, ¥5.0 billion in income from sales of fixed assets, ¥1.1 billion from the disposal of shares in subsidiaries and affiliates, ¥5.6 billion in losses on the disposal of fixed assets, and ¥5.3 billion in asset impairment losses.

NET INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS

Net income before income taxes and minority interests amounted to ¥136.9 billion.

NET INCOME

Net income for the period ended March 31, 2006 was ¥87.7 billion. Income taxes amounted to ¥49.2 billion, or 35.9% of income before income taxes and minority interests.

DIVIDENDS

The DAIICHI SANKYO Group regards the distribution of returns from its business activities as one of its most important management priorities. Business performance and capital efficiency are key considerations in our policy on profit distribution, but decisions are based on a variety of factors that also include the need to finance investment in new growth strategies and build up internal reserves. Our medium-term target for dividends is to raise our dividend-on-equity (DOE) ratio to 5% by fiscal 2009, through steady, continuing increases.

This policy was reflected in the final dividend for the period ended March 31, 2006, which was set at ¥25 per share. This brought the total dividend, including the ¥25 interim dividend paid on December 12, 2005, to ¥50 per share. These figures translate into a consolidated dividend payout ratio of 40.5%, and a consolidated dividend-on-equity ratio of 2.9%.

LIQUIDITY AND FINANCIAL POSITION

Total assets as of March 31, 2006 amounted to ¥1,596.1 billion. This total breaks down into current assets of ¥958.5 billion and, concerning fixed assets, tangible fixed assets of ¥289.7 billion and investments and other assets of ¥347.9 billion.

Total liabilities amounted to ¥347.0 billion. This figure consists of ¥236.8 billion in current liabilities and ¥110.2 billion in fixed liabilities.

Shareholders' equity as of March 31, 2006 amounted to ¥1,237.5 billion, and the shareholders' equity ratio stood at 77.5%. Shareholders' equity per share was ¥1,696.97.

CASH FLOWS

■ Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥132.8 billion. This figure includes income before income taxes and minority interests of ¥136.9 billion, depreciation expenses of ¥41.1 billion, and income taxes and other payments of ¥53.0 billion.

■ Cash Flows from Investing Activities

Net cash used in investing activities amounted to ¥39.3 billion. This includes expenditure of ¥48.6 billion on the acquisition of tangible and intangible fixed assets, and ¥10.3 billion on the acquisition of shares in subsidiaries.

■ Cash Flows from Financing Activities

Cash used in financing activities amounted to ¥50.1 billion. This includes expenditure of ¥16.6 billion for purchases of treasury stock, dividends of ¥17.3 billion, and stock transfer payments of ¥17.2 billion.

These activities were reflected in cash and cash equivalents, which amounted to ¥401.0 billion as of March 31, 2006.

OUTLOOK FOR THE YEAR ENDING MARCH 2007

Challenging market conditions are expected to persist in Japan and overseas in the coming year. However, we will use the combined marketing forces of the DAIICHI SANKYO Group to strengthen our market presence and income base, and we also continue to target further improvements in our operating efficiency.

We anticipate an extremely challenging sales environment. Negative factors include the expiration of patent coverage for *Pravastatin* in the U.S., as well as the effects of drug price changes under Japan's National Health Insurance reimbursement system. On the positive side, we will be able to use our powerful and skilled sales force in the Japanese prescription drug market to strengthen marketing of key products, including the antihypertensive drug Olmetec®, the antihyperlipidemic agent Mevalotin® and the broad-spectrum oral antibacterial agent Cravit®. We will also work to gain market acceptance for Urief, a new product launched in May 2006 for use in the treatment of dysuria caused by prostate enlargement.

In overseas prescription drug markets, we will work to expand sales of the antihypertensive drug sold as Benicar® in the U.S. and Olmetec® in Europe through the prioritized investment of resources. We will also build closer cooperative relationships with partner companies as the basis for continuing efforts to promote key products, including the bulk for the antihyperlipidemic agent *Pravastatin* and the synthetic antibacterial agent *Levofloxacin*.

We will continue to expand and strengthen our business base in the healthcare segment, including separation and integration of the healthcare operations of Sankyo Co., Ltd. and Daiichi Pharmaceutical Co., Ltd. We have also acquired all shares in Zepharma Inc.

Based on these conditions, we expect sales to decline by 6.6% to ¥865.0 billion.

Income will be affected by our continuing prioritized investment in R&D, expenditure relating to the reinforcement of our overseas sales infrastructure, and costs associated with preparations for full management integration in April 2007. However, all DAIICHI SANKYO Group companies will continue to restructure and reform their operations, and we will also continue our efforts to reduce the cost of sales, minimize operating expenses, secure income levels, and optimize operating efficiency. We also aim to separate all non-pharmaceutical businesses from the DAIICHI SANKYO Group as fully independent companies by March 2007.

On this basis, we expect operating income to decline by 30.2% to ¥108.0 billion, and net income to decline by 46.4% to ¥47.0 billion.

Projected results for overseas subsidiaries in the coming business year were converted into yen using exchange rates of ¥115 to the dollar and ¥135 to the euro.

Though we are anticipating reduced sales and income in the year ending March 31, 2007, we plan to increase the annual dividend by ¥10 to ¥60. This decision is in line with our basic policy of steadily increasing the dividend until the dividend-on-equity (DOE) ratio reaches our medium-term target of 5%.

BUSINESS RISK AND OTHER 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).

■ 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.

■ 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.

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 a rival product 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.

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.

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.

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.

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.

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.

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.

Consolidated Balance Sheets DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries

March 31, 2006

	Millions of yen	Thousands of U.S. dollars (Note 1)
ASSETS	**2006**	**2006**
Current Assets:		
Cash and time deposits (Note 3)	¥223,979	$1,914,350
Marketable securities (Notes 3 and 4)	274,510	2,346,239
Trade notes and accounts receivable, net of allowance of ¥599 million ($5,120 thousand) in 2006	239,575	2,047,649
Inventories (Note 5)	121,694	1,040,120
Deferred tax assets (Note 8)	40,911	349,667
Other current assets	57,814	494,137
Total current assets	958,483	8,192,162
Property, Plant and Equipment (Note 6)**:**		
Land	48,892	417,880
Buildings and structures	368,354	3,148,325
Machinery, equipment and vehicles	405,575	3,466,453
Construction in progress	10,011	85,564
	832,832	7,118,222
Accumulated depreciation	(543,119)	(4,642,043)
Net property, plant and equipment	289,713	2,476,179
Investments and Other Assets:		
Investment securities (Note 4)	256,338	2,190,923
Long-term loans receivable, net of allowance of ¥530 million ($4,530 thousand) in 2006	5,625	48,077
Deferred tax assets (Note 8)	7,403	63,274
Other	78,565	671,496
Total Investments and other assets	347,931	2,973,770
Total assets	¥1,596,127	$13,642,111

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2006	Thousands of U.S. dollars (Note 1) 2006
Current Liabilities:		
Short-term bank loans (Note 7)	¥ 12,648	$ 108,103
Long-term debt due within one year (Note 7)	899	7,684
Trade notes and accounts payable	105,088	898,188
Income taxes payable (Note 8)	26,170	223,675
Accrued expenses	77,292	660,615
Other current liabilities (Note 8)	14,736	125,949
Total current liabilities	236,833	2,024,214
Long-Term Liabilities:		
Long-term debt (Note 7)	3,375	28,846
Accrued employees' severance and retirement benefits (Note 10)	68,322	583,949
Accrued directors' severance and retirement benefits	3,140	26,838
Deferred tax liabilities (Note 8)	23,927	204,504
Other long-term liabilities	11,391	97,359
Total long-term liabilities	110,155	941,496
Total liabilities	346,988	2,965,710
Minority Interests	11,610	99,230
Commitments and Contingencies (Note 12)		
Shareholders' Equity (Note 11)**:**		
Common stock:		
Authorized 2,800,000,000 shares in 2006		
Issued 735,011,343 shares in 2006	50,000	427,350
Additional paid-in-capital	179,858	1,537,248
Retained earnings	936,513	8,004,385
Net unrealized gain on investment securities	80,255	685,940
Foreign currency translation adjustment	735	6,282
	1,247,361	10,661,205
Treasury stock, at cost	(9,832)	(84,034)
Total shareholders' equity	1,237,529	10,577,171
Total liabilities, minority interests and shareholders' equity	¥1,596,127	$13,642,111

See accompanying notes.

Consolidated Statements of Income DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries

Years ended March 31, 2006

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2006	**2006**
Net Sales (Note 13)	¥925,918	$7,913,829
Costs and Expenses (Note 13)**:**		
Cost of sales	290,736	2,484,923
Selling, general and administrative expenses	321,738	2,749,897
Research and development expenses	158,716	1,356,547
	771,190	6,591,367
Operating Income (Note 13)	154,728	1,322,462
Other Income (Expenses):		
Interest and dividend income	5,322	45,487
Interest expense	(313)	(2,675)
Gain from the return of the substitutional portion of the employees' pension fund to the government (Note 10)	164	1,402
Loss on settlement of vitamin-related anti-trust litigations	(1,126)	(9,624)
Gain on sale of property, plant and equipment	4,897	41,855
Gain on sale of investments in affiliates	1,180	10,085
Loss on disposal of property, plant and equipment	(5,550)	(47,436)
Loss on business integration (Note 9)	(9,893)	(84,556)
Loss on impairment of property, plant and equipment (Note 9)	(5,254)	(44,906)
Provision for contingent losses	(3,380)	(28,889)
Provision for soil remediation costs	(2,850)	(24,359)
Restructuring charge	(1,153)	(9,855)
Equity in net losses of affiliated companies	(349)	(2,983)
Other, net	469	4,010
	(17,836)	(152,444)
Income before Income Taxes and Minority Interests	136,892	1,170,018
Income Taxes (Note 8)**:**		
Income tax expense–current	54,207	463,308
Income tax benefit–deferred	(5,011)	(42,829)
Income before Minority Interests	87,696	749,539
Minority Interests in Net Income of Consolidated Subsidiaries	(3)	(26)
Net Income	¥87,693	$749,513

	Yen	U.S. dollars (Note 1)
Amounts per Share of Common Stock (Note 2):		
Net income	¥119.49	1.02
Diluted net income	119.47	1.02
Cash dividends applicable to the year	25.00	0.21

See accompanying notes.

Consolidated Statements of Shareholders' Equity DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries

Years ended March 31, 2006

	Millions of yen						
	Number of shares of common stock (thousands)	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on investment securities	Foreign currency translation adjustment	Treasury stock, at cost
Balance at March 31, 2005	735,011	¥50,000	¥180,027	¥956,658	¥44,097	¥8,332	¥(69,028)
Loss on disposal of treasury stock	—	—	(169)	—	—	—	—
Net income	—	—	—	87,693	—	—	—
Cash dividends (¥25.00 per share)	—	—	—	(17,311)	—	—	—
Share transfer payment	—	—	—	(17,168)	—	—	—
Bonuses to directors	—	—	—	(406)	—	—	—
Retirement of treasury stock	—	—	—	(72,419)	—	—	—
Loss on reissuance of treasury stock	—	—	—	(298)	—	—	—
Decrease due to changes in scope of consolidation	—	—	—	(236)	—	—	—
Adjustment of net unrealized holding gains on securities	—	—	—	—	36,158	—	—
Adjustment from translation of foreign currency financial statements	—	—	—	—	—	(7,597)	—
Decrease in treasury stock	—	—	—	—	—	—	59,196
Balance at March 31, 2006	735,011	¥50,000	¥179,858	¥936,513	¥80,255	¥735	¥(9,832)

	Thousands of U.S. dollars (Note 1)					
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized gain on investment securities	Foreign currency translation adjustment	Treasury stock, at cost
Balance at March 31, 2005	$427,350	$1,538,692	$8,176,564	$376,897	$71,214	$(589,983)
Loss on disposal of treasury stock	—	(1,444)	—	—	—	—
Net income	—	—	749,513	—	—	—
Cash dividends ($0.21 per share)	—	—	(147,957)	—	—	—
Share transfer payment	—	—	(146,735)	—	—	—
Bonuses to directors	—	—	(3,470)	—	—	—
Retirement of treasury stock	—	—	(618,966)	—	—	—
Loss on reissuance of treasury stock	—	—	(2,547)	—	—	—
Decrease due to changes in scope of consolidation	—	—	(2,017)	—	—	—
Adjustment of net unrealized holding gains on securities	—	—	—	309,043	—	—
Adjustment from translation of foreign-currency financial statements	—	—	—	—	(64,932)	—
Decrease in treasury stock	—	—	—	—	—	505,949
Balance at March 31, 2006	$427,350	$1,537,248	$8,004,385	$685,940	$6,282	$(84,034)

Consolidated Statements of Cash Flows DAIICHI SANKYO COMPANY, LIMITED and Consolidated Subsidiaries

Years ended March 31, 2006

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2006	**2006**
Cash Flows from Operating Activities:		
Income before income taxes and minority interests	¥136,892	$1,170,018
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:		
Depreciation	41,129	351,530
Loss on impairment of property, plant and equipment	5,254	44,906
Amortization of consolidation differences	1,424	12,171
Decrease in allowance for doubtful accounts	(27)	(231)
Decrease in accrued severance and retirement benefits	(3,315)	(28,333)
Increase in prepaid pension costs	(1,814)	(15,504)
Interest and dividend income	(5,322)	(45,487)
Interest expense	313	2,675
Loss on disposal of property, plant and equipment	653	5,581
Loss on settlement of vitamin-related anti-trust litigations	1,126	9,624
Equity in net losses of affiliated companies	349	2,983
Decrease in trade notes and accounts receivable	11,652	99,590
Decrease in inventories	8,252	70,530
Decrease in trade notes and accounts payable	(6,990)	(59,744)
Other, net	(7,662)	(65,487)
Subtotal	181,914	1,554,822
Interest and dividends received	5,286	45,179
Interest paid	(313)	(2,675)
Fines,penalties and legal settlement paid	(1,126)	(9,624)
Income taxes paid	(53,001)	(453,000)
Net cash provided by operating activities	132,760	1,134,702
Cash Flows from Investing Activities:		
Purchases of time deposits	(5,140)	(43,932)
Proceeds from maturities in time deposits	4,409	37,684
Purchases of marketable securities	(86,578)	(739,983)
Proceeds from sales of marketable securities	119,972	1,025,402
Acquisitions of property, plant and equipment	(41,798)	(357,248)
Proceeds from sale of property, plant and equipment	5,471	46,761
Acquisitions of intangible assets	(6,788)	(58,017)
Acquisitions of investment securities	(38,975)	(333,120)
Proceeds from sales of investment securities	16,095	137,564
Acquisitions of investments in subsidiaries resulting in changes in percentage of equity holding	(10,268)	(87,761)
Proceeds from sale of investments in consolidated subsidiaries resulting in changes in scope of consolidation (Note 3)	642	5,487
Payment for loans receivable	(2,451)	(20,949)
Proceeds from collection of loans receivable	1,837	15,701
Other, net	4,313	36,864
Net cash used in investing activities	(39,259)	(335,547)
Cash Flows from Financing Activities:		
Net decrease in short-term bank loans	(2,287)	(19,547)
Proceeds from long-term debt	1,110	9,487
Repayments of long-term debt	(1,204)	(10,291)
Purchases of treasury stock	(16,611)	(141,974)
Proceeds from sale of treasury stock	2,920	24,957
Dividends paid	(17,327)	(148,094)
Stock transfer payments	(17,168)	(146,735)
Other, net	460	3,932
Net cash used in financing activities	(50,107)	(428,265)
Effect of Exchange Rate Changes on Cash and Cash Equivalents	3,794	32,427
Net increase in Cash and Cash Equivalents	47,188	403,317
Cash and Cash Equivalents, Beginning of Year	354,102	3,026,513
Decrease in Cash and Cash Equivalents due to Changes in Scope of Consolidation	(323)	(2,761)
Cash and Cash Equivalents, at End of Year (Note 3)	¥400,967	$3,427,069

See accompanying notes.

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of DAIICHI SANKYO COMPANY, LIMITED (the "Company ") prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Investments in Affiliated Companies

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

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

The consolidation difference between the cost of an investment and equity in its net assets at the date of acquisition is mainly amortized over 5 years.

Business Combination

The Company was established through a joint stock transfer by Sankyo COMPANY, LIMITED ("Sankyo") and Daiichi Pharmaceutical Company, Limited ("Daiichi") and became the parent company of its wholly owned subsidiaries. The Company accounted for this business combination under the pooling of interests method in accordance with "Consolidation Procedure for Full Parent-subsidiary Relationship Established Utilizing Share Exchange and Transfer System"(JICPA Accounting Committee Research Report No. 6) and, as such, the assets and liabilities of Sankyo and Daiichi are combined at book value. In addition, the Consolidated Statement of Income gives effect to the transaction as if the transaction occurred at the beginning of the fiscal year presented, regardless of when the combination was in effect. As there are no accounting requirements for the financial statements to be restated for prior periods under Japanese GAAP, the opening balances of the fiscal year in the Consolidated Statement of Shareholders' Equity are presented, assuming the Company has existed as of April 1, 2005.

The integration of both wholly owned subsidiaries(Sankyo and Daiichi) has been judged as corresponding to a combination of interest, in consideration of the content of business, financial conditions and earnings records of both wholly owned subsidiaries and because both wholly owned subsidiaries jointly borne Daiichi Sankyo Group's risk and given the Group's benefit.

Cash and cash equivalents and cash flow statements

For the purpose of the consolidated statements of cash flows, the Companies classify cash on hand, readily available bank deposits and short-term, highly liquid investments with maturities of no more than three months at the time of purchase as cash and cash equivalents.

Marketable securities and investment securities

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

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

Derivative transactions

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

Deferral hedge accounting is basically adopted. Interest-rate swaps which meet the criteria to qualify as hedges and satisfy specific criteria are accounted for by a special method stipulated in the accounting standard, as if the interest rates on the swaps were originally applied to the underlying borrowings.

Forward foreign exchange contracts and currency options which meet hedging criteria are accounted for by the allocation method. The allocation method requires that recognized foreign currency receivables or payables be translated at the underlying exchange rates in the corresponding forward foreign exchange contracts and currency options. The subsidiaries which have derivatives positions have also developed hedging policies to control various aspects of these transactions, including establishing authorization levels and limits of transaction volumes. The effectiveness of the interest-rate swaps accounted for by the special method as highly qualified hedges has not been assessed, as permitted under the standard.

The effectiveness of the forward foreign exchange contracts and the currency options as hedges has also not been assessed as the conditions of these transactions are principally the same.

Inventories

Inventories are accounted for at the lower of cost or market, cost being determined principally by the weighted-average method.

Property, plant and equipment

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

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

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

The range of useful lives is from 15 to 50 years for buildings and structures, and from 4 to 7 years for machinery, equipment and vehicles.

Retirement benefits

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

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

Certain of the overseas consolidated subsidiaries provide for such accruals in accordance with accounting principles generally accepted in the countries of their domicile.

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

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

Accompanying the enactment of the Defined Benefit Pension Plan Law, Daiichi received an approval of exemption from the Minister of Health, Labour and Welfare, on January 1, 2005, from the obligations for pension payment liabilities related to past employee service with respect to the substitutional portion of its Employees' Pension Fund, and on May 31, 2005, a payment was made to transfer the plan assets related to the substitutional portion to the government based on the minimum liability. In the year ended

March 31, 2006, as a result of this return of the plan assets, the Company recognized a gain of ¥164 million ($1,402 thousand).

Retirement benefits to directors and corporate statutory auditors of the Company were calculated based on the established guidelines. Payment of such benefits is subject to approval at the shareholders' meeting.

Research and development

Research and development expenses are charged to income when incurred.

Impairment of Fixed Assets

The Companies adopt the accounting standard for the impairment of fixed assets ("Opinion Concerning the Establishment of an Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Council of Japan on August 9,2002) and "Implementation Guidelines No.6 issued by the Accounting Standards Board of Japan on October 31,2003).

Foreign currency translation

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

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

Accounting for certain lease transactions

Finance leases which do not transfer ownership to lessees are accounted for in the same manner as operating leases under accounting principles generally accepted in Japan.

Amounts per share

In computing net income per share of common stock, the average number of shares issued during each fiscal year has been used. For diluted net income per share, both net income and shares outstanding were adjusted to assume the conversion of convertible bonds.

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

Reclassification

Certain reclassifications have been made in the financial statements to conform to the presentation for 2006.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2006 for the consolidated statements of cash flows consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	**2006**
Cash and time deposits	¥223,979	$1,914,350
Less time deposits with maturities extending over three months	(2,902)	(24,803)
Add short-term investments with maturities within three months	179,890	1,537,522
Cash and cash equivalents	¥400,967	$3,427,069

In the year ended March 31, 2006, the Company excluded Nippon Daiya Valve Co., Ltd and F.P. Kakou Co., Ltd. from the scope of consolidation. The amounts of assets and liabilities of the two companies at the time they were excluded from the consolidation, related sale prices of shares amount and proceeds from sale of the investments were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥4,452	$38,051
Non-current assets	939	8,026
Current liabilities	(3,526)	(30,137)
Long-term liabilities	(561)	(4,795)
Gain on sale of shares, net	(303)	(2,589)
Sale prices of shares	1,001	8,556
Cash and cash equivalents owned by the subsidiaries	(359)	(3,069)
Proceeds from sale of shares in consolidated subsidiaries resulting in change in scope of consolidation	¥ 642	$ 5,487

4. MARKET VALUE INFORMATION FOR SECURITIES

(1) At March 31, 2006, the acquisition costs, carrying amounts and fair market values of securities with available market values were as follows:

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

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Securities with market values greater than their carrying amounts:		
Carrying amount	¥ 23,808	$ 203,487
Market value	23,867	203,991
Difference	¥ 59	$ 504
Securities with fair value not exceeding book value:		
Carrying amount	¥126,093	$1,077,718
Market value	124,951	1,067,957
Difference	¥ (1,142)	$ (9,761)

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

	Millions of yen		
	2006		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	¥38,949	¥172,059	¥133,110
Bonds	1,120	1,227	107
Others	2,155	3,276	1,121
Total	¥42,224	¥176,562	¥134,338
Securities with carrying amounts at or less than their acquisition costs:			
Stock	¥ 64	¥ 60	¥ (4)
Bonds	17,097	17,097	—
Others	211	205	(6)
Total	¥17,372	¥ 17,362	¥ (10)

	Thousands of U.S.dollars		
	2006		
	Acquisition cost	Carrying amount	Difference
Securities with carrying amounts greater than their acquisition costs:			
Stock	$332,897	$1,470,590	$1,137,693
Bonds	9,573	10,487	914
Others	18,419	28,000	9,581
Total	$360,889	$1,509,077	$1,148,188
Securities with carrying amounts at or less than their acquisition costs:			
Stock	$ 547	$ 513	$ (34)
Bonds	146,128	146,128	—
Others	1,803	1,752	(51)
Total	$148,478	$ 148,393	$ (85)

The Companies recognized ¥ 301 million ($ 2,573 thousand) as impairment losses of available-for-sale securities with determinable market value in the year ended at March 31, 2006.

(2) At March 31, 2006, carrying amounts of securities without determinable market values were as follows:

(a) Held-to-Maturity Securities

	Millions of yen	Thousands of U.S. dollars
	2006	**2006**
Certificates of deposit	¥12,000	$102,564
Commercial paper	84,982	726,342
Others	10	85

(b) Available-for-Sale securities

	Millions of yen	Thousands of U.S. dollars
	2006	**2006**
Money management fund, etc.	¥65,812	$562,496
Unlisted stock	11,847	101,256
Others	10,267	87,752

(3) At March 31, 2006, available-for-sale securities with maturities and held-to-maturity securities were as follows:

	Millions of yen				
	2006				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	¥40,404	¥ 2,994	¥ —	¥ —	¥ 43,398
Corporate bonds	54,206	41,281	11,016	—	106,503
Others	96,992	—	—	—	96,992
Others:	—	1,227	—	—	1,227
Total	¥191,602	¥ 45,502	¥ 11,016	¥ —	¥ 248,120

	Thousands of U.S. dollars				
	2006				
	Within one year	Between one and five years	Between five and ten years	Over ten years	Total
Bonds:					
Government bonds	$ 345,333	$ 25,590	$ —	$ —	$ 370,923
Corporate bonds	463,299	352,829	94,154	—	910,282
Others	828,991	—	—	—	828,991
Others:	—	10,487	—	—	10,487
Total	$ 1,637,623	$ 388,906	$ 94,154	$ —	$2,120,683

(4) Available-for-sale securities sold during the year ended March 31, 2006 were as follows:

Millions of yen			
2006			
Sales amount	Total gain	Total loss	
¥4,593	¥752	¥207	

Thousands of U.S. dollars			
2006			
Sales amount	Total gain	Total loss	
$39,256	$6,427	$1,769	

5. INVENTORIES

Inventories at March 31, 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Finished goods	¥ 62,457	$ 533,821
Work in process and semi-finished products	33,662	287,709
Raw materials and supplies	25,575	218,590
	¥121,694	$1,040,120

6. LEASE INFORMATION

A summary of assumed amounts of acquisition cost, accumulated depreciation and net book value at March 31, 2006 was as follows:

	Millions of yen		
	2006		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	¥21,117	¥(12,718)	¥8,399

	Thousands of U.S. dollars		
	2006		
	Acquisition cost	Accumulated depreciation	Net book value
Machinery, equipment and vehicles	$180,487	$(108,701)	$ 71,786

Future lease payments at March 31, 2006, inclusive of interest under such leases, was as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Due within one year	¥3,176	$27,145
Due after one year	5,223	44,641
	¥8,399	$71,786

Total expenses for finance leases which do not transfer ownership to lessees and assumed depreciation charges for the year ended March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Total expenses	¥4,469	$38,197
Assumed depreciation charges	¥4,469	$38,197

7. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

The weighted-average interest rate on short-term bank loans outstanding was 0.9% at March 31, 2006.

Long-term debt at March 31, 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Secured loans principally from banks and insurance companies, with interest rates ranging from 1.2% to 6.2%	¥4,274	$36,530
Less amount due within one year	(899)	(7,684)
	¥3,375	$28,846

At March 31, 2006, property, plant and equipment amounting to ¥5,568 million ($ 47,590 thousand) and investment securities of ¥766 million ($ 6,547 thousand) were mortgaged or pledged as collateral to secure long-term debt, respectively.

The annual maturities of long-term debt at March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
Year ending March 31,		
2007	¥ 808	$ 6,906
2008	635	5,427
2009	522	4,462
2010	514	4,393
Thereafter	896	7,658
	¥3,375	$28,846

The Company and its consolidated subsidiaries entered into the overdraft contracts and the lines of credit agreements with the various banks in order to borrow their operating funds efficiently. At March 31, 2006, unused overdraft and arrangements amounted to ¥63,000 million ($ 538,462 thousand). The lines of credit have commitment fee requirement.

8. INCOME TAXES

Taxes on income consist of corporation tax, inhabitants' taxes and enterprise taxes. The aggregate statutory tax rate on income before income taxes and minority interests in net income of consolidated subsidiaries was approximately 40.5% for the year ended March 31, 2006. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The actual effective tax rates in the consolidated statements of income differ from the aggregate statutory tax rate principally because of the effect of expenses not deductible for tax purposes. The following table summarizes the significant differences between the statutory tax rate and the Company's effective tax rates for financial statement purposes for the year ended March 31, 2006:

	2006
Statutory tax rate	40.5%
Expenses not deductible for income tax purposes	5.2
Dividend income deductible for income tax purposes	(1.0)
Decrease in valuation allowance	(3.1)
Tax credit for research and development expenses	(6.2)
Other	0.5
Effective tax rates	35.9%

Significant components of the Company's deferred tax assets and liabilities as of March 31, 2006 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Deferred tax assets:		
Accrued severance and retirement benefits	¥ 25,879	$ 221,188
Prepaid consigned research and co-development expenses	21,546	184,154
Depreciation	16,915	144,573
Net operating loss carry forwards for income tax purposes	15,840	135,385
Accrued bonuses	10,331	88,299
Unrealized profit on inventories and loss on valuation of inventories	8,009	68,453
Unrealized holding gains on property, plant and equipment	6,107	52,197
Impairment losses	4,403	37,632
Accrued enterprise taxes	2,182	18,650
Other	20,679	176,742
Valuation allowance	(32,484)	(277,641)
Total deferred tax assets	99,407	849,632
Deferred tax liabilities:		
Net unrealized holding gain on investment securities	(55,031)	(470,350)
Reserve for reduction in bases of property, plant and equipment for income tax purposes	(9,604)	(82,085)
Prepaid pension costs	(6,949)	(59,393)
Other	(3,468)	(29,642)
Total deferred tax liabilities	(75,052)	(641,470)
Net deferred tax assets	¥ 24,355	$ 208,162

Net deferred tax assets as of March 31, 2006 were included in the following accounts of the consolidated balance sheets.

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Deferred income taxes (assets):		
Current	¥40,911	$349,667
Non-current	7,403	63,274
Deferred income taxes (liabilities):		
Current	32	275
Non-current	23,927	204,504

9. OTHER INCOME (EXPENSES)

(1) Loss on Business Integration

The loss represents non-recurring costs associated with integration of the pharmaceutical operations of the Companies. The amount consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Expenses associated with the integration of overseas operations	¥7,087	$60,573
Expenses associated with the integration of healthcare business	968	8,274
Other research expenses	1,838	15,709

(2) Loss on impairment of property, plant and equipment

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

In the year ended March 31, 2006, the Companies recognized loss on impairment in the following asset groups:

Location	Function	Asset Type	Status
Iwaki, Fukushima	Onahama Plant (manufacturing facilities of pharmaceuticals)	Buildings and structures, machinery, equipment and vehicles, etc.	Idle
Shiraishi-ku, Sapporo-shi	Former Sapporo Distribution, Center facility	Land	Idle
Shimotoga-gun, Tochigi	Former Tochigi Research, Center facility	Buildings and structures land, etc.	Idle
Tsuchiura, Ibaraki	Company housing, etc.	Land	Idle
Sanbu, 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 ¥5,254 million ($ 44,906 thousand) were recorded as loss on impairment of property, plant and equipment. The impairment loss consisted of ¥2,443 million ($ 20,880 thousand) associated with buildings and structures, ¥1,889 million ($ 16,145 thousand) associated with machinery, equipment and vehicles, ¥902 million ($ 7,709 thousand) associated with land and ¥20 million ($ 172 thousand) 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.

10. RETIREMENT AND TERMINATION BENEFITS PLANS

Sankyo and its domestic consolidated subsidiaries have unfunded lump-sum severance and retirement benefit plans and qualified pension benefit plans as their primary defined benefit arrangement. In addition, certain of its domestic consolidated subsidiaries participate in a multi-employer employees' pension fund plan. Daiichi and its domestic subsidiaries have adopted the group-wide retirement benefit arrangement comprising of a defined benefit corporate pension plan and a defined contribution pension plan. Certain overseas consolidated subsidiaries provide a defined benefit plan or a defined contribution plan.

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

Retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 consisted of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Projected benefit obligation	¥(148,161)	$(1,266,333)
Plan assets at fair value	97,910	836,838
Over-funded projected benefit obligations in excess of plan assets	(50,251)	(429,495)
Unrecognized actuarial losses	2,065	17,650
Unrecognized prior service costs	(2,828)	(24,171)
Net pension liabilities recognized in the consolidated balance sheet	(51,014)	(436,016)
Prepaid pension assets	17,308	147,933
Accrued employees' severance and retirement benefits	¥ (68,322)	$ (583,949)

The plan assets in the multi-employer welfare pension fund, estimated based on the domestic consolidated subsidiaries contribution ratio since the amount attributable to the their contributions cannot be calculated reasonably, totaled ¥8,891 million ($ 75,991 thousand). This amount has not been included in the plan assets presented above.

Included in selling, general and administrative expenses in the consolidated statements of income for the years ended March 31, 2006 is employees' severance and retirement benefit expenses consisting of the following:

	Millions of yen	Thousands of U.S. dollars
	2006	2006
Service costs for benefits earned	¥ 8,716	$ 74,496
Interest costs	3,272	27,966
Expected return on plan assets	(2,339)	(19,991)
Amortization of actuarial gain on loss	(1,438)	(12,291)
Amortization of prior service costs	(871)	(7,444)
Additional retirement benefits	1,621	13,855
Gain from the return of the substitutional portion of the employees' pension fund to the government	(164)	(1,402)
Other	885	7,563
Total	¥ 9,682	$ 82,752

The discount rates for calculating projected benefit obligation used by the Companies were principally 2.5 % and the rate of expected return on plan assets used by the Companies was 2.5% to 3.0% at March 31, 2006.

11. SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code (the "Code"), at least 50% of the issue price of new shares is required to be designated as common stock. The portion which is not transferred to common stock is determined by resolution of the Board of Directors. Proceeds not transferred to common stock are credited to additional paid-in capital, which is included in capital surplus.

Under the Code, certain amounts of retained earnings equal to at least 10% of cash dividends and bonuses to directors and corporate statutory auditors must be set aside as a legal earnings reserve until the total of legal earnings reserve and additional paid-in capital equals 25% of common stock.

The legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the shareholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of the legal earnings reserve and additional paid-in capital remains equal to or exceeds 25% of common stock, they are available for distribution by the resolution of a shareholders' meeting.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

12. COMMITMENTS AND CONTINGENCIES

At March 31, 2006, the Company and its consolidated domestic subsidiaries were contingently liable as guarantors for loans of employees in the amount of ¥ 2,920 million ($24,957 thousand) and also contingently liable for trade notes receivable discounted with banks in the amount of ¥ 94 million ($ 803 thousand).

In the U.S, numerous lawsuits seeking damages and other compensation were brought against Warner-Lambert Company and other pharmaceutical companies by patients who took the diabetes drug called Rezulin, which had been sold until March 2000 using a compound whose generic name is "troglitazone," which was supplied by Sankyo. A U.S. subsidiary of the Company, Sankyo Pharma Inc. (currently, DAIICHI SANKYO, INC.), was named as a defendant in a small number of these cases and is currently presenting a defense in cooperation with Warner-Lambert. The compensation demanded from all the defendants in these cases includes claims for both compensatory and punitive damages. In connection with any costs (including damages) and the related liability by Sankyo and its subsidiaries, there is a provision in the license agreement with Warner-Lambert indemnifying Sankyo and its subsidiaries.

13. SEGMENT INFORMATION

The Companies' primary business activities consist mainly of the pharmaceuticals.

Other includes various remaining businesses such as food products, agrochemicals and chemicals, and other. Net sales, costs and expenses and operating income by segment of business activities for the year ended March 31, 2006 were as follows:

	Millions of yen			
	2006			
	Pharmaceuticals	Other	Elimination and/or corporate	Consolidated
Sales and operating income				
Net sales:				
Outside customers	¥ 784,667	¥141,251	¥ —	¥ 925,918
Inter-segment	791	4,024	(4,815)	—
Total sales	785,458	145,275	(4,815)	925,918
Operating expenses	637,343	139,129	(5,282)	771,190
Operating income	¥ 148,115	¥ 6,146	¥ 467	¥ 154,728
Identifiable assets	¥1,429,425	¥169,660	¥(2,958)	¥1,596,127
Depreciation	35,796	5,333	—	41,129
Impairment loss	5,254	—	—	5,254
Capital expenditures	28,967	6,409	—	35,376

	Thousands of U.S. dollars			
	2006			
	Pharmaceuticals	Other	Elimination and/or corporate	Consolidated
Sales and operating income				
Net sales:				
Outside customers	$ 6,706,556	$1,207,273	$ —	$ 7,913,829
Inter-segment	6,761	34,393	(41,154)	—
Total sales	6,713,317	1,241,666	(41,154)	7,913,829
Operating expenses	5,447,376	1,189,136	(45,145)	6,591,367
Operating income	$ 1,265,941	$ 52,530	$ 3,991	$ 1,322,462
Identifiable assets	$12,217,308	$1,450,085	$(25,282)	$13,642,111
Depreciation	305,949	45,581	—	351,530
Impairment loss	44,906	—	—	44,906
Capital expenditures	247,581	54,778	—	302,359

Geographic segments are classified as Japan and North America and other according to the location of the companies. Other includes Europe, Asia, and others. Net sales, costs and expenses and operating income by geographic segment for the year ended March 31, 2006 were as follows:

	Millions of yen				
	2006				
	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	¥ 752,794	¥116,061	¥57,063	¥ —	¥ 925,918
Inter-segment	21,554	18,213	5,805	(45,572)	—
Total sales	774,348	134,274	62,868	(45,572)	925,918
Operating expenses	644,098	108,817	62,690	(44,415)	771,190
Operating income	¥ 130,250	¥ 25,457	¥ 178	¥ (1,157)	¥ 154,728
Assets	¥1,452,287	¥132,455	¥59,042	¥(47,657)	¥1,596,127

	Thousands of U.S. dollars				
	2006				
	Japan	North America	Other	Elimination and/or corporate	Consolidated
Sales and operating income					
Net sales:					
Outside customers	$ 6,434,137	$ 991,974	$487,718	$ —	$ 7,913,829
Inter-segment	184,222	155,667	49,615	(389,504)	—
Total sales	6,618,359	1,147,641	537,333	(389,504)	7,913,829
Operating expenses	5,505,111	930,060	535,812	(379,616)	6,591,367
Operating income	$ 1,113,248	$ 217,581	$ 1,521	$ (9,888)	$ 1,322,462
Assets	$12,412,709	$1,132,094	$504,633	$(407,325)	$13,642,111

The Companies' business activities overseas consist mainly of those in North America and Europe. Other includes mainly Asia. A summary of overseas net sales by the Companies for the year ended March 31, 2006 was as follows:

	Millions of yen			
	2006			
	North America	Europe	Other	Total
Overseas net sales	¥182,615	¥98,440	¥26,210	¥307,265
Consolidated net sales				925,918
Ratio of overseas net sales on a consolidated basis	19.7%	10.6%	2.9%	33.2%

	Thousands of U.S. dollars			
	2006			
	North America	Europe	Other	Total
Overseas net sales	$1,560,812	$841,368	$224,017	$2,626,197
Consolidated net sales				7,913,829

14. SUBSEQUENT EVENTS

(1) Acquisition of the shares of Zepharma Inc.

The Company and Astellas Pharma Inc. agreed that the Company would acquire all of the outstanding shares of Zepharma Inc., a subsidiary of Astellas Pharma Inc. A written agreement was entered into on March 31, 2006, and the delivery was completed on April 13, 2006. The acquisition cost of the investment was ¥35.5 billion ($303,419 thousand).

(2) Sale of the shares of Wakodo Co., Ltd.

At its Board of Directors' Meeting held on April 24, 2006, Sankyo approved applying for a tender offer of the shares of its subsidiary, Wakodo Co., Ltd., made by Asahi Breweries, Ltd. , and sold 3,533 million shares for ¥27.9 million ($238,462 thousand) in May, 2006. The gain from sales of the shares will be approximately ¥19.8 billion ($169,231 thousand).

(3) Proposal for Appropriations of Retained Earnings

The following appropriations of retained earnings at March 31, 2006 were approved at the annual general meeting of shareholders of the Company held on June 29, 2006.

	Millions of yen	Thousands of U.S. dollars
Year-end cash dividends of ¥25.00 ($0.21) per share	¥18,374	$157,043

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of DAIICHI SANKYO COMPANY, LIMITED and consolidated subsidiaries as of March 31, 2006 , and the related consolidated statements of income, shareholders' equity and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of DAIICHI SANKYO COMPANY, LIMITED and subsidiaries as of March 31, 2006 , and the consolidated results of their operations and their cash flows for the year then ended, in the period ended March 31, 2006, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to Note 14 to the consolidated financial statements as a subsequent event.
(1) The Company acquired all of the outstanding shares of Zepharma Inc., on April 13, 2006.
(2) Sankyo Co.,Ltd., a subsidiary of the Company, applied for a tender offer of the shares of its subsidiary, Wakodo Co.,Ltd., made by Asahi Breweries, Ltd. and sold the shares in May, 2006.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Tokyo, Japan
June 29, 2006

Group Companies (Consolidated Subsidiaries)

(As of June 30, 2006)

Company	Country name	Paid-in capital (thousands)	Equity owned by the parent company (%)	Principal activities
Sankyo Co., Ltd.	Japan	¥68,793,000	100	Research, development, manufacture, and marketing of pharmaceuticals
Daiichi Pharmaceutical Co., Ltd.	Japan	¥45,246,000	100	Research, development, and marketing of pharmaceuticals
Daiichi Asubio Pharma Co., Ltd.	Japan	¥11,000,000	100	Research, development, manufacture, and marketing of pharmaceuticals
Daiichi Fine Chemical Co., Ltd.	Japan	¥2,276,000	100	Manufacture and sales of pharmaceuticals and fine chemicals
Daiichi Radioisotope Laboratories, Ltd.	Japan	¥1,400,000	100	Manufacture and sales of radiopharmaceuticals and radioisotope products
Daiichi Pure Chemicals Co., Ltd.	Japan	¥1,275,000	100	Manufacture and sales of pharmaceuticals and diagnostic reagents
Saitama Daiichi Pharmaceutical Co., Ltd.	Japan	¥1,005,000	100	Manufacture and sales of pharmaceuticals
Sankyo Organic Chemicals Co., Ltd.	Japan	¥300,000	93	Manufacturing and marketing of pharmaceuticals; commissioned processing and packaging
Daiichi Pharmatech Co., Ltd.	Japan	¥100,000	100	Manufacture of pharmaceuticals
Sankyo Yell Yakuhin Co., Ltd.	Japan	¥96,000	100	Manufacturing and marketing of pharmaceuticals, veterinary drugs, diagnostics
Sankyo Chemical Industries, Ltd.	Japan	¥65,000	100	Manufacturing and marketing of fine chemicals, pharmaceuticals and its intermediates
Daiichi Butsuryu Co., Ltd.	Japan	¥50,000	100	Logistics services
D. P. C. Medical Co., Ltd.	Japan	¥50,000	100	Supply and planning of sales promotional materials
Institute of Science and Technology, Inc.	Japan	¥20,000	100	Laboratory and biological assay of biogenic specimens and its commissioned business
Kanto Daiichi Service Co., Ltd.	Japan	¥10,000	100	Security and maintenance services
DAIICHI SANKYO HEALTHCARE CO., LTD.	Japan	¥10,000	100	Manufacture and sales of drugs, cosmetics, medical devices, food and beverage, among others
Zepharma Inc.	Japan	¥300,000	100	Development and sales of drugs, non-prescription drugs, cosmetics
Sankyo Agro Co., Ltd.	Japan	¥350,000	100	Manufacturing and marketing and exporting and importing of agrochemicals
Utsunoiya Chemical Industry Co., Ltd.	Japan	¥20,000	100	Commissioned processing of agrochemicals
Hokkai Sankyo Co., Ltd.	Japan	¥331,000	80	Manufacturing and marketing of agrochemicals
Nippon Nyukazai Co., Ltd.	Japan	¥300,000	100	Manufacturing and marketing of surface-active agents and fine chemicals
Sankyo Lifetech Co., Ltd.	Japan	¥300,000	100	Manufacturing and marketing and exporting and importing of veterinary drugs and food additives
Daiichi Estate Co., Ltd.	Japan	¥100,000	100	Real estate and travel agency services
Meguro Chemical Industry Co., Ltd.	Japan	¥40,000	100	Commissioned processing and packaging of food, pharmaceuticals, cosmetics

(As of June 30, 2006)

Company	Country name	Paid-in capital (thousands)	Equity owned by the parent company (%)	Principal activities
DAIICHI SANKYO INC.	U.S.A.	US$24,900	100	Research, development, and marketing of pharmaceuticals
Luitpold Pharmaceuticals, Inc.	U.S.A.	US$200	100	Manufacturing and marketing of pharmaceuticals and veterinary
Daiichi Asubio Pharmaceuticals, Inc.	U.S.A.	US$0.001	100	Clinical development of pharmaceuticals
Daiichi Asubio Holdings, Inc.	U.S.A.	US$6,000	100	Holding company of DAIAMED
Daiichi Asubio Medical Research Laboratories LLC (DAIAMED)	U.S.A.	US$6,272	100	Exploratory research of pharmaceuticals
DAIICHI SANKYO EUROPE GmbH	Germany	€16,000	100	Administration, development and manufacturing of pharmaceuticals
DAIICHI SANKYO UK LIMITED	U.K.	£19,500	100	Sales of pharmaceuticals
DAIICHI SANKYO ESPAÑA S.A.	Spain	€120	100	Sales of pharmaceuticals
DAIICHI SANKYO ITALIA S.p.A.	Italy	€120	100	Sales of pharmaceuticals
DAIICHI SANKYO PORTUGAL, LDA	Portugal	€349	100	Sales of pharmaceuticals
DAIICHI SANKYO AUSTRIA GmbH	Austria	€18	100	Sales of pharmaceuticals
DAIICHI SANKYO (SCHWEIZ) AG	Switzerland	CHF3,000	100	Sales of pharmaceuticals
DAIICHI SANKYO NEDERLAND B.V.	Holland	18	100	Sales of pharmaceuticals
DAIICHI SANKYO BELGIUM N.V.-S.A.	Belgium	€62	100	Sales of pharmaceuticals
DAIICHI SANKYO ALTKIRCH SARL	France	€457	100	Manufacturing of pharmaceuticals
DAIICHI SANKYO DEUTSCHLAND GmbH	Germany	€40	100	Sales of pharmaceuticals
DAIICHI SANKYO FRANCE SAS	France	€2,182	100	Sales of pharmaceuticals
DAIICHI SANKYO REAL ESTATE GmbH	Germany	€5,100	100	Management of real estate
DAIICHI SANKYO REAL ESTATE GmbH & Co. OBJECT MUNICH KG	Germany	€38,200	94	Management of real estate
Daiichi Pharmaceuticals UK Ltd.	U.K.	£400	100	Clinical development of pharmaceuticals
Laboratoires Daiichi Sanofi-Synthelabo	France	€154	51	Clinical development of pharmaceuticals
Daiichi Fine Chemical Europe GmbH	Germany	€511	100	Sales of fine chemicals and related products

(As of June 30, 2006)

Company	Country name	Paid-in capital (thousands)	Equity owned by the parent company (%)	Principal activities
Daiichi Pharmaceutical (Beijing) Co., Ltd.	China	US$63,800	100	Manufacture and sales of pharmaceuticals
Daiichi Pharmaceutical Asia Ltd.	Hong Kong	HK$3,000	100	Sales promotional services for pharmaceuticals
Daiichi Pharmaceutical Taiwan Ltd.	Taiwan	NT$80,000	100	Manufacture and sales of pharmaceuticals
Daiichi Pharmaceutical Korea Co., Ltd.	Korea	W3,000,000	70	Sales of pharmaceuticals
Daiichi Pharmaceutical (Thailand) Ltd.	Thailand	Baht10,000	100	Sales of pharmaceuticals and fine chemicals
Sino-Japan Chemical Co., Ltd.	Taiwan	NT$144,000	52	Manufacturing, marketing, exporting and importing of emulsifier and surface-active agents
Taiwan Sankyo Pharmaceutical Co., Ltd.	Taiwan	NT$605,000	100	Manufacture and sales of pharmaceuticals
Shanghai Sankyo Pharmaceuticals Co., Ltd.	China	US$53,000	100	Research, development, manufacture, and marketing of pharmaceuticals

Corporate Information

CORPORATE DATA (As of June 30, 2006)

Established: September 28, 2005

Headquarters: 5-1, Nihonbashi Honcho 3-chome, Chuo-ku,
Tokyo 103-8426, Japan

URL: http://www.daiichisankyo.com

Business: Management and administration of the DAIICHI SANKYO Group,
its wholly owned subsidiaries and related matters

Paid-in Capital: ¥50,000 million

Employees: 18,434 (Consolidated)

STOCK INFORMATION (As of March 31, 2006)

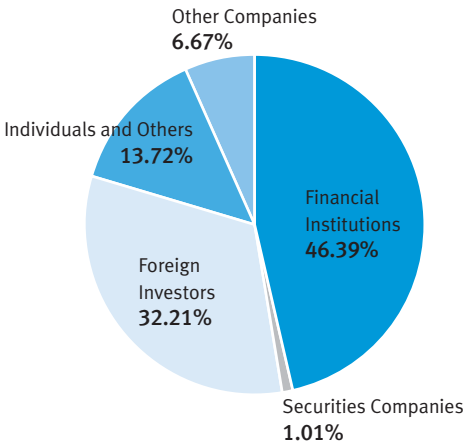
Common Stock

Number of shares authorized: 2,800,000,000

Number of shares issued: 735,011,343

Number of shareholders: 63,819

Distribution of Shareholders



Principal Shareholders

Ranking	Shareholders' names	Number of shares held	Shareholding ratio (%)
1	The Master Trust Bank of Japan, Ltd. (Trust Account)	55,883,800	7.60
2	Japan Trustee Services Bank, Ltd. (Trustee Account)	48,316,400	6.57
3	Nippon Life Insurance Company	41,839,182	5.69
4	The Chase Manhattan Bank NA London SL Omnibus Account	15,945,752	2.17
5	Sumitomo Mitsui Banking Corporation	13,413,368	1.82
6	State Street Bank and Trust Company 505103	12,833,867	1.75
7	The Bank of Tokyo-Mitsubishi UFJ, Ltd.	9,468,983	1.29
8	Tokio Marine & Nichido Fire Insurance Co., Ltd.	9,328,109	1.27
9	Mizuho Corporate Bank, Ltd.	8,591,876	1.17
10	Mizuho Pension Trust/Mizuho Corporate Bank Account Custodial Trustee Asset Management Service Trust	8,497,706	1.16
Total		224,119,043	30.49

Major Photography: Jed Share

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