FASF

November 6, 2006

Consolidated Financial Results for the Interim Period of Fiscal 2006 (Six-Month Period Ended September 30, 2006)

Listed company name: DAIICHI SANKYO COMPANY, LIMITED
Stock code number: 4568
Listed exchanges: Tokyo, Osaka, and Nagoya
Head office: Tokyo, Japan
URL: http://www.daiichisankyo.com
Representative: Mr. Takashi Shoda, President and Representative Director
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Meeting of Board of Directors for interim closing: November 6, 2006
U.S. accounting standards: Not applicable

1. Consolidated Financial Results for the Interim Period of Fiscal 2006

(1) Consolidated Financial Results

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

	Net sales		Operating income		Ordinary income	
	Millions of yen	Percent change	Millions of yen	Percent change	Millions of yen	Percent change
Interim period of fiscal 2006	485,842	7.5	78,353	(2.5)	88,208	6.7
Interim period of fiscal 2005	451,808	–	80,345	–	82,642	–
Fiscal 2005	925,918		154,728		159,714	

	Net income		Basic net income per share	Diluted net income per share
	Millions of yen	Percent change	Yen	Yen
Interim period of fiscal 2006	66,886	35.3	91.75	–
Interim period of fiscal 2005	49,450	–	67.48	67.46
Fiscal 2005	87,692		119.49	119.47

Notes:
1. Equity in earnings (losses) of subsidiaries and affiliates accounted for by the equity method:
   Interim period of fiscal 2006: ¥18 million
   Interim period of fiscal 2005: (¥242 million)
   Fiscal 2005: (¥349 million)
2. Weighted average number of common shares issued and outstanding during the period (consolidated):
   Interim period of fiscal 2006: 729,042,894 shares
   Interim period of fiscal 2005: 732,796,367 shares
   Fiscal 2005: 730,938,068 shares
3. Changes in accounting policies: None
4. Percentages for net sales, operating income, ordinary income and net income represent a change from the corresponding interim results in the previous fiscal year.

(2) Consolidated Financial Position

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

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Interim period of fiscal 2006	1,634,483	1,284,040	78.3	1,756.36
Interim period of fiscal 2005	1,518,692	1,174,237	77.3	1,610.55
Fiscal 2005	1,596,126	1,237,529	77.5	1,696.97

Note: Total number of common shares issued and outstanding at the end of the period (consolidated):
Interim period of fiscal 2006: 729,027,291 shares
Interim period of fiscal 2005: 729,089,904 shares
Fiscal 2005: 729,052,296shares

(3) Consolidated Cash Flows

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

	Net cash flows from operating activities	Net cash flows from investing activities	Net cash flows from financing activities	Cash and cash equivalents at end of period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Interim period of fiscal 2006	69,708	(32,726)	(23,150)	415,838
Interim period of fiscal 2005	66,237	(24,596)	(37,253)	359,235
Fiscal 2005	132,759	(39,258)	(50,106)	400,967

(4) Scope of Consolidation and Application of Equity Method:

Number of consolidated subsidiaries: 54

Number of non-consolidated subsidiaries accounted for by the equity method: 0

Number of affiliates accounted for by the equity method: 3

(5) Changes in Scope of Consolidation and Application of Equity Method:

Consolidated subsidiaries:

(Increase) 3

(Decrease) 6

Companies accounted for by the equity method:

(Increase) 0

(Decrease) 2

2. Forecast of Consolidated Results for Fiscal Year 2006 (from April 1, 2006 to March 31, 2007)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Full fiscal year	918,000	140,000	63,000

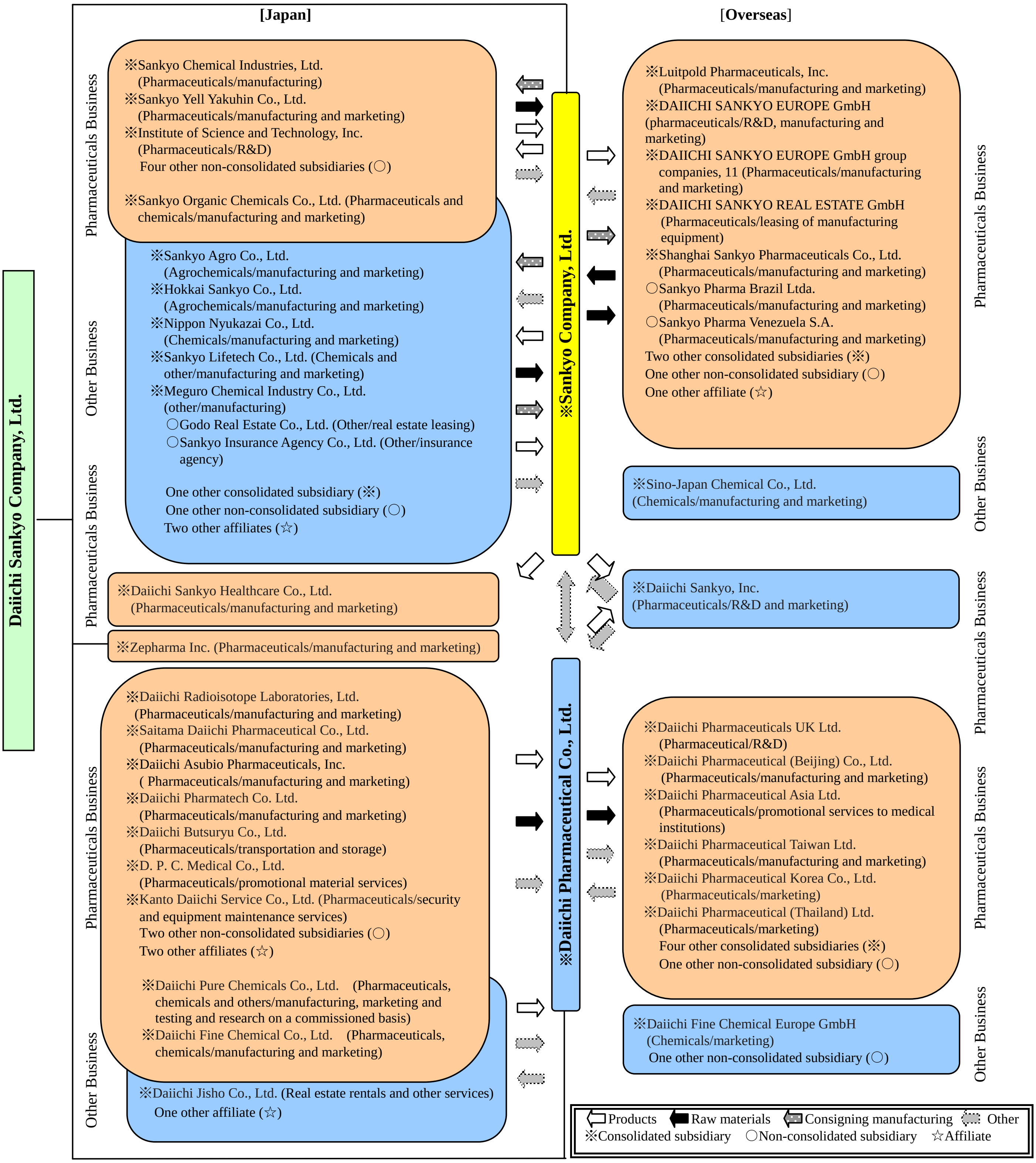
Reference: Forecasted annual net income per share (basic): ¥86.42

* Note: The forecast figures shown above are based on information that was available at the time of preparation and may contain certain uncertainties. Actual performance and other factors may differ from these forecasts due to changes in circumstances and other developments. For more information concerning these forecasts can be found in the attached Supplementary Information on page 16-17.

1. State of the Group

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

The DAIICHI SANKYO Group (the "Group") consists of the Company, its three wholly owned direct subsidiaries and their 65 subsidiaries and 6 affiliates, for a total of 75 companies. The Group's principal business is the manufacture and sale of pharmaceuticals, its main product line, as well as agrochemicals and chemicals. The following chart illustrates the organization of the DAIICHI SANKYO Group:



Consolidated Subsidiaries

Name	Location	Capital (Million of yen)	Principal business operations	% of voting rights held (indirect holdings)	Relationship
Consolidated subsidiaries					
Sankyo Co., Ltd.	Chuo-ku, Tokyo	68,793	Pharmaceuticals	100.0	Management contract Concurrent directors
Daiichi Pharmaceutical Co., Ltd.	Chuo-ku, Tokyo	45,246	Pharmaceuticals	100.0	Management contract Concurrent directors
Daiichi Asubio Pharma Co., Ltd.	Minato-ku, Tokyo	11,000	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Daiichi Fine Chemical Co., Ltd.	Takaoka-shi, Toyama	2,276	Pharmaceuticals Other	100.0 [100.0]	
Daiichi Radioisotope Laboratories, Ltd.	Chuo-ku, Tokyo	1,400	Pharmaceuticals	100.0 [100.0]	
Daiichi Pure Chemicals Co., Ltd.	Chuo-ku, Tokyo	1,275	Pharmaceuticals Other	100.0 [100.0]	
Saitama Daiichi Pharmaceutical Co., Ltd.	Kasukabe-shi, Saitama	1,005	Pharmaceuticals	100.0 [100.0]	
Zepharma Inc.	Chuo-ku, Tokyo	300	Pharmaceuticals	100.0	
Sankyo Organic Chemicals Co., Ltd.	Takatsu-ku, Kawasaki-shi, Kanagawa	300	Pharmaceuticals Other	93.4 [93.4]	Concurrent directors
Daiichi Pharmatech Co., Ltd.	Chuo-ku, Tokyo	100	Pharmaceuticals	100.0 [100.0]	
Daiichi Sankyo Healthcare Co., Ltd.	Chuo-ku, Tokyo	100	Pharmaceuticals	100.0 [100.0]	
Sankyo Yell Yakuhin Co., Ltd.	Chiyoda-ku, Tokyo	96	Pharmaceuticals	100.0 [100.0]	
Sankyo Chemical Industries, Ltd.	Chuo-ku, Tokyo	65	Pharmaceuticals	100.0 [100.0]	
Daiichi Butsuryu Co., Ltd.	Sumida-ku, Tokyo	50	Pharmaceuticals	100.0 [100.0]	
Daiichi Medical Co., Ltd.	Chuo-ku, Tokyo	50	Pharmaceuticals	100.0 [100.0]	
Institute of Science and Technology, Inc.	Shinagawa-ku, Tokyo	20	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Kanto Daiichi Service Co., Ltd.	Edogawa-ku, Tokyo	10	Pharmaceuticals	100.0 [100.0]	
Sankyo Agro Co., Ltd.	Bunkyo-ku, Tokyo	350	Other	100.0 [100.0]	
Utsunomiya Chemical Industry Co., Ltd.	Utsunomiya-shi, Tochigi	20	Other	100.0 [100.0]	Concurrent directors
Hokkai Sankyo Co., Ltd.	Kitahiroshima-shi, Hokkaido	331	Other	80.0 [80.0]	
Nippon Nyukazai Co., Ltd.	Chuo-ku, Tokyo	300	Other	100.0 [100.0]	Concurrent directors
Sankyo Lifetech Co., Ltd.	Bunkyo-ku, Tokyo	300	Other	100.0 [100.0]	
Daiichi Jisho Co., Ltd.	Chuo-ku, Tokyo	100	Other	100.0 [100.0]	
Meguro Chemical Industry Co., Ltd.	Meguro-ku, Tokyo	40	Other	100.0 [100.0]	Concurrent directors
Daiichi Sankyo Inc.	New Jersey, U.S.	24.9 million U.S. dollars	Pharmaceuticals	100.0 [100.0]	

Name	Location	Capital (Million of yen)	Principal business operations	% of voting rights held (indirect holdings)	Relationship
Luitpold Pharmaceuticals, Inc.	New York, U.S.	200 thousand U.S. dollars	Pharmaceuticals	100.0 [100.0]	
Daiichi Asubio Pharmaceuticals, Inc.	New Jersey, U.S.	1 U.S. dollar	Pharmaceuticals	100.0 [100.0]	
Daiichi Asubio Holdings, Inc.	Delaware, U.S.	6 million U.S. dollars	Pharmaceuticals	100.0 [100.0]	
Daiichi Asubio Medical Research Laboratories LLC	Massachusetts, U.S.	6,272 thousand U.S. dollars	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO EUROPE GmbH	Munich, Germany	16 million euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO UK LTD.	Amersham, UK	19.5 million pounds	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO EAPAÑA S.A.	Madrid, Spain	120 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO ITALIA S.p.A.	Rome, Italy	120 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO PORTUGAL LDA.	Porto Salvo, Portugal	349 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO AUSTRIA GmbH	Vienna, Austria	18 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO SCHWEIZ AG	Thalwil, Switzerland	3 million Swiss Francs	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO NEDERLAND B.V.	Zwanenburg, the Netherlands	18 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO BELGIUM N.V. S.A.	Louvain-La-Nueve, Belgium	62 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO ALTKIRCH S.A.R.L	Altkirch, France	457 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO DEUTSCHLAND GmbH	Munich, Germany	40 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO FRANCE S.A.S.	Rueil Malmaison, France	2,182 thousand euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO REAL ESTATE GmbH	Munich, Germany	5.1 million euros	Pharmaceuticals	100.0 [100.0]	
DAIICHI SANKYO REAL ESTATE GmbH & Co. Object Munich KG	Munich, Germany	38.2 million euros	Pharmaceuticals	94.0 [94.0]	
Daiichi Pharmaceuticals UK Ltd.	London, UK	400 thousand pounds	Pharmaceuticals	100.0 [100.0]	
Laboratoires Daiichi Sanofi–Aventis	Paris, France	154 thousand euros	Pharmaceuticals	51.0 [51.0]	Concurrent directors
Daiichi Fine Chemical Europe GmbH	Dusseldorf, Germany	511 thousand euros	Other	100.0 [100.0]	
Daiichi Pharmaceutical (Beijing) Co., Ltd.	Beijing, China	63,800 thousand U.S. dollars	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Shanghai Sankyo Pharmaceutical Co., Ltd.	Shanghai, China	53,000 thousand U.S. dollars	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Daiichi Pharmaceutical Asia Ltd.	Hong Kong, China	3,000 thousand HK dollars	Pharmaceuticals	100.0 [100.0]	
Taiwan Sankyo Pharmaceutical Co., Ltd.	Taipei, Taiwan	605 million NT dollars	Pharmaceuticals	100.0 [100.0]	Concurrent directors
Daiichi Pharmaceutical Taiwan Ltd.	Taipei, Taiwan	80 million NT dollars	Pharmaceuticals	100.0 [100.0]	
Daiichi Pharmaceutical Korea Co., Ltd.	Seoul, Korea	3,000 million W	Pharmaceuticals	70.0 [70.0]	Concurrent directors

Name	Location	Capital (Million of yen)	Principal business operations	% of voting rights held (indirect holdings)	Relationship
Daiichi Pharmaceutical (Thailand) Ltd	Bangkok, Thailand	10,000 thousand baht	Pharmaceuticals	100.0 [100.0]	
Sino-Japan Chemical Co., Ltd.	Taipei, Taiwan	144 million NT dollars	Other	52.0 [52.0]	Concurrent directors
Affiliated companies accounted for by the equity method					
Sanofi-Pasteur-Daiichi Vaccines Co., Ltd.	Edogawa-ku, Tokyo	310	Pharmaceuticals	50.0 [50.0]	Concurrent directors
Sanofi-Aventis Daiichi Pharmaceuticals Co., Ltd.	Shinjuku-ku, Tokyo	100	Pharmaceuticals	49.0 [49.0]	Concurrent directors
Hitachi Pharma Evolutions, Ltd.	Shinagawa-ku, Tokyo	250	Other	49.0 [49.0]	

(Notes)

1. The information under the principal business operations column indicates the name of operating segment used in the segments information, to which the respective entities belong.
2. Of the consolidated subsidiaries and affiliates listed above, Sankyo Company, Limited, Daiichi Pharmaceutical Co., Ltd., Daiichi Asubio Pharma Co., Ltd. and Daiichi Pharmaceutical (Beijing) Co., Ltd. are qualified as a “significant subsidiary” as defined in the regulations under the Securities and Exchange Law of Japan.
3. Figures in parentheses under the percentage of voting rights held column refer to the percentage of ownership held indirectly through other subsidiaries.
4. On April 1, 2006, Sankyo Company, Ltd. and Daiichi Pharmaceutical Co., Ltd. both divested their respective healthcare (OTC drug) operations into Daiichi Sankyo Healthcare Co., Ltd.
5. The Company acquired all the shares of Zepharma Inc. from Astellas Pharma Inc. on April 13, 2006. Zepharma Inc. is consolidated into the Company’s accounts from the interim period ended September 30, 2006.
6. Shanghai Sankyo Pharmaceuticals Co., Ltd. and Taiwan Sankyo Pharmaceutical Co., Ltd., which in the previous fiscal year were treated as non-consolidated subsidiaries not accounted for by the equity method, are consolidated into the Company’s accounts from the interim period ended September 30, 2006, because of their increased significance.
7. Sanofi-Synthelabo Daiichi Pharmaceutical Co., Ltd. changed its name to Sanofi-Aventis Daiichi Pharmaceutical Co., Ltd. on April 1, 2006.
8. The corporate names of Sankyo Pharma GmbH and its 11 European subsidiaries were changed during June–July 2006 to DAIICHI SANKYO EUROPE GmbH and other names.
9. Sankyo Grundstücks GmbH and its subsidiary changed their respective names in July 2006 to DAIICHI SANKYO Real Estate GmbH and another name.
10. Fuji Flour Milling Co., Ltd., which in the previous fiscal year was treated as a consolidated subsidiary, merged with Nitto Flour Milling Co., Ltd. on April 1, 2006. Due to the dilution of voting rights, it is excluded from the scope of consolidation from the interim period ended September 30, 2006.
11. Wakodo Co., Ltd., which in the previous fiscal year was treated as a consolidated subsidiary, is excluded from the scope of consolidation from the interim period ended September 30, 2006 due to the sale by the Company in May 2006 of all of its shares to Asahi Breweries, Ltd. As a result of this sale, the Company also sold its indirect ownership interest in Wako Food Industry Co., Ltd., Wako Logistics Co., Ltd. and Nihon Shoni Iji Shuppansha Co., Ltd., wholly owned subsidiaries of Wakodo Co., Ltd., that were treated as consolidated subsidiaries of the Company in the previous fiscal year. These three companies are also excluded from the scope of consolidation from the interim period ended September 30, 2006.
12. Oy Sankyo Pharma Finland Ab, which in the previous fiscal year was treated as a consolidated subsidiary, is excluded from the scope of consolidation from the interim period ended September 30, 2006 due to the sale by the Company of its entire shares in January 2006.
13. The Company’s share of voting rights in Tokyo Iyaku Shiki Co., Ltd., which in the previous accounting period had been treated as an affiliate accounted for by the equity method, fell to 14.8% due to the sale by the Company of part of its shares on September 5, 2006. As a result, it is not accounted for as an equity-method affiliate of the Company from the interim period ended September 30, 2006.
14. The Company’s share of voting rights in Nishimura Shiki Co., Ltd., which in the previous fiscal year was treated as an affiliate accounted for by the equity method, fell to 14.6% due to the sale by the Company of part of its shares on September 4, 2006. As a result, it is not accounted for as an equity-method affiliate of the Company from the interim period ended September 30, 2006.
15. The Company sold its entire shares of a consolidated subsidiary, Daiichi Radioisotope Laboratories, Ltd., to FUJIFILM Holdings Corporation on October 2, 2006.
16. The Company sold its entire shares of a consolidated subsidiary, Daiichi Pure Chemicals Co., Ltd., to Sekisui Chemical Co., Ltd. on October 2, 2006.
17. Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd., jointly established DAIICHI SANKYO Propharma Co., Ltd., DAIICHI SANKYO Business Associe Co., Ltd. and DAIICHI SANKYO RD Associe Co., Ltd. in October 2006.
18. The percentage of the Company’s voting rights in Daiichi Pharmaceutical Korea Co., Ltd., a consolidated subsidiary, has increased to 100% as a result of the acquisition of its entire shares on October 12, 2006.

19. Sankyo Company, Limited, Daiichi Pharmaceutical Co., Ltd. and Daiichi Sankyo Inc. each account for more than 10% of consolidated net sales (excluding inter-company transactions). A summary of the principal operating results for these companies is as follows:

Sankyo Company, Limited	(1) Net sales	¥173,622 million
	(2) Ordinary income	¥46,449 million
	(3) Net income	¥46,862 million
	(4) Net assets	¥746,957 million
	(5) Total assets	¥896,993 million
Daiichi Pharmaceutical Co., Ltd.	(1) Net sales	¥ 133,846 million
	(2) Ordinary income	¥64,513 million
	(3) Net income	¥44,827 million
	(4) Net assets	¥473,889 million
	(5) Total assets	¥567,769 million
Daiichi Sankyo Inc.	(1) Net sales	¥88,413 million
	(2) Ordinary income	¥22,140 million
	(3) Net income	¥17,896 million
	(4) Net assets	¥61,363 million
	(5) Total assets	¥120,353 million

2. Management Policy

1. Principal Management Policy

The Company is a joint holding company established on September 28, 2005 through the joint stock transfer implemented by Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. The Company and all the other companies in the DAIICHI SANKYO Group (the “Group”) are currently focused on solving various business issues, for the complete integration which is scheduled in April 2007.
The vision of the Group is to become a Japan-based “global pharma-innovator” that meets the medical needs of people worldwide by continuously developing innovative pharmaceuticals and related services. As a leading company in Japan’s pharmaceutical industry, DAIICHI SANKYO aims to develop a continuous stream of innovative drugs, and to expand its operations, built upon a global business bases, in the world’s major countries, and thereby to become a global player with its strong competitiveness in certain therapeutic areas.
In pursuit of this vision, the Company is determined to create three corporate values: economic value for shareholders through strong growth generated by innovative products; social value for the society by fulfilling a contributory role as a good corporate citizen; and human value by enhancing human development of the employees through proactive support for skill improvement.

2. Shareholder Profit Distribution Policies

The Company has prioritized the distribution of profits generated by the DAIICHI SANKYO Group businesses among the key management issues. The profit distribution is determined, while focusing on a level of return that is commensurate with underlying business performance and capital efficiency, based on comprehensive consideration of other factors, such as the need to build up retained earnings to fund future business development for growth strategies.
The Company has set a medium-term goal of achieving a dividend-on-equity (DOE) ratio of 5% by the fiscal year ending March 2010. Going forward, the Company plans to increase the level of dividends steadily toward this goal. The Company also plans to buy back, in a strategic manner, its own shares.
Undistributed earnings will be primarily used for investments in Daiichi Sankyo’s future growth strategies including the strengthening of R&D, corporate collaboration, and overseas business development.

3. Number of Shares of Common Stock per Unit

To increase the liquidity of its shares and expand its shareholder base, the Company has set the size of its share trading unit at 100 shares.

4. Business Performance Targets

The DAIICHI SANKYO Group aims to greatly enhance its earning power through the synergies created by the business integration, and a steady sales growth from its existing mainstay products and contribution by new products, while maintaining R&D spending at a level required to pursue the "global pharma-innovator" status. The performance goals for the fiscal year ending March 31, 2010 have been set at net sales of ¥932.0 billion and operating income of ¥255.0 billion in the pharmaceuticals segment.

5. Medium- to Long-Term Management Strategies and Challenges

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

(1) Realization of Complete Integration

In line with the integration schedule, the first step toward the complete business integration was the establishment of the Company as a joint holding company through a share transfer. Operational integration has since progressed in several areas, including the reorganization of Group companies. By April 2007, the plan is to complete the full integration of the pharmaceutical businesses of Sankyo Company, Limited and Daiichi Pharmaceutical Co., Ltd. into the holding company, DAIICHI SANKYO.

To realize the complete integration, the DAIICHI SANKYO Group aims to achieve the highest level of operational efficiency in the industry. While facilitating improved use of personnel and streamlined cost structures with the aim of steadily achieving operational synergies, the Company also plans to realize stronger management and business development functions, as well as more effective HR training and development.

The integration of Group companies in the U.S. and Europe and of the healthcare businesses was completed. The DAIICHI SANKYO Group is now focused on establishing a unified operational structure, human resources planning and IT systems as a final step prior to the planned full integration in April 2007.

(2) Concentration on the Pharmaceutical Business

To promote superior earnings and consistent growth, the DAIICHI SANKYO Group plans to concentrate on the pharmaceutical business, specializing in prescription drug and healthcare product operations. The plan is to complete the establishment of independent operations outside the DAIICHI SANKYO Group for all non-pharmaceutical businesses by the end of March 2007.

Operations that have already become fully independent include Fuji Flour Milling Co., Ltd. (and a subsidiary) in April 2006 and Wakodo Co., Ltd. (and three subsidiaries) in May 2006. The transfers of Daiichi Pure Chemicals Co., Ltd. and Daiichi Radioisotope Laboratories, Ltd. were also completed in October 2006. In addition, the plans to transfer Sankyo Agro Co., Ltd. (and two subsidiaries) and Sankyo Lifetech Co., Ltd. in March 2007 have been finalized.

(3) Enhancement of Innovative Drug Discovery

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

The creation of an integrated global development platform through the unification of the R&D management functions of Sankyo and Daiichi is one of the top management priorities within the overall integration process. Since October 2005 the Company has already begun global drug development processes in advance of the original schedule. The Global Executive Meeting of Research and Development (GEMRAD), the integrated deliberative body that was established by the Company to facilitate R&D-related decision-making, has designated cardiovascular, glucose metabolic conditions, infectious diseases and cancer as strategic therapeutic areas for the DAIICHI SANKYO Group. The selection of drug development candidates within these areas has also been completed. Top-priority development projects have been identified based on a priority evaluation of each of the selected candidates. Separate development project teams have been established to manage ongoing R&D work on each project.

(4) Enhancement of Earnings Bases in Japan and Overseas

The integration of the domestic prescription drug businesses will result in a combined sales force of over 2,500 medical representatives (MRs), which will afford the DAIICHI SANKYO Group superior marketing power in terms of both quality and quantity. The integration will also facilitate further strengthening of relationships with medical wholesalers operating on a national scale, thereby enabling the implementation of a distribution strategy that make most use of economies of scale. Beginning in April 2007, the Company plans to concentrate its marketing power on promoting sales of the leading products, thereby increasing sales and creating a stronger base of sales operations within the domestic market. Collaborative activities have already commenced for *Olmetec*® (November 2005) and *Cravit*® (April 2006) to accelerate the realization of merger benefits.

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

The Company established DAIICHI SANKYO, INC. by integrating the U.S.-based operations of Sankyo and Daiichi, in April 2006 and has been expanding the U.S. operations.

In the healthcare operations, the Company established Daiichi Sankyo Healthcare Co., Ltd. through the integration of the healthcare businesses of Sankyo and Daiichi. Having commenced operations in April 2006, the firm plans to strengthen its earnings base by constructing a low-cost operational structure and by focusing integrated capabilities in R&D, sales and marketing to expand sales of existing brands as well as new products.

In addition, in April 2007 the Company plans to integrate into Daiichi Sankyo Healthcare the operations of Zepharma Inc., all of whose shares the Company acquired in April 2006. This move aims to strengthen the earnings base by further expanding the scale of operations and by boosting brand asset values.

6. Litigation

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

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

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

7. Matters Relating to the Parent Company, etc.

Not applicable.

3. Results of Operations and Financial Position

1. Result of Operations

(Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Interim period of fiscal 2006	485,842	78,353	88,208	66,886
Interim period of fiscal 2005	451,808	80,345	82,642	49,450
Change (%)	7.5	(2.5)	6.7	35.3

(1) Overview

While the global pharmaceutical markets including the world largest United States market continued to expand in size, the competitions among global mega-players have been intensifying in the areas of development and marketing.

Competition within the Japanese market to develop and market new drugs has also been intense due to ongoing medical system reforms aimed at containing healthcare costs and the rising prominence of foreign-owned pharmaceutical manufacturers. These factors contributed to a persistently harsh business environment.

The DAIICHI SANKYO Group has focused its marketing efforts on providing medical professionals with accurate efficacy and safety information to promote the proper use of its drugs. In the interim period ended September 30, 2006, the Company recorded consolidated net sales of ¥485.8 billion, an increase of 7.5% in terms of a year-to-year comparison. Growth in the Japanese market was led by an antihypertensive agent, *Olmetec*®, an analgesic, anti-inflammatory and antifebrile preparation, *Loxonin*®, and by *Artist*®, a treatment for high blood pressure, angina, and chronic cardiac insufficiency. In overseas markets, the leading contributor to growth was an antihypertensive agent, olmesartan (sold as *Benicar*® in North America and as *Olmetec*® in Europe). Exports of bulk levofloxacin, a synthetic antibacterial, also generated a strong sales growth.

In terms of profitability, the growth due to higher sales was supplemented by a more profitable sales mix, which contributed to a 2.9-point year-to-year improvement in the cost-of-sales ratio to 28.4%. Gross profit totaled ¥347.8 billion, an increase of 12.0% compared with the same period a year earlier. Selling, general and administrative expenses totaled ¥269.4 billion, of which R&D expenses accounted for ¥84.9 billion. These amounts reflected a substantial increase in investments in R&D and sales promotion. Operating income declined by 2.5% on a year-to-year basis to ¥78.3 billion and ordinary income increased by 6.7% to ¥88.2 billion.

While, the Company took an extraordinary loss of ¥7.8 billion related to the business integration, it also recognized extraordinary gains including a gain of ¥20.5 billion from the sale of Group subsidiaries operating in non-pharmaceutical businesses and other. As a result, net income for the interim period ended September 30, 2006 increased significantly compared to the same period a year earlier, by 35.3%, to ¥66.8 billion.

The above Group results for the current interim period reflected sales and profits of U.S. subsidiaries, Daiichi Sankyo Inc. and Luitpold Pharmaceuticals Inc. on the basis of the nine-month period ended September 30, 2006 due to the change of their fiscal year-end from December to March. The operating results of these companies for the period from January to March 2006 were net sales of ¥31.5 billion, operating income of ¥9.0 billion, ordinary income of ¥10.5 billion and net income of ¥5.8 billion.

(2) Segment Information

(Operating Segments) Net sales of each operating segment include only sales to outside customers.

(Millions of yen)

	Net sales				Operating income			
	Interim period of fiscal 2006	Interim period of fiscal 2005	Change	Change (%)	Interim period of fiscal 2006	Interim period of fiscal 2005	Change	Change (%)
Pharmaceuticals	441,381	385,415	55,966	14.5	75,894	77,651	(1,757)	(2.3)
Other	44,460	66,393	(21,932)	(33.0)	2,251	2,321	(70)	(3.0)

1) Pharmaceuticals

Net sales in the pharmaceuticals segment totaled ¥441.3 billion and operating income amounted to ¥75.8 billion.

In the Japanese prescription drug market, the downward revision in the National Health Insurance (NHI) drug reimbursement tariff implemented in April 2006 averaged 6.7% across the industry. Although rival generic products had a negative impact on sales of an antihyperlipidemic agent, *Mevalotin*®, several of the Group's leading products maintained high levels of sales, including a broad-spectrum oral antibacterial agent, *Cravit*® and an antihypertensive agent, *Olmetec*®. Sales revenue was also increased by a receipt of milestone payments related to the NHI listing of an antiplatelet agent, *Plavix*®. As a result, net sales of prescription drugs in the Japanese market totaled ¥215.2 billion.

Sales of prescription drugs in overseas markets amounted to ¥185.1 billion. Sales of bulk pravastatin, an antihyperlipidemic agent, fell substantially due to the effect of patent expirations in Europe and the U.S. Sales of an antihypertensive agent, olmesartan (marketed as *Benicar*® in North America and as *Olmetec*® in Europe) increased significantly, and bulk exports of the synthetic antibacterial levofloxacin produced steady growth. Currency translation gains arising from yen depreciation also contributed to higher sales.

In the healthcare product business, under an overall shrink in the market size in Japan of over-the-counter (OTC) medicines, lower sales of products such as *Cystina C*®, a vitamin C supplement, were offset by contributions from new products, including *Lulu Attack IB*®, a cold medicine, and *Karoyan Gel Lotion 1*®, a hair-growth promotion agent. In addition, following the acquisition of Zepharma Inc. , the Zepharma brands were added to the Group's OTC product lineup. Those new products accounted for ¥10.1 billion in sales during the current interim period. Overall, sales of healthcare products totaled ¥24.5 billion.

2) Other

Sales in the other segment totaled ¥44.4 billion, and operating income amounted to ¥2.2 billion. DAIICHI SANKYO is in the process of making non-pharmaceutical operations independent of the Group in order to focus resources on the pharmaceutical business. During the interim period ended September 30, 2006, Fuji Flour Milling Co., Ltd. and Wakodo Co., Ltd. were both excluded from the scope of consolidation, following the merger and the sale of shares to third-party companies, respectively. These divestures resulted in a decline in sales and profits in this segment in terms of a year-to-year comparison.

(3) Interim Dividends

The Company plans to pay an interim dividend of ¥30 per share for the interim period ended September 30, 2006. This represents an increase of ¥5 compared with the share transfer payment of ¥25 per share paid for the same period a year earlier.

(4) R&D Activities

The R&D activities of the DAIICHI SANKYO Group are directed at realizing the Company’s vision of being a “global pharma-innovator.” The Group focused its R&D investments in the strategic therapeutic areas with the aim of bringing a continuous stream of world-class innovative drugs to the market, while also trying to shorten the lead time to launch a new product.

R&D spending by the DAIICHI SANKYO Group, which was mostly incurred in the pharmaceuticals segment, totaled ¥84.9 billion in the current interim period (an increase of 17.1% on a year-to-year basis). The ratio of R&D spending to net sales was 17.5%.

In terms of the development status of key projects, the Group filed an application in Japan for regulatory approval of DU-6859a (generic name: sitafloxacin), a new quinolone type of synthetic antibacterial, in September 2006. The Group also received import approval in October 2006 for *Sonazoid*® (generic name: perflubutane), an ultrasound contrast medium, and is currently preparing for a launch of the product in Japan. In another licensing move, the Group reached an agreement in July 2006 with CIMYM BioSciences Inc. granting the Group the sales and development rights in Japan for an anticancer drug nimotuzumab (development code: DE-766, a human monoclonal antibody). The Group plans to develop this drug for the Japanese market. In addition, in August 2006, the Group reached an agreement with Ajinomoto Co., Inc. that granted the Group the global development, manufacturing and sales rights for AJD101, a novel diabetes treatment that is currently in Phase I clinical trials outside Japan. The Group plans to cooperate with Ajinomoto in the development of this drug for Japan and other markets.

Of the five pipeline drugs selected as top-priority development projects, the Company has excluded DJ-927, a taxane derivative (oral anticancer) which the Company has been promoting development, from the list on the ground that a study done subsequent to the initial selection ruled out the possibility of confirming its clearer utility against other agents for cancer chemotherapy. Consequently, the following four pipeline drugs remain as top-priority development projects for the DAIICHI SANKYO Group today: prasugrel (CS-747), an antiplatelet agent; DU-176b, a factor-Xa inhibitor; CS-8663, a combination drug containing the antihypertensives olmesartan and amlodipine; and DZ-697b, an antiplatelet agent.

2. Financial Position

Statement of Cash Flows

(Millions of yen)

	Interim period of fiscal 2006	Interim period of fiscal 2005	Change
Cash flows from operating activities	69,708	66,237	3,470
Cash flows from investing activities	(32,726)	(24,596)	(8,130)
Cash flows from financing activities	(23,150)	(37,253)	14,102
Effect of exchange rate changes on cash and cash equivalents	160	1,067	(907)
Net increase in cash and cash equivalents	13,992	5,455	8,536
Cash and cash equivalents, end of period	415,838	359,235	56,602

Cash and cash equivalents increased by ¥14.8 billion during the interim period ended September 30, 2006, to ¥415.8 billion. Contributing factors are summarized as follows:

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥69.7 billion, an increase in cash inflows of ¥3.4 billion compared with the same period a year earlier. Although income before income taxes and minority interests increased on a year-to-year basis, it was partially offset by an increase in income tax payments.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥32.7 billion. This represented an increase in cash outflows of ¥8.1 billion compared with the same period a year earlier. Although the sale of subsidiaries generated cash inflows and capital expenditures on property, plant and equipment were less than those in the same period a year earlier, investments in fixed-income securities with maturities exceeding three months increased on a year-to-year basis.

Cash Flows from Financing Activities

Net cash used in financing activities equaled ¥23.1 billion. This represented a decrease in cash outflows of ¥14.1 billion compared with the same period a year earlier, principally reflecting the acquisitions of treasury stock in the interim period ended September 30, 2005.

<Principal Cash Flow Indicators>

	Fiscal 2005		Fiscal 2006
	Interim	Annual	Interim
Equity ratio (%)	77.3	77.5	78.3
Market capitalization ratio (%)	111.6	122.6	149.4
Interest-bearing debt ratio (years)	0.1	0.1	0.0
Interest coverage ratio (times)	592.9	593.9	968.8

Equity ratio: total equity/total assets
Market capitalization ratio: total market capitalization/total assets
Interest-bearing debt ratio: interest-bearing debt/operating cash flows
(For the interim period, the operating cash flow figures were doubled to derive an annualized amount)
Interest coverage ratio: operating cash flows/interest paid

(Notes)

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

3. Forecast of Financial Results for Fiscal 2006 (From April 1, 2006 to March 31, 2007)

[Forecast of Consolidated Financial Results for Fiscal 2006]

The forecast of consolidated financial results for the year ending March 31, 2007 has been revised from the forecast announced in July of this year as follows.

(Billions of yen)

	New forecast		Previous forecast		Amount change	Percentage Change	Fiscal 2005 Actual
	(A)	Percentage change (%)	(B)	Percentage change (%)	(A) – (B)	(%)	
Net sales	918.0	(0.9)	875.0	(5.5)	43.0	4.9	925.9
Operating income	127.0	(17.9)	118.0	(23.7)	9.0	7.6	154.7
Ordinary income	140.0	(12.3)	127.0	(20.5)	13.0	10.2	159.7
Net income	63.0	(28.2)	55.0	(37.3)	8.0	14.5	87.6

On the sales front, sales of an antihypertensive agent sold as *Olmetec*® in Japan and *Benicar*® in North America are strong, and sales for *Venofer*®, an agent for treating anemia, produced higher results than expected. Also, some subsidiaries engaged in the non-pharmaceutical businesses that are to become completely independent from the DAIICHI SANKYO Group by March 2007 is expected to contribute to income in the second half of the fiscal year. Due to these factors, the Group projects an increase in net sales of ¥43 billion compared with the previous forecast, bringing net sales to ¥918 billion.

On the profit side, the Group expects an increase in gross profit along with an increase in net sales, and continues to decrease cost while it invests consistently in critical R&D activities and expects business integration costs to arise. Due to these factors, the Group projects its operating income and ordinary income to increase by ¥9 billion and ¥13 billion compared with the previous forecast to ¥127 billion and ¥140 billion, respectively. In addition, decrease of accumulated losses from overseas Group companies is expected to have tax effects which reduce income tax expense. For the year ending March 31, 2007, the DAIICHI SANKYO Group forecasts net income to increase by ¥8 billion compared with the previous forecast to ¥63 billion.

Earnings at overseas subsidiaries are calculated using the foreign exchange rates of ¥115 = U.S.$ 1.00 and ¥145 = €1.00

[Annual dividend payment]

For the year-end dividend, the Company plans to pay ¥30 per share, making the annual dividend ¥60 per share including the interim dividend. This is up ¥10 compared with the previous year.

[Forecast of Non-consolidated Financial Results for Fiscal 2006]

The forecast of non-consolidated financial results for the fiscal year ending March 31, 2007 has been revised as follows.

(Billions of yen)

	New forecast		Previous forecast		Amount change (A) – (B)	Percentage Change (%)	Fiscal 2005 Actual
	(A)	Percentage change (%)	(B)	Percentage change (%)			
Net sales	6.1	(92.0)	6.3	(91.8)	(0.2)	(3.2)	76.6
Ordinary income	0.2	(99.7)	0.3	(99.6)	(0.1)	(33.3)	73.5
Net income	0.1	(99.9)	0.2	(99.7)	(0.1)	(50.0)	73.5

4. Business Risks

The following section provides an overview of 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 current interim period (September 30, 2006).

(1) 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, could also materially affect the outcomes of R&D programs.

(2) 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.

(3) Sales-related Risk

Any decline in sales due to the emergence of unanticipated side effects of a drug, or due to the entry of generic products into the marketr 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.

(4) 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.

(5) 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 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.

(6) Environmental Risk

Certain of the chemicals used in pharmaceutical research and manufacturing processes include substances with the potential to exert a negative impact on human health and natural ecosystems. 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.

(7) Litigation-related Risk

Besides potential antitrust issues, the DAIICHI SANKYO Group could also face litigation for various reasons 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.

(8) Currency Fluctuation Risk

Fluctuations in foreign currency exchange rates could have 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.

(9) 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.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

		As of September 30, 2005			As of September 30, 2006			As of March 31, 2006		
	See Note	Amount		%	Amount		%	Amount		%
ASSETS										
I Current assets:										
1. Cash and time deposits			187,926			208,480			223,979	
2. Trade notes and accounts receivable	※1		240,694			231,543			240,173	
3. Marketable securities			253,968			318,548			274,510	
4. Mortgage-backed securities			18,000			15,000			16,500	
5. Inventories			121,067			117,692			121,694	
6. Deferred tax assets			36,682			57,606			40,911	
7. Other current assets			27,085			26,729			41,313	
Allowance for doubtful accounts			(866)			(682)			(599)	
Total current assets			884,558	58.2		974,918	59.6		958,483	60.1
II Non-current assets:										
1. Property, plant and equipment:	※2									
(1) Buildings and structures	※3	165,823			156,568			164,047		
(2) Machinery, equipment and vehicles	※3	48,407			48,504			47,888		
(3) Land	※3	48,552			44,459			48,892		
(4) Construction in progress		15,952			6,722			10,010		
(5) Other	※3	18,557	297,293	19.6	19,164	275,419	16.9	18,874	289,712	18.1
Total property, plant and equipment, net										
2. Intangible assets:										
(1) Goodwill, net		10,964			20,209			9,788		
(2) Other intangible assets, net		25,064	36,029	2.4	48,149	68,358	4.2	26,378	36,166	2.3
3. Investments and other assets:										
(1) Investment securities	※3	240,861			261,787			256,338		
(2) Long-term loans		6,737			5,748			6,154		
(3) Prepaid pension costs		15,028			16,917			17,307		
(4) Deferred tax assets		14,795			9,428			7,403		
(5) Other assets		24,022			22,730			25,090		
Allowance for doubtful accounts		(635)	300,811	19.8	(825)	315,787	19.3	(529)	311,763	19.5
Total non-current assets			634,134	41.8		659,565	40.4		637,643	39.9
Total assets			1,518,692	100.0		1,634,483	100.0		1,596,126	100.0

(Millions of yen)

		As of September 30, 2005			As of September 30, 2006			As of March 31, 2006		
	See Note	Amount		%	Amount		%	Amount		%
LIABILITIES										
I Current liabilities:										
1. Trade notes and accounts payable	※1		55,773			56,408			65,596	
2. Short-term bank loans	※3		9,524			5,616			13,547	
3. Income taxes payable			27,103			32,789			26,169	
4. Deferred tax liabilities			321			59			31	
5. Allowance for sales returns			1,013			1,580			657	
6. Allowance for sales rebates			2,485			2,322			2,204	
7. Allowance for contingent losses			2,240			3,345			3,379	
8. Other current liabilities	※1		134,807			141,078			125,246	
Total current liabilities			233,271	15.3		243,201	14.9		236,833	14.9
II Non-current liabilities:										
1. Long-term debt	※3		3,639			1,701			3,374	
2. Deferred tax liabilities			17,691			26,570			23,926	
3. Accrued retirement and severance benefits			70,225			65,468			68,321	
4. Accrued directors' retirement and severance benefits			2,750			2,800			3,140	
5. Accrued soil remediation costs			–			4,532			2,850	
6. Other non-current liabilities			6,754			6,168			8,540	
Total non-current liabilities			101,061	6.7		107,241	6.6		110,154	6.9
Total liabilities			334,333	22.0		350,443	21.5		346,987	21.8
MINORITY INTERESTS										
Minority interests			10,122	0.7		–	–		11,609	0.7
SHAREHOLDERS' EQUITY										
I Common stock			50,000	3.3		–	–		50,000	3.1
II Additional paid-in-capital			179,858	11.8		–	–		179,858	11.3
III Retained earnings			898,270	59.1		–	–		936,513	58.7
IV Net unrealized gain on investment securities			61,612	4.1		–	–		80,254	5.0
V Foreign currency translation adjustments			(5,755)	(0.4)		–	–		735	0.0
VI Treasury stock at cost			(9,747)	(0.6)		–	–		(9,832)	(0.6)
Total shareholders' equity			1,174,237	77.3		–	–		1,237,529	77.5
Total liabilities, minority interests and shareholders' equity			1,518,692	100.0		–	–		1,596,126	100.0
NET ASSETS										
I Shareholders' capital										
1. Common stock			–	–		50,000	3.1		–	–
2. Additional paid-in-capital			–	–		179,859	11.0		–	–
3. Retained earnings			–	–		981,690	60.0		–	–
4. Treasury stock at cost			–	–		(9,909)	(0.6)		–	–
Total shareholders' equity			–	–		1,201,640	73.5		–	–
II Valuation translation and other adjustments										
1. Net unrealized gain on investment securities			–	–		76,455	4.7		–	–
2. Foreign currency translation adjustments			–	–		2,337	0.1		–	–
Total valuation translation and other adjustments			–	–		78,792	4.8		–	–
III Minority interests			–	–		3,607	0.2	–	–	-
Total net assets			–	–		1,284,040	78.5		–	–
Total liabilities and net assets			–	–		1,634,483	100.0		–	–

(2) Consolidated Statements of Income

(Millions of yen)

	See Note	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005) Amount		%	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006) Amount		%	Change Amount	Fiscal 2005 (For the year ended March 31, 2006) Amount		%
I Net sales			451,808	100.0		485,842	100.0	34,033		925,918	100.0
II Cost of sales			141,296	31.3		138,022	28.4	(3,274)		290,735	31.4
Gross profit			310,512	68.7		347,820	71.6	37,307		635,182	68.6
III Selling, general and administrative expenses:											
1. Advertising and promotional expenses		34,596			51.840				74,960		
2. Salaries and bonuses		48,238			54,233				98,570		
3. Retirement and severance costs		3,618			3,704				4,899		
4. Research and development expenses		72,528			84,939				158,716		
5. Other		71,185	230,166	50.9	74,748	269,466	55.5	39,299	143,577	480,454	51.9
Operating income			80,345	17.8		78,353	16.1	(1,991)		154,728	16.7
IV Non-operating income:											
1. Interest income		1,357			3,967				3,326		
2. Dividend income		1,300			2,631				1,995		
3. Derivative income		-			2,309				-		
4. Other income		3,076	5,734	1.3	2,618	11,526	2.4	5,792	5,628	10,951	1.2
V Non-operating expenses:											
1. Interest expense		153			118				313		
2. Loss on disposal and write-down of inventories		541			200				1,587		
3. Charitable contributions		514			406				1,099		
4. Provision for doubtful accounts		-			197				11		
5. Derivative losses		483			-				460		
6. Amortization of start-up costs		361			-				361		
7. Equity in net losses of affiliated companies		242			-				349		
8. Other expenses		1,139	3,436	0.8	747	1,671	0.3	(1,765)	1,781	5,964	0.7
Ordinary income			82,642	18.3		88,208	18.2	5,566		159,714	17.2
VI Extraordinary gains:											
1. Gain on sales of property, plant and equipment	※1	3,407			1,619				4,897		
2. Gain on sale of investments in affiliates		–			20,550				1,179		
3. Gain on adjustment of prior-year R&D expenses		–			1,608				-		
4. Gain on sale of investment securities		195			713				649		
5. Gain from the return of the substitutional portion of the employees' pension fund to the government		163	3,766	0.8	–	24,492	5.0	20,725	163	6,890	0.8

(Millions of yen)

		Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)			Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)			Change	Fiscal 2005 (For the year ended March 31, 2006)		
	See Note	Amount		%	Amount		%	Amount	Amount		%
VII Extraordinary losses:											
1. Loss on disposal of property, plant and equipment	※2	2,320			1,605				5,550		
2. Loss on business integration	※3	790			7,812				9,893		
3. Restructuring charge	※4	474			1,870				1,153		
4. Provision for soil remediation costs		–			1,685				2,850		
5. Loss on impairment of property, plant and equipment	※5	5,253			735				5,253		
6. Loss on valuation of investment securities		42			318				346		
7. Supplemental retirement benefit costs		114			287				160		
8. Provision for contingent losses	※6	2,240			13				3,379		
9. Loss on settlement of vitamin-related anti-trust litigations	※7	–	11,236	2.5	–	14,327	3.0	3,090	1,125	29,712	3.2
Net income before income taxes and minority interests			75,172	16.6		98,373	20.2	23,201		136,892	14.8
Income tax expense — current	※8	27,439			52,312				54,207		
Income tax expense — deferred	※8	(1,516)	25,923	5.7	(20,883)	31,428	6.4	5,504	(5,011)	49,196	5.3
Minority interests in net income (losses) of Subsidiaries			(201)	(0.0)		58	0.0	259		3	0.0
Net income			49,450	10.9		66,886	13.8	17,436		87,692	9.5

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

Consolidated Statements of Retained Earnings

(Millions of yen)

	See Note	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005) Amount		Fiscal 2005 (For the year ended March 31, 2006) Amount	
ADDITIONAL PAID-IN CAPITAL					
I Additional paid-in capital, beginning of year			180,027		180,027
II Decrease in additional paid-in capital					
1. Loss on reissuance of treasury stock		169	169	169	169
IV Additional paid-in capital, end of year			179,858		179,858
RETAINED EARNINGS					
I Retained earnings, beginning of year			956,658		956,658
II Increase in retained earnings:					
1. Net income		49,450	49,450	87,692	87,692
III Decrease in retained earnings:					
1. Cash dividends		17,311		17,311	
2. Share transfer payment		17,167		17,167	
3. Bonuses to directors		405		405	
4. Retirement of treasury stock		72,419		72,419	
5. Loss on reissuance of treasury stocks		298		298	
6. Decrease due to changes in scope of consolidation		235	107,838	235	107,837
IV Retained earnings, end of year			898,270		936,513

Consolidated Statement of Changes in Net Assets

Interim period of fiscal 2006 (for the six-month period ended September 30, 2006) (Millions of yen)

	Shareholders' capital				
	Common stock	Additional paid-in-capital	Retained earnings	Treasury stock at cost	Total shareholders' capital
Balance as of March 31, 2006	50,000	179,858	936,513	(9,832)	1,156,539
Changes during the interim period					
Dividends			(18,226)		(18,226)
Directors' and corporate auditors' bonuses			(343)		(343)
Net income (loss)			66,886		66,886
Gain on reissuance of treasury stock		1			1
Acquisition of treasury stock				(81)	(81)
Reissuance of treasury stock				4	4
Reduction due to addition of new subsidiaries to scope of consolidation			(3,007)		(3,007)
Reduction due to decrease in number of equity-method affiliates			(131)		(131)
Changes other than shareholders' capital, net					
Total changes during the interim period	–	1	45,177	(77)	45,100
Balance as of September 30, 2006	50,000	179,859	981,690	(9,909)	1,201,640

	Valuation translation and other adjustments			Minority interests	Total net assets
	Net unrealized gain on investment securities	Foreign currency translation adjustments	Total valuation translation and other adjustments		
Balance as of March 31, 2006	80,254	735	80,989	11,609	1,249,138
Changes during the interim period					
Dividends					(18,226)
Directors' and corporate auditors' bonuses					(343)
Net income					66,886
Gain on reissuance of treasury stock					1
Acquisition of treasury stock					(81)
Reissuance of treasury stock					4
Reduction due to addition of new subsidiaries to scope of consolidation					(3,007)
Reduction due to decrease in number of equity-method affiliates					(131)
Changes other than shareholders' capital, net	(3,799)	1,601	(2,197)	(8,001)	(10,199)
Total changes during the interim period	(3,799)	1,601	(2,197)	(8,001)	34,901
Balance as of September 30, 2006	76,455	2,337	78,792	3,607	1,284,040

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	See Note	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005) Amount	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006) Amount	Change Amount	Fiscal 2005 (For the year ended March 31, 2006) Amount
I Cash flows from operating activities:					
Net income before income taxes and minority interests		75,172	98,373	23,201	136,892
Depreciation		19,486	19,732	246	41,128
Loss on impairment of property, plant and equipment		5,253	735	(4,518)	5,253
Amortization of goodwill		191	1,788	1,597	1,424
Increase (Decrease) in allowance for doubtful accounts		350	287	(63)	(27)
Decrease in accrued retirement and severance benefits		(1,448)	(535)	912	(3,314)
Increase (Decrease) in prepaid pension costs		464	390	(74)	(1,813)
Interest and dividend income		(2,658)	(6,598)	(3,940)	(5,322)
Interest expense		153	118	(35)	313
Gain (loss) on sale of property, plant and equipment		(1,319)	(13)	1,305	653
Loss on penalty and settlement		–	–	–	1,125
Equity in net income (loss) of affiliated companies		242	(18)	(260)	349
Decrease in trade notes and accounts receivable		10,506	5,500	(5,005)	11,651
Decrease in inventories		8,161	4,635	(3,526)	8,251
Decrease in trade notes and accounts payable		(16,712)	(5,171)	11,540	(7,661)
Other, net		(9,529)	(10,754)	(1,224)	(6,535)
Subtotal		88,315	108,469	20,154	181,914
Interest and dividends received		2,739	6,488	3,749	5,285
Interest paid		(153)	(118)	34	(313)
Penalty and legal settlement paid		–	–	–	(1,125)
Income taxes paid		(24,664)	(45,131)	(20,467)	(53,001)
Net cash provided by operating activities		66,237	69,708	3,470	132,759

(Millions of yen)

	See Note	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005) Amount	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006) Amount	Change Amount	Fiscal 2005 (For the year ended March 31, 2006) Amount
II Cash flows from investing activities:					
Purchases of time deposits		(2,685)	(5,704)	(3,018)	(5,140)
Proceeds from maturities in time deposits		2,761	2,653	(108)	4,409
Purchases of marketable securities		(30,523)	(83,249)	(52,726)	(86,578)
Proceeds from sale of marketable Securities		55,682	80,180	24,497	119,972
Acquisitions of property, plant and equipment		(21,072)	(11,224)	9,847	(41,798)
Proceeds from sale of property, plant and equipment		3,038	3,572	534	5,471
Acquisitions of intangible assets		(2,593)	(2,963)	(369)	(6,788)
Acquisitions of investment securities		(32,247)	(19,623)	12,624	(38,975)
Proceeds from sale of Investment securities		11,797	4,787	(7,009)	16,095
Acquisitions of investments in new subsidiaries resulting in changes in scope of consolidation		–	(27,210)	(27,210)	–
Acquisition of investments in subsidiaries resulting in changes in percentage of equity holding		(10,268)	–	10,268	(10,268)
Proceeds from sale of investments in consolidated subsidiary resulting in changes in scope of consolidation		524	24,865	24,341	642
Payment for loans receivable		(1,055)	(327)	728	(2,451)
Proceeds from collection of loans receivable		286	593	306	1,837
Other, net		1,759	924	(834)	4,313
Net cash used in investing activities		(24,596)	(32,726)	(8,130)	(39,258)
III Cash flows from financing activities:					
Net decrease in short-term bank loans		(6,297)	(4,011)	2,286	(2,286)
Proceeds from long-term debt		791	-	(791)	1,110
Repayments of long-term debt		(637)	(180)	457	(1,204)
Purchases of treasury stock		(16,514)	(81)	16,432	(16,610)
Proceeds from sale of treasury stock		2,907	5	(2,902)	2,919
Dividends paid		(17,308)	(18,195)	(887)	(17,326)
Share transfer payments		–	–	–	(17,167)
Other, net		(193)	(687)	(493)	460
Net cash used in financing activities		(37,253)	(23,150)	14,102	(50,106)
IV Effect of exchange rate changes on cash and cash equivalents		1,067	160	(907)	3,793
V Net increase in cash and cash equivalents		5,455	13,992	8,536	47,188
VI Cash and cash equivalents, beginning of period		354,102	400,967	46,865	354,102
VII Increase (Decrease) in cash and cash equivalents due to changes in scope of consolidation		(322)	877	1,200	(322)
VIII Cash and cash equivalents, end of period	※	359,235	415,838	56,602	400,967

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

Item	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
1. Scope of consolidation	(1) Consolidated subsidiaries: 61 Principal consolidated subsidiaries: In Japan Sankyo Co., Ltd. Daiichi Pharmaceutical Co., Ltd. Daiichi Suntory Pharma Co., Ltd. Daiichi Fine Chemical Co., Ltd. Daiichi Radioisotope Laboratories, Ltd. Daiichi Pure Chemicals Co., Ltd. Daiichi Pharmatech Co., Ltd. Wakodo Co., Ltd. Sankyo Agro Co., Ltd. Nippon Nyukazai Co., Ltd. Sankyo Lifetech Co., Ltd. Overseas Sankyo Pharma Inc. Daiichi Pharmaceutical Corporation Daiichi Medical Research, Inc. Luitpold Pharmaceuticals, Inc. Sankyo Pharma GmbH. Nippon Daiya Valve Co., Ltd., Kyushu Sankyo Co., Ltd. and Sankyo Foods Co., Ltd., which were consolidated subsidiaries of Sankyo Company, Limited were excluded from the scope of consolidation because of the sale of their shares and other reasons. In addition, Tokyo Iyaku Shiki Co., Ltd. and Nishimura Shiki Co., Ltd. which were consolidated subsidiaries of Daiichi Pharmaceutical Co., Ltd. were excluded from the scope of consolidation as of the end of the interim period because of the sale of a portion of their shares owned by Daiichi, and are accounted for under the equity method. However, their results of operations are included in the consolidated statements of income. Dismed AG, which was a consolidated subsidiary of Sankyo, and Kansai Daiichi Service Co., Ltd., Daiichi Technos Co., Ltd. and Daiichi Suntory Biomedical Research Ltd., which were consolidated subsidiaries of Daiichi, were merged with other consolidated companies.	(1) Consolidated subsidiaries: 54 Principal consolidated subsidiaries: In Japan Sankyo Co., Ltd. Daiichi Pharmaceutical Co., Ltd. Daiichi Asubio Pharma. Co., Ltd. Daiichi Fine Chemical Co., Ltd. Daiichi Radioisotope Laboratories, Ltd. Daiichi Pure Chemicals Co., Ltd. Zepharma Inc. Daiichi Pharmatech Co., Ltd. Daiichi Sankyo Healthcare Co., Ltd. Sankyo Agro Co., Ltd. Nippon Nyukazai Co., Ltd. Sankyo Lifetech Co., Ltd. Overseas Daiichi Sankyo, Inc. Luitpold Pharmaceuticals, Inc. DAIICHI SANKYO EUROPE GmbH Wakodo Co., Ltd., Wako Food Industry Co., Ltd., Wako Logistics Co., Ltd., Nihon Shoni Iji Shuppansha Co., Ltd., Fuji Flour Milling Co., Ltd. and Oy Sankyo Pharma Finland Ab, which were consolidated subsidiaries of Sankyo Company, Limited were excluded from the scope of consolidation because of the sale of their shares and other reasons. Shanghai Sankyo Pharmaceuticals Co., Ltd. and Taiwan Sankyo Pharmaceutical Co., Ltd., both previously non-consolidated subsidiaries of Sankyo Company, Limited, were included in the scope of consolidation because of their increased significance. Zepharma Inc., which was acquired at the beginning of the interim period ended September 30, 2006, was also included in the scope of consolidation. Sankyo Pharma GmbH, which is a Sankyo Company, Ltd.'s consolidated subsidiary, changed its name to DAIICHI SANKYO EUROPE GmbH.	(1) Consolidated subsidiaries: 57 Principal consolidated subsidiaries: In Japan Sankyo Co., Ltd. Daiichi Pharmaceutical Co., Ltd. Daiichi Asubio Pharma. Co., Ltd., Daiichi Fine Chemical Co., Ltd. Daiichi Radioisotope Laboratories, Ltd. Daiichi Pure Chemicals Co., Ltd., Daiichi Pharmatech Co., Ltd. Wakodo Co., Ltd. Sankyo Agro Co., Ltd. Nippon Nyukazai Co., Ltd. Sankyo Lifetech Co., Ltd. Overseas Daiichi Sankyo, Inc. Luitpold Pharmaceuticals, Inc. Sankyo Pharma GmbH Nippon Daiya Valve Co., Ltd., Kyushu Sankyo Co., Ltd. and Sankyo Foods Co., Ltd., which were consolidated subsidiaries of Sankyo Co. Ltd. were excluded from the scope of consolidation because of the sale of their shares and other reasons. F.P Kakou Co., Ltd. was excluded from the scope of consolidation in this fiscal year because of the sale of their shares In addition, Daiichi Pharmaceutical Co. Ltd. sold off a part of its investments in two subsidiaries, Tokyo Iyaku Shiki Co., Ltd. and Nishimura Shiki Co. Consequently, the Company has excluded the two companies from consolidation and now accounts for them under the equity method. Daiichi Fine Chemicals Inc. completed its liquidation procedures and is no longer consolidated. Dismed AG, previously a consolidated subsidiary of Sankyo Co., Ltd., merged with another consolidated subsidiary, as did the following four former consolidated subsidiaries of Daiichi Pharmaceutical Co., Ltd.: Kansai Daiichi Service Co., Ltd.; Daiichi Technos Co., Ltd.; Daiichi Suntory Biomedical Research Ltd.; and Daiichi Pharmaceutical (China) Co., Ltd. On March 31, 2006, Sankyo Pharma, Inc., a consolidated subsidiary of Sankyo Co., Ltd., and Daiichi Pharma Holdings, Inc., Daiichi Pharmaceutical Corporation, and Daiichi Medical Research, Inc., the latter three former consolidated subsidiaries of Daiichi Pharmaceutical Co., Ltd., merged to form Daiichi Sankyo, Inc. The Company also began consolidating Daiichi Sankyo Healthcare Co., Ltd., Sankyo Grundstücks GmbH & Co. and Object München AG, which was established during the year.
	(2) Non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd., Godo Real Estate Co. Ltd. and Shanghai Sankyo Pharmaceuticals Co., Ltd.) are small and are not material when measured by the amounts of total assets, net sales, net income (based on the Company's ownership percentage), retained earnings (based on the Company's ownership percentage), and other indicators. They have therefore been excluded from the scope of consolidation.	(2) Non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd. and Godo Real Estate Co. Ltd.) are small and are not material when measured by the amounts of assets, sales, net income (based on the Company's ownership percentage), retained earnings (based on the Company's ownership percentage), and other indicators. They have therefore been excluded from the scope of consolidation.	(2) Non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd., Godo Real Estate Co. Ltd. and Shanghai Sankyo Pharmaceuticals Co., Ltd.) are small and are not material when measured by the amounts of total assets, net sales, net income (based on the Company's ownership percentage), retained earnings (based on the Company's ownership percentage), and other indicators. They have therefore been excluded from the scope of consolidation.

<table>
<tr><th>Item</th><th>Interim period of fiscal 2005
(For the six-month period ended September 30, 2005)</th><th>Interim period of fiscal 2006
(For the six-month period ended September 30, 2006)</th><th>Fiscal 2005
(For the year ended March 31, 2006)</th></tr>
<tr><td>2. Application of the Equity Method</td><td>(1) Affiliated companies accounted for under the equity method: 4

Names of principal company:
Sanofi Pasteur Daiichi Vaccine Co., Ltd

(2) Net income (based on the Company's equity percentage), retained earnings (based on the Company's equity percentage), and other indicators of those non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd., Godo Real Estate Co. Ltd. and Shanghai Sankyo Pharmaceuticals Co., Ltd.) and affiliated companies (including Tokyo Yakugyo Kaikan Co., Ltd.) that have not been accounted for under the equity method are not material or significant to the Company as a whole. Therefore, these companies have not been accounted for under the equity method, but are rather reported in the Company's investment account under the cost method.</td><td>(1) Non-consolidated subsidiaries accounted for under the equity method: 0
Affiliated companies accounted for under the equity method: 3
Names of principal company:
Sanofi Pasteur Daiichi Vaccine Co., Ltd

(2) Net income (based on the Company's equity percentage), retained earnings (based on the Company's equity percentage), and other indicators of those non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd. and Godo Real Estate Co. Ltd.) and affiliated companies (including Tokyo Yakugyo Kaikan Co., Ltd.) that have not been accounted for under the equity method are not material or significant to the Company as a whole. Therefore, these companies have not been accounted for under the equity method, but are rather reported in the Company's investment account under the cost method.</td><td>(1) Non-consolidated subsidiaries accounted for under the equity method: 0
Affiliated companies accounted for under the equity method: 5
Name of principal company:
Sanofi Pasteur Daiichi Vaccine Co., Ltd

(2) Net income (based on the Company's equity percentage), retained earnings (based on the Company's equity percentage), and other indicators of those non-consolidated subsidiaries (including Sankyo Insurance Agency Co., Ltd., Godo Real Estate Co. Ltd. and Shanghai Sankyo Pharmaceuticals Co., Ltd.) and affiliated companies (including Tokyo Yakugyo Kaikan Co., Ltd.) that have not been accounted for under the equity method are not material or significant to the Company as a whole. Therefore, these companies have not been accounted for under the equity method, but are rather reported in the Company's investment account under the cost method.</td></tr>
<tr><td>3. Interim Period-End of Consolidated Subsidiaries</td><td>The interim period-end of certain consolidated subsidiaries is June 30. In preparing the interim financial statements, the Company uses the financial statements of these companies as of their interim period-end. For major intervening transactions that occurred between the interim period-end of those companies and September 30, appropriate adjustments have been made in the consolidated interim financial statements.
Name of subsidiaries that have interim period-end on June 30:
Sankyo Pharma Inc., Luitpoid Pharmaceuticals, Inc., Daiichi Asbio Pharmaceutical, Inc., Sankyo Pharma GmbH and 12 other Sankyo subsidiaries as well as Daiichi Pharmaceutical (Beijing) Co., Ltd. and 5 other subsidiaries.

(Supplemental Information)
――――――</td><td>The interim period-end of certain consolidated subsidiaries is June 30. In preparing the interim financial statements, the Company uses the financial statements of these companies as of their interim period-end. For major intervening transactions that occurred between the interim period-end of those companies and September 30, appropriate adjustments have been made in the consolidated interim financial statements.
Name of subsidiaries that have interim period-end on June 30:
Daiichi Asbio Pharmaceutical, Inc. Daiichi Sankyo Europe GmbH, and its 11 subsidiaries as well as Daiichi Pharmaceutical (Beijing) Co., Ltd and 7 other subsidiaries.

(Supplemental Information)
Daiichi Sankyo Inc. and Luitpold Pharmaceuticals Inc. changed their fiscal year-end from December 31 to March 31 effective the current fiscal year.
The financial statements as of December 31, 2005 of those companies were used in preparing the consolidated financial statements for the fiscal year ended March 31, 2006 for these companies. As a result of this change, the consolidated results for the interim period ended September 30, 2006 included the nine months' results of these companies covering the period from January 1 to September 30, 2006.

The net effect of these changes in fiscal year-end on the consolidated statements of income for the interim period ended September 30, 2006 was an increase in net sales, operating income, ordinary income, income before income taxes and minority interests, and net income of ¥31,514 million, ¥9,030 million, ¥10,575 million, ¥9,587 million and ¥5,830 million, respectively.</td><td>The fiscal year-end of certain consolidated subsidiaries is December 31. In preparing the consolidated financial statements, the Company uses the financial statements of these companies as of their fiscal year-end. For major intervening transactions that occurred between the fiscal year-end of those companies and March 31, appropriate adjustments have been made in the consolidated financial statements.
Name of subsidiaries that have fiscal year-end on December 31:
Luitpoid Pharmaceuticals, Inc., Daiichi Asubio Pharmaceuticals, Inc., Sankyo Pharma GmbH and its 12 subsidiaries as well as Daiichi Pharmaceutical (Beijing) Co., Ltd. and 5 other subsidiaries.

Following its merger with Daiichi Pharma Holdings, Inc. et al, Sankyo Pharma, Inc. changed its fiscal-year end to March 31. However, for the current fiscal year, the Company consolidated Sankyo Pharma's financial statements as of December 31, 2005.

(Supplemental Information)
――――――</td></tr>
</table>

Item	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
4. Accounting for Business Combination	(1) The Company was established through a joint transfer of shares by Sankyo and Daiichi (the wholly owned subsidiaries) and became the parent company of the wholly owned subsidiaries. The Company accounted for this business combination under the pooling of interests method in accordance with "Accounting for Business Combinations in the Establishment of Parent-Subsidiary Relationship Using the Exchange of Shares and the Transfer of Shares (Research Report No. 6 of the Accounting Systems Committee of the Japanese Institute of Certified Public Accountants). (2) As a result of the comprehensive review of the wholly owned subsidiaries' business operations, financial conditions, and management performance, the Company has determined that the pooling of interests accounting is appropriate for this business combination, since the wholly owned subsidiaries continue jointly to share the risks and benefits of the Daiichi Sankyo group.	(1) ―――――― (2) ――――――	(1) The Company was established through a joint transfer of shares by Sankyo and Daiichi (the wholly owned subsidiaries) and became the parent company of the wholly owned subsidiaries. The Company accounted for this business combination under the pooling of interests method in accordance with "Accounting for Business Combinations in the Establishment of Parent-Subsidiary Relationship Using the Exchange of Shares and the Transfer of Shares (Research Report No. 6 of the Accounting Systems Committee of the Japanese Institute of Certified Public Accountants). (2) As a result of the comprehensive review of the wholly owned subsidiaries' business operations, financial conditions, and management performance, the Company has determined that the pooling of interests accounting is appropriate for this business combination, since the wholly owned subsidiaries continue jointly to share the risks and benefits of the Daiichi Sankyo group.
5. Summary of Significant Accounting Policies			
(a) Methods of Valuation of Significant Assets	(1) Marketable and Investment Securities Held-to-maturity securities Mainly the amortized cost method (straight-line amortization) Available-for-sale securities Securities with determinable market value: Mainly stated at market value method based on the quoted market prices at the end of the interim period. Unrealized holding gains and losses are reported in a component of shareholders' equity, with the cost of securities sold being calculated by the moving-average method. Securities without determinable market value: Mainly stated at cost based on the moving-average method (2) Derivatives Market value method (3) Inventories Mainly stated at the lower of cost, by the average method, or market	(1) Marketable and Investment Securities Held-to-maturity securities Same as September 30, 2005 Available-for-sale securities Securities with determinable market value: Same as September 30, 2005 Securities without determinable market value: Same as September 30, 2005 (2) Derivatives Same as September 30, 2005 (3) Inventories Same as September 30, 2005	(1) Marketable and Investment Securities Held-to-maturity securities Same as September 30, 2005 Available-for-sale securities: Securities with determinable market value; Mainly stated at market value method based on the quoted market prices at the end of the fiscal year. Unrealized holding gains and losses are reported in a component of shareholders' equity, with the cost of securities sold being calculated by the moving-average method. Securities without determinable market value; Same as September 30, 2005 (2) Derivatives Same as September 30, 2005 (3) Inventories Same as September 30, 2005
(b) Depreciation and Amortization of Significant Depreciable Assets	(1) Property, Plant and Equipment The Company and its domestic consolidated subsidiaries account for depreciation of property, plant and equipment by the declining-balance method, except for buildings (excluding fixtures) acquired on or after April 1, 1998, which are accounted for by the straight-line method. Overseas consolidated subsidiaries account for depreciation of property, plant and equipment mainly by the straight-line method. The principal useful lives are as follows: Buildings and structures: 15~50 years Machinery, equipment and vehicles: 4~7 years	(1) Property, Plant and Equipment Same as September 30, 2005	(1) Property, Plant and Equipment Same as September 30, 2005

Item	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
	(2) Intangible Assets Intangible assets are being amortized by the straight-line method. Software for in-house use is amortized over the estimated useful lives of a five-year period.	(2) Intangible Assets Same as September 30, 2005	(2) Intangible Assets Same as September 30, 2005
(c) Method of Amortization of Deferred Charges	(1) Start-up Costs Start-up costs are expensed as incurred.	(1) ――――――	(1) Start-up Costs Start-up costs are expensed as incurred.
(d) Method of Accounting for Significant Allowances	(1) Allowance for Doubtful Accounts The Company covers the risk of credit losses from potential customer defaults by providing for this allowance. For normal accounts, the allowance is computed on the basis of the historical default rates. For specific over-due accounts, the allowance is based on individual account-by-account estimates of the amounts that may not be recoverable. (2) Allowance for Sales Returns To prepare for losses on potential returns of products after the end of the interim period, the Company's certain subsidiaries provide for an amount equal to the sum of gross profits and inventory losses on such returned products, based on its estimate of possible sales returns. For the interim period, the provision for this allowance of ¥88 million was included in cost of sales. (3) Allowance for Sales Rebates To prepare for future sales rebates, the Company's certain subsidiaries provide for this allowance calculated by multiplying an estimated sales rebate percentage for the interim period by the amounts of accounts receivable from and inventories held by wholesalers at the end of the interim period. (4) Accrued Retirement and Severance Benefits To prepare for future payments of employee retirement severance benefit, the Company's domestic consolidated subsidiaries provide for an amount incurred by the interim period-end based on estimated projected benefit obligations and plan assets at the end of the current fiscal year. Certain overseas consolidated subsidiaries provide for such accruals in accordance with accounting principles generally accepted in the countries of their domicile. Prior service cost is amortized under the straight-line method over a period of 5 to 10 years, which is equal to or less than the estimated average remaining years of service of the eligible employees when the prior year service cost was incurred. Actuarial gains and losses are amortized under the straight-line method, beginning in the fiscal year following the year in which such gain or loss was initially measured, over a period of5 to 10 years, which is equal to or less than the average remaining years of service of eligible employees when the actuarial gain or loss occurred, except for Sankyo which recognizes actuarial gains or losses immediately as they occur.	(1) Allowance for Doubtful Accounts Same as September 30, 2005 (2) Allowance for Sales Returns To prepare for losses on potential returns of products after the end of the interim period, the Company's certain subsidiaries provide for an amount equal to the sum of gross profits and inventory losses on such returned products, based on its estimate of possible sales returns. For the interim period, the provision for this allowance of ¥611 million was included in cost of sales. (3) Allowance for Sales Rebates Same as September 30, 2005 (4) Accrued Retirement and Severance Benefits Same as September 30, 2005	(1) Allowance for Doubtful Accounts Same as September 30, 2005 (2) Allowance for Sales Returns To prepare for losses on potential returns of products after the end of the fiscal year, the Company's certain subsidiaries provide for an amount equal to the sum of gross profits and inventory losses on such returned products, based on its estimate of possible sales returns. For the current fiscal year, the reversal of this allowance of ¥268 million is included in cost of sales. (3) Allowance for Sales Rebates To prepare for future sales rebates, the Company's certain subsidiaries provide for this allowance calculated by multiplying an estimated sales rebate percentage for the fiscal year by the amounts of accounts receivable from and inventories held by wholesalers at the end of the fiscal year (4) Accrued Retirement and Severance Benefits To prepare for future payments of employee retirement severance benefit, the Company's domestic consolidated subsidiaries provide for an amount incurred by the fiscal year-end based on estimated projected benefit obligations and plan assets at the end of the fiscal year. Certain overseas consolidated subsidiaries provide for such accruals in accordance with accounting principles generally accepted in the countries of their domicile. Prior service cost is amortized under the straight-line method over a period of 5 to 10 years, which is equal to or less than the estimated average remaining years of service of the eligible employees at the time such prior year service cost was incurred. Actuarial gains and losses are amortized under the straight-line method, beginning in the fiscal year following the year in which the gain or loss was initially measured, over a period of 5 to 10 years, which is equal to or less than the average remaining years of service of the eligible employees at the time such actuarial gain or loss occurred, except for Sankyo which recognizes actuarial gains or losses immediately as they occur.

Item	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
	(Supplemental Information) Accompanying the enactment of the Defined Benefit Pension Plan Law, consolidated subsidiary, 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. For the interim period, as a result of this return of plan assets, the Company recognized an extraordinary gain of ¥163 million.	――――――	(Supplemental Information) Accompanying the enactment of the Defined Benefit Pension Plan Law, Daiichi, a consolidated subsidiary, 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. For the current fiscal year, as a result of this return of the plan assets, the Company recognized an extraordinary gain of ¥163 million.
	(5) Accrued Directors' Retirement and Severance Benefits To prepare for payments of directors' retirement and severance benefits, the Company's domestic consolidated subsidiaries provide for an amount equal to the total benefits that would have been payable at the end of the interim period, in accordance with internal policies, had all directors resigned voluntarily. Certain of the Company's overseas consolidated subsidiaries record a provision for an amount incurred by the end of the interim period.	(5) Accrued Directors' Retirement and Severance Benefits Same as September 30, 2005	(5) Accrued Directors' Retirement and Severance Benefits To prepare for payments of directors' retirement and severance benefits, the Company's domestic consolidated subsidiaries provide for an amount equal to the total benefits that would have become payable at the end of the fiscal year, in accordance with the internal policies, had all directors resigned voluntarily. Certain of the Company's overseas consolidated subsidiaries record a provision for an amount incurred by the end of the fiscal year.
	(6) Allowance for Contingent Losses To prepare for possible future contingent losses, the Company provides an accrual for an amount of reasonably possible losses, by examining individual risks on a case by case basis.	(6) Allowance for Contingent Losses Same as September 30, 2005	(6) Allowance for Contingent Losses Same as September 30, 2005
	(7) ――――――	(7) Accrued soil remediation costs A provision for losses associated with soil purification programs is calculated based on an estimated cost of the measures required to clean up certain land.	(7) Accrued soil remediation costs Same as September 30, 2006
(e) Translation of Assets and Liabilities Denominated in Foreign Currencies into Yen	Receivables and payables denominated in foreign currencies are converted into yen amounts at the rates of exchange in effect at the balance sheet dates, with resulting translation gains or losses recognized currently in earnings. The assets and liabilities of overseas consolidated subsidiaries are converted into yen amounts at the rates of exchange in effect at their balance sheet dates, while income and expenses are converted into yen amounts at the average exchange rates in effect over the respective periods, with resulting translation gains and losses recorded in a component of shareholders' equity under translation adjustments or in the minority interests section of the balance sheets.	Receivables and payables denominated in foreign currencies are converted into yen amounts at the rates of exchange in effect at the balance sheet dates, with resulting translation gains or losses recognized currently in earnings. The assets and liabilities of overseas consolidated subsidiaries are converted into yen amounts at the rates of exchange in effect at their balance sheet dates, while income and expenses are converted into yen amounts at the average exchange rates in effect over the respective periods, with resulting translation gains and losses recorded as a component of net assets section under translation adjustments or minority interests of the balance sheets.	Receivables and payables denominated in foreign currencies are converted into yen amounts at the rates of exchange in effect at the balance sheet date, with resulting translation gains or losses recognized currently in earnings. The assets and liabilities of overseas consolidated subsidiaries are converted into yen amounts at the rates of exchange in effect at their balance sheet dates, while income and expenses are converted into yen amounts at the average exchange rates in effect over the respective periods, with resulting translation gains and losses recorded in a component of shareholders' equity under translation adjustments or in the minority interests section of the balance sheet.
(f) Accounting for Significant Lease Transactions	Financing leases are accounted for using the same accounting method applied to operating leases, with the exception of those financing leases in which the legal title of the underlying property is transferred from the lessor to the lessee.	Same as September 30, 2005	Same as September 30, 2005

Item	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
(g) Significant Hedge Accounting Methods	(1) Hedge Accounting Methods The Company employs the deferred hedge method of accounting. Foreign exchange forward contracts that meet certain criteria are accounted as a hedge of underlying assets and liabilities. Interest rate swaps that meet certain hedge criteria and whose notional amounts, interest payments and maturities match with those of the hedged borrowings are accounted for by the special short-cut method, as if the interest rates of the interest rate swaps had been originally applied to the underlying borrowings.	(1) Hedge Accounting Methods Same as September 30, 2005	(1) Hedge Accounting Methods Same as September 30, 2005
	(2) Hedging Instruments and Hedged Items Hedging instruments: Foreign exchange forward contracts, and interest rate swaps Hedged items: Accounts payable and receivable and forecasted transactions denominated in foreign currencies, and loans	(2) Hedging Instruments and Hedged Items Same as September 30, 2005	(2) Hedging Instruments and Hedged Items Same as September 30, 2005
	(3) Hedge Policy Certain consolidated subsidiaries hedge foreign exchange rate fluctuation risks relating to imports and exports and interest rate risks related to variable rate borrowings. The Company and its consolidated subsidiaries do not enter into speculative derivative transactions.	(3) Hedge Policy Same as September 30, 2005	(3) Hedge Policy Same as September 30, 2005
	(4) Methods of Assessing Hedge Effectiveness The hedge effectiveness of foreign exchange forward contracts, as a hedge has not been assessed, as the principal terms of the hedging instruments are the same as those of the hedged items. The effectiveness of interest rate swaps accounted for by the special short-cut method has also not been assessed, as permitted under the standard.	(4) Methods of Assessing Hedge Effectiveness Same as September 30, 2005	(4) Methods of Assessing Hedge Effectiveness Same as September 30, 2005
(h) Consumption Tax Accounting Method	The tax-exclusion (net of tax) method is used to account for the national and local consumption taxes.	Same as September 30, 2005	Same as September 30, 2005
6. Cash and Cash Equivalent in the Consolidated Statements of Cash Flows	Cash and cash equivalents in the consolidated statements of cash flows consist of: cash on hand, deposits which can be withdrawn upon demand, and highly liquid short-term investments that are easily convertible into cash with little risk of fluctuation in value, and that mature within three months of their dates of acquisition.	Same as September 30, 2005	Same as September 30, 2005

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

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
――――――	(Accounting Standard for Directors' Bonuses) Effective in the interim period for the six months ended September 30, 2006, the Company adopted the ASBJ Accounting Standard for Directors' Bonuses (ASBJ Statement No. 4; November 29, 2005). As a result of adopting this accounting standard, operating income, ordinary income and net income before income taxes were decreased by ¥161 million, respectively. The effects on individual segments are disclosed in "Segment Information" section .	――――――
――――――	(Presentation of net assets in the balance sheet) Effective in the interim period for the six months ended September 30, 2006, the Company adopted the ASBJ Accounting Standard for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No. 5; December 9, 2005) and the related ASBJ guidelines concerning the Implementation Guidance (ASBJ Guidance No. 8; December 9, 2005). Total shareholders' equity at September 30, 2006 that would have otherwise been reported under the previous accounting standard was ¥ 1,280,432 million. As a result of revisions to the regulations governing consolidated interim financial statements, the amount under net assets at September 30, 2006 as reported in the consolidated interim balance sheet have been prepared based on the revised regulations.	――――――

Changes in Presentation

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)
――――――	(Consolidated statement of income) "Provision for doubtful accounts" in non-operating expenses, which was included in "Other expenses" in the interim period ended September 30, 2005, has been presented as a separate line item as the amount exceeded 10/100 of total amount of the non-operating expenses.

Notes to Consolidated Financial Statements

(Notes to Consolidated Balance Sheets)

As of September 30, 2005

*1. ______________

*2. Accumulated depreciation on property, plant and equipment totaled ¥539,735 million.

*3. Pledged assets and secured liabilities
Assets pledged as collateral and secured liabilities were as follows:

Pledged assets		(Millions of yen)
Buildings and structures	2,888	(2,343)
Machinery, equipment and vehicles	3,532	(3,532)
Land	1,002	(780)
Other	57	(57)
Investment securities	631	(–)
Total	8,111	(6,713)

Secured liabilities		(Millions of yen)
Short-term bank loans	2,927	(2,449)
Long-term debt	1,372	(567)
Total	4,300	(3,017)

Figures in parentheses indicate factory foundation mortgaged assets and related obligations, and are also included in the figures of the left.

4. Contingent liabilities
(1) Certain debt and other obligations of non-consolidated companies and employees owed to financial institutions are guaranteed by the Company. A breakdown of these obligations was as follows:

	(Millions of yen)
Guarantees provided on employees housing loans, etc	2,460
Sanofi-Pasteur-Daiichi Vaccines Co., Ltd.	350
Saudi Arabian-Japanese Pharmaceutical Co., Ltd.	346
One other company	40
Total	3,197

(2) For purchase contracts with the minimum volume purchase commitment, the Company is exposed to a risk of valuation loss due to excess inventory.

5. The discounted trade notes receivable totaled ¥108 million.

As of September 30, 2006

*1. Matured notes at end of the consolidated interim period
Any notes are treated for accounting purposes as having been settled on the day of actual bank clearance. Since September 30, 2006 was a bank holiday for financial institutions, the amounts of matured notes as of the last day of the interim period were included in the respective balance sheet accounts as follows:

	(Millions of yen)
Trade notes receivable	3,150
Trade notes payable	230
Other current liabilities (Notes payable related to fixed asset purchases)	16

*2. Accumulated depreciation on property, plant and equipment totaled ¥538,381 million.

*3. Pledged assets and secured liabilities
Assets pledged as collateral and secured liabilities were as follows:

Pledged assets		(Millions of yen)
Buildings and structures	1,764	(1,764)
Machinery, equipment and vehicles	2,148	(2,148)
Land	882	(757)
Other	55	(55)
Total	4,851	(4,726)

Secured liabilities		(Millions of yen)
Short-term bank loans	96	(46)
Long-term debt	671	(671)
Total	767	(717)

Figures in parentheses indicate factory foundation mortgaged assets and related obligations, and are also included in the figures of the left.

4. Contingent liabilities
(1) Certain debts and other obligations of non-consolidated companies and employees owed to financial institutions are guaranteed by the Company. A breakdown of these obligations was as follows:

	(Millions of yen)
Guarantees provided on employees housing loans, etc	2,059
Saudi Arabian-Japanese Pharmaceutical Co., Ltd.	197
Other	4
Total	2,262

(2) ______________

5. The discounted trade notes receivable totaled ¥53 million.

As of March 31, 2006

*1. ______________

*2. Accumulated depreciation on property, plant and equipment totaled ¥543,118 million.

*3. Pledged assets and secured liabilities
Assets pledged as collateral and secured liabilities were as follows:

Pledged assets		(Millions of yen)
Buildings and structures	2,285	(1,840)
Machinery, equipment and vehicles	2,321	(2,321)
Land	900	(757)
Other	60	(60)
Investment securities	766	(–)
Total	6,333	(4,979)

Secured liabilities		(Millions of yen)
Short-term bank loans	415	(88)
Long-term debt	1,367	(700)
Total	1,782	(788)

Figures in parentheses indicate factory foundation mortgaged assets and related obligations, and are also included in the figures of the left.

4. Contingent liabilities
(1) Certain debts and other obligations of non-consolidated companies and employees owed to financial institutions are guaranteed by the Company. A breakdown of these obligations was as follows:

	(Millions of yen)
Guarantees provided on employees housing loans, etc	2,195
Sanofi-Pasteur-Daiichi vaccines Co., Ltd.	350
Saudi Arabian-Japanese Pharmaceutical Co., Ltd.	322
Other	52
Total	2,920

(2) ______________

5. The discounted trade notes receivable totaled ¥93 million.

As of September 30, 2005	As of September 30, 2006	As of March 31, 2006
6. Commitment line contracts Certain consolidated subsidiaries maintain committed lines of credit with 17 financial institutions in order to allow an efficient procurement of working capital. The balance of unused credit lines under these contracts at the end of the interim period was as follows: (Millions of yen) Total commitments 63,000 Commitments used – Commitments unused 63,000	6. Commitment line contracts Certain consolidated subsidiaries maintain committed lines of credit with 17 financial institutions in order to allow an efficient procurement of working capital. The balance of unused credit lines under these contracts at the end of the interim period was as follows: (Millions of yen) Total commitments 63,000 Commitments used – Commitments unused 63,000	6. Commitment line contracts Certain consolidated subsidiaries maintain committed lines of credit with 17 financial institutions in order to allow an efficient procurement of working capital. The balance of unused credit lines under these contracts at the end of the fiscal year was as follows: (Millions of yen) Total commitments 63,000 Commitments used – Commitments unused 63,000

(Notes to Consolidated Statements of Income)

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
*1. Breakdown of gain on sale of property, plant and equipment (Millions of yen) Machinery, equipment and vehicles 1 Land 3,404 Other 0	*1. Breakdown of gain on sale of property, plant and equipment (Millions of yen) Buildings and structures 5 Machinery, equipment and vehicles 6 Land 1,604 Other 2	*1. Breakdown of gain on sale of property, plant and equipment (Millions of yen) Buildings and structures 1 Machinery, equipment and vehicles 33 Land 4,860 Other 2
*2. Breakdown of loss on disposal of property, plant and equipment (Millions of yen) Buildings and structures 216 Machinery, equipment and vehicles 190 Other 303 Other intangible assets 1,300 In addition, expenses for disposal of property, plant and equipment totaled ¥308 million.	*2. Breakdown of loss on disposal of property, plant and equipment (Millions of yen) Buildings and structures 259 Machinery, equipment and vehicles 318 Land 825 Other 47 In addition, expenses for disposal of property, plant and equipment totaled ¥153 million.	*2. Breakdown of loss on disposal of property, plant and equipment (Millions of yen) Buildings and structures 1,773 Machinery, equipment and vehicles 422 Land 44 Other 514 Other intangible assets 1,308 In addition, expenses for disposal of property, plant and equipment totaled ¥1,487 million.
*3. Loss on business integration The loss represents one-time business office lease termination costs, etc. to be incurred in connection with the relocation of U.S. facilities under a plan of business integration within the Daiichi Sankyo group.	*3. Loss on business integration The loss represents one-time costs associated with integration of the pharmaceutical operations of the Sankyo Group and the Daiichi Group. The amount consisted of the following: (Millions of yen) Expenses associated with the integration of overseas operations 2,946 Expenses associated with the integration of healthcare business 646 IT-related expenses 2,808 Other research and consulting expenses 1,410	*3. Loss on business integration The loss represents one-time costs associated with integration of the pharmaceutical operations of the Sankyo Group and the Daiichi Group. The amount consisted of the following: (Millions of yen) Expenses associated with the integration of overseas operations 7,086 Expenses associated with the integration of healthcare business 968 Other research and consulting expenses 1,838
*4. Restructuring charge In order to focus on the pharmaceutical business, the Company is restructuring certain peripheral business operations. The restructuring charge represents losses incurred on the sale of investments in certain affiliated companies.	*4. Restructuring charge To concentrate on the pharmaceutical business, the Company has been carrying out a reorganization of its peripheral businesses. As part of this reorganization, the Company sold certain investments in affiliated companies. Restructuring charge includes a loss on such sales of investments and expenses paid to external advisers.	*4. Restructuring charge To concentrate on the pharmaceutical business, the Company has been carrying out a reorganization of its peripheral businesses. As part of this reorganization, the Company sold certain investments in affiliated companies. Restructuring charge includes a loss on such sales of investments and expenses paid to external advisers.

Interim period of fiscal 2005
(For the six-month period ended September 30, 2005)

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

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

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

Location	Function	Asset Type	Status
Iwaki, Fukushima	Onahama Plant (manufacturing facilities of pharmaceuticals)	Buildings and structures Machinery, equipment and vehicles	Idle
Shiraishi-ku, Sapporo	Former Sapporo Distribution Center facility	Land	Idle
Shimotoga-gun, Tochigi	Former Tochigi Research Center facility	Structure, land, etc.	Idle
Tsuchiura, Ibaraki	Company dormitory land	Land	Idle
Sanbu-gun, Chiba	Chiba plant site	Land	Idle

Because the above asset groups are idle and have uncertain prospects for future utilization, their book values have been written down to a recoverable amount, and such reductions in the mount of ¥5,253 million were recorded as a loss on impairment in the extraordinary losses.

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

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

*6. Provision for contingent losses

For purchase contracts with minimum volume purchase commitment, the Company estimates an amount of reasonably possible losses that may arise from future excess inventories.

*7. ―――――

*8. Consolidated income tax for the interim period were calculated based on the assumption that the planned reversals of the reserve for special depreciation and the retained earnings reserve for reduction in basis of fixed assets will be authorized for the current fiscal year.

Interim period of fiscal 2006
(For the six-month period ended September 30, 2006)

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

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

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

Location	Function	Asset Type	Status
Shimotsuke-shi, Tochigi	Former Tochigi Research Center facility	Buildings, etc.	Idle
Tosu-shi, Saga	Former Kyuhsu Distribution Center facility	Buildings, land, etc.	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 mount of ¥735 million were recorded as a loss on impairment in the extraordinary losses.

The impairment loss consisted of ¥482 million associated with buildings and structures, ¥32 million associated with machinery, equipment and vehicles, ¥215 million associated with land and ¥4 million associated with other assets.

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

*6. Provision for contingent losses

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

*7. ―――――

*8. Consolidated income tax for the interim period were calculated based on the assumption that the planned reversals of the reserve for special depreciation and the reversal of retained earnings reserve for reduction in basis of fixed assets will be authorized for the current fiscal year.

Fiscal 2005
(For the year ended March 31, 2006)

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

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

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

Location	Function	Asset Type	Status
Iwaki, Fukushima	Onahama Plant (manufacturing facilities of pharmaceuticals)	Buildings and structures Machinery, equipment and vehicles	Idle
Shiraishi-ku, Sapporo	Former Sapporo Distribution Center facility	Land	Idle
Shimotsuke-shi, Tochigi	Former Tochigi Research Center facility	Buildings, land, etc.	Idle
Tsuchiura, Ibaraki	Company housing, etc.	Land	Idle
Sanbu-gun, Chiba	Chiba plant site	Land	Idle

Because the above asset groups are idle and have uncertain prospects for future utilization, their book values have been written down to a recoverable amount, and such reductions in the mount of ¥5,253 million were recorded as a loss on impairment in the extraordinary losses.

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

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

*6. Provision for contingent losses

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

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

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

*8. ―――――

(Note to Consolidated Statement of Changes in Net Assets)

Interim period of fiscal 2006 (for the six-month period ended September 30, 2006)

1. Class and numbers of total shares issued and treasury stock held

In 1,000 shares	Number of shares outstanding at end of previous fiscal year	Increase in number of shares outstanding during interim period	Decrease in number of shares outstanding during interim period	Number of shares outstanding at end of interim period
Shares issued				
Common stock	735,011	–	–	735,011
Total	735,011	–	–	735,011
Treasury stock				
Common stock	5,959	26	1	5,984
Total	5,959	26	1	5,984

(Note)

1. The increase in treasury stock of 26,000 common shares was due to the Company's purchase of amounts of shares in less than a share-trading unit.
2. The decrease in treasury stock of 1,000 common shares was due to top-off sales for shares in less than a share-trading unit.

2. Stock options

Not applicable

3. Dividends

(1) Amount of dividends paid

Resolution	Type of shares	Total amount of dividends (Millions of yen)	Dividend per share (yen)	Date of record	Effective date
Regular general meeting of shareholders on June 29, 2006	Common stock	18,226	25.00	March 31, 2006	June 29, 2006

(2) The dividends with a record date within the current interim period that becomes effective after the end of the interim period

Resolution	Type of shares	Total amount of dividends (Millions of yen)	Source of dividends	Dividend per share (yen)	Date of record	Effective date
Regular meeting of the board of directors on November 6, 2006	Common stock	21,870	Retained earnings	30.00	September 30, 2006	December 1, 2006

(Notes to the Consolidated Statements of Cash Flows)

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)		Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)		Fiscal 2005 (For the year ended March 31, 2006)	
* Reconciliation of cash and cash equivalents at the end of the interim period with the balance sheet accounts		* Reconciliation of cash and cash equivalents at the end of the interim period with the balance sheet accounts		* Reconciliation of cash and cash equivalents at the end of the fiscal year with the balance sheet accounts	
	(Millions of yen)		(Millions of yen)		(Millions of yen)
Cash and time deposits	187,926	Cash and time deposits	208,480	Cash and time deposits	223,979
Less time deposits with maturities extending over three months	(3,014)	Less time deposits with maturities extending over three months	(5,926)	Less time deposits with maturities extending over three months	(2,901)
Add short-term investments with maturities within three months	174,323	Add short-term investments with maturities within three months	213,284	Add short-term investments with maturities within three months	179,890
Cash and cash equivalents	359,235	Cash and cash equivalents	415,838	Cash and cash equivalents	400,967

(1) Lease Transactions

Pro-forma information on financing leases has not been presented herein because the Company discloses such information through EDINET (Electronic Disclosure for Investors' NETwork).

(2) Marketable and Investment Securities

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)

1. Held-to-Maturity Securities with Determinable Market Value (Millions of yen)

	Carrying amount	Market value	Difference
(1) Government and local bonds	39,393	39,355	(37)
(2) Corporate bonds	112,457	112,072	(385)
(3) Other	–	–	–
Total	151,851	151,428	(423)

2. Available-for-Sale Securities with Determinable Market Value (Millions of yen)

	Acquisition cost	Carrying amount	Difference
(1) Stocks	38,143	140,502	102,358
(2) Bonds			
a) Government and local bonds	–	–	–
b) Corporate bonds	1,120	1,178	58
c) Other	13,275	13,275	–
(3) Other	2,280	2,891	610
Total	54,819	157,846	103,027

(Notes) During the interim period, an impairment loss of ¥42 million has been recorded on available-for-sale securities with determinable market value.

When the market value of securities has dropped by 30% or more from the acquisition costs, the securities are classified as having 'fallen significantly.' When the securities' market decline is 50% or more, the securities are written-down to their market value. When the market value of securities has dropped by 30% or more but less than 50%, likelihood of recovery is estimated on the basis of market value trends and the financial conditions of the issuing companies. Write-downs are recognized in all cases other than those for which there is a prospect for recovery.

3. Breakdown of Securities without Determinable Market Value (Millions of yen)

	Carrying amount
(1) Held-to-maturity securities	
a) Certificates of deposit	24,000
b) Commercial paper	76,773
c) Other	10
(2) Available-for-sale securities	
a) Money management funds, etc.	60,274
b) Unlisted stocks	11,916
c) Preferred securities	6,000
d) Other	3,929

Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)

1. Held-to-Maturity Securities with Determinable Market Value (Millions of yen)

	Carrying amount	Market value	Difference
(1) Government and local bonds	57,313	57,246	(66)
(2) Corporate bonds	111,253	110,686	(566)
(3) Other	–	–	–
Total	168,567	167,933	(633)

2. Available-for-Sale Securities with Determinable Market Value (Millions of yen)

	Acquisition cost	Carrying amount	Difference
(1) Stocks	43,114	169,822	126,707
(2) Bonds			
a) Government and local bonds	–	–	–
b) Corporate bonds	1,120	1,201	81
c) Other	22,540	22,540	–
(3) Other	2,661	3,130	468
Total	69,436	196,695	127,258

(Notes) When the market value of securities has dropped by 30% or more from the acquisition costs, the securities are classified as having ‘fallen significantly.’ When the securities’ market decline is 50% or more, the securities are written-down to their market value. When the market value of securities has dropped by 30% or more but less than 50%, likelihood of recovery is estimated on the basis of market value trends and the financial conditions of the issuing companies. Write-downs are recognized in all cases other than those for which there is a prospect for recovery.

3. Breakdown of Securities without Determinable Market Value (Millions of yen)

	Carrying amount
(1) Held-to-maturity securities	
a) Certificates of deposit	10,000
b) Commercial paper	117,907
c) Other	10
(2) Available-for-sale securities	
a) Money management funds, etc.	62,836
b) Unlisted stocks	11,501
c) Preferred securities	6,000
d) Other	5,569

Fiscal 2005 (For the year ended March 31, 2006)

1. Held-to-Maturity Securities with Determinable Market Value (Millions of yen))

	Carrying amount	Market value	Difference
(1) Government and local bonds	43,397	43,311	(85)
(2) Corporate bonds	106,503	105,506	(997)
(3) Other	–	–	–
Total	149,901	148,817	(1,083)

2. Available-for-Sale Securities with Determinable Market Value (Millions of yen)

	Acquisition cost	Carrying amount	Difference
(1) Stocks	39,013	172,118	133,105
(2) Bonds			
a) Government and local bonds	–	–	–
b) Corporate bonds	1,120	1,226	106
c) Other	17,096	17,096	–
(3) Other	2,366	3,480	1,114
Total	59,595	193,922	134,327

(Notes) During the fiscal year, an impairment loss of ¥301 million has been recorded on available-for-sale securities with determinable market value.

When the market value of securities has dropped by 30% or more from the acquisition costs, the securities are classified as having ‘fallen significantly.’ When the securities’ market decline is 50% or more, the securities are written-down to their market value. When the market value of securities has dropped by 30% or more but less than 50%, likelihood of recovery is estimated on the basis of market value trends and the financial conditions of the issuing companies. Write-downs are recognized in all of such securities other than those for which there is a prospect for recovery.

3. Breakdown of Securities without Determinable Market Value (Millions of yen)

	Carrying amount
(1) Held-to-maturity securities	
a) Certificates of deposit	12,000
b) Commercial paper	84,981
c) Other	10
(2) Available-for-sale securities	
a) Money management funds, etc.	65,811
b) Unlisted stocks	11,847
c) Preferred securities	6,000
d) Other	4,267

(3) Derivative Transactions

The fair value information of derivative instruments has not been presented herein because the Company discloses such information through EDINET (Electronic Disclosure for Investors’ NETwork).

(4) Segment Information

a. Information by Operating Segment (Millions of yen)

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Pharmaceuticals	Other	Total	Eliminations & corporate	Consolidated
Net sales					
(1) Outside customers	385,415	66,393	451,808	–	451,808
(2) Inter-segment sales and transfers	371	2,044	2,415	(2,415)	–
Total	385,786	68,438	454,224	(2,415)	451,808
Operating expenses	308,134	66,116	374,250	(2,787)	371,463
Operating income	77,651	2,321	79,973	371	80,345

Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Pharmaceuticals	Other	Total	Eliminations & corporate	Consolidated
Net sales					
(1) Outside customers	441,381	44,460	485,842	–	485,842
(2) Inter-segment sales and transfers	192	2,163	2,355	(2,355)	–
Total	441,574	46,623	488,198	(2,355)	485,842
Operating expenses	365,680	44,372	410,052	(2,564)	407,488
Operating income	75,894	2,251	78,145	208	78,353

Fiscal 2005 (For the year ended March 31, 2006)	Pharmaceuticals	Other	Total	Eliminations & corporate	Consolidated
Net sales					
(1) Outside customers	784,666	141,251	925,918	–	925,918
(2) Inter-segment sales and transfers	790	4,024	4,814	(4,814)	–
Total	785,457	145,275	930,733	(4,814)	925,918
Operating expenses	637,342	139,129	776,472	(5,282)	771,190
Operating income	148,114	6,146	154,260	467	154,728

(Notes)

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

   Pharmaceuticals: Prescription drugs and medicine, and healthcare products
   Other: Food products, agrochemicals, chemicals, and other

3. Changes in accounting policies:

   Interim period of fiscal 2006

   As disclosed in the Changes in Significant Accounting Principles and Policies for the Preparation of Consolidated Financial Statements section, effective in the consolidated interim period ended September 30, 2006 the Company adopted the ASBJ Accounting Standard for Directors' Bonuses (ASBJ Statement No. 4; November 29, 2005). Compared with the previous accounting method, the effect of adopting this standard was to increase operating expenses in the "Pharmaceuticals" segment by ¥126 million and in the "Other" segment by ¥34 million, and to decrease operating income in the respective operating segments by the same amounts.

b. Information by Geographic Segment (Millions of yen)

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Japan	North America	Other	Total	Eliminations & corporate	Consolidated
Net sales						
(1) Outside customers	371,239	53,741	26,827	451,808	–	451,808
(2) Inter-segment sales and transfers	8,819	7,093	2,225	18,138	(18,138)	–
	380,058	60,834	29,053	469,946	(18,138)	451,808
Operating expenses	310,934	48,918	30,505	390,358	(18,895)	371, 463
Operating income	69,124	11,916	(1,451)	79,588	756	80,345

Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Japan	North America	Other	Total	Eliminations & corporate	Consolidated
Net sales						
(1) Outside customers	341,976	108,566	35,299	485,842	–	485,842
(2) Inter-segment sales and transfers	48,163	15,034	6,495	69,693	(69,693)	–
	390,140	123,601	41,794	555,535	(69,693)	485,842
Operating expenses	318,497	89,720	36,016	444,235	(36,746)	407,488
Operating income	71,642	33,880	5,777	111,300	(32,946)	78,353

Fiscal 2005 (For the year ended March 31, 2006)	Japan	North America	Other	Total	Eliminations & corporate	Consolidated
Net sales						
(1) Outside customers	752,793	116,061	57,063	925,918	–	925,918
(2) Inter-segment sales and transfers	21,553	18,212	5,805	45,572	(45,572)	–
	774,347	134,274	62,869	971,490	(45,572)	925,918
Operating expenses	644,098	108,816	62,690	815,605	(44,414)	771,190
Operating income	130,249	25,457	178	155,885	(1,157)	154,728

(Notes)

1. Method of classifying geographic segments
   Geographic segments are classified on the basis of geographic proximity.
2. Countries and regions included in each segment other than Japan
   North America: the United States
   Other: Germany, the United Kingdom, France, Spain, Italy, Taiwan and others
3. Changes in accounting policies:
   Interim period of fiscal 2006
   As disclosed in the Changes in Significant Accounting Principles and Policies for the Preparation of Consolidated Financial Statements section, effective in the consolidated interim period ended September 30, 2006 the Company adopted the ASBJ Accounting Standard for Directors' Bonuses (ASBJ Statement No. 4; November 29, 2005). Compared with the previous accounting method, the effect of adopting this standard was to increase operating expenses in the "Japan" segment by ¥161 million and to decrease operating income by the same amount.

c. Overseas Sales

(Millions of yen)

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	North America	Europe	Other Areas	Total
Overseas net sales	93,994	45,443	14,192	153,631
Consolidated net sales				451,808
Percentage of overseas net sales to consolidated net sales (%)	20.8	10.1	3.1	34.0

Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	North America	Europe	Other Areas	Total
Overseas net sales	134,959	44,581	15,096	194,636
Consolidated net sales				485,842
Percentage of overseas net sales to consolidated net sales (%)	27.8	9.2	3.1	40.1

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

(Notes)

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

(Per Share Information)

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)		Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)		Fiscal 2005 (For the year ended March 31, 2006)	
Net assets per share	¥1,610.55	Net assets per share	¥1,756.36	Net assets per share	¥1,696.97
Net income per share (basic)	¥67.48	Net income per share (basic)	¥91.75	Net income per share (basic)	¥119.49
Net income per share (diluted)	¥67.46	Diluted net income per share is not presented, because the Company does not have any dilutive securities.		Net income per share (diluted)	¥119.47

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

	Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
Net income per share (basic):			
Net income (millions of yen)	49,450	66,886	87,692
Amount not available for common shareholders (millions of yen)	–	–	350
(Including directors' bonuses paid from net income of) (millions of yen)	–	–	[350]
Net income available for dividends on common shares (millions of yen)	49,450	66,886	87,342
Weighted-average number of common shares outstanding during the period (1,000 shares)	732,796	729,042	730,938
Net income per share (diluted):			
Adjustments to net income (millions of yen)	–	–	–
Additional dilutive common shares (1,000 shares)	271	–	136
(Including dilutive effect of stock options of) (1,000 shares)	[271]	–	[136]
Descriptions of potentially dilutive common shares that were not included in the computation of diluted net income per share because of their anti-dilutive effect	Two share subscription right plans (related to 1,001 thousand shares) issued by Daiichi and one share purchase option plan (related to 3,760 units of options) issued by Sankyo. All stock options have been cancelled prior to the interim period-end.	――――	Two share subscription right plans (related to 1,001 thousand shares) issued by Daiichi and one share purchase option plan (related to 3,760 units of options) issued by Sankyo. All outstanding stock options have been cancelled prior to the fiscal year-end.

(Subsequent Events)

<table>
<tr><th>Interim period of fiscal 2005
(For the six-month period ended September 30, 2005)</th><th>Interim period of fiscal 2006
(For the six-month period ended September 30, 2006)</th><th>Fiscal 2005
(For the year ended March 31, 2006)</th></tr>
<tr><td>――――――</td><td>(Sale of subsidiaries)

In line with its integration policy, the DAIICHI SANKYO Group plans to concentrate on the pharmaceutical business, specializing in prescription drugs and healthcare products. The plan includes the establishment of independent operations outside the DAIICHI SANKYO Group for all non-pharmaceutical businesses by the end of March 2007. As part of such efforts, the Company has decided to sell its ownership interests in Daiichi Pure Chemicals Co., Ltd., Daiichi Radioisotope Laboratories, Ltd., Sankyo Agro Co., Ltd. and Sankyo Lifetech Co., Ltd. As a result of these sales, the Company expects to record an extraordinary gain of ¥36 billion in the second half of the year ending March 31, 2007.

1. Sale of Daiichi Pure Chemicals Co., Ltd.

At a meeting held on September 11, 2006, the Board of Directors of Daiichi Pharmaceutical Co., Ltd., a wholly owned subsidiary of DAIICHI SANKYO, agreed to sell its entire 100% shares of Daiichi Pure Chemicals Co., Ltd. (DPC) to Sekisui Chemical Co., Ltd. The sale of the shares was completed on October 2, 2006.

(1) Reasons for sale
Seeing potential synergies in incorporating DPC as a core company into its own medical operations, Sekisui Chemical valued highly of DPC and made an attractive offer which the Board of Directors at Daiichi Pharmaceutical decided to accept.

(2) Schedule of sale
October 2, 2006
share transfer

(3) Name of subsidiary; nature of business; nature of transactions with the Company
Name: Daiichi Pure Chemicals Co., Ltd.
Nature of business: Manufacture and sale of pharmaceuticals and clinical test agents, and safety testing and other contract clinical research
Transactions with the Company: none</td><td>(Acquisition of Zepharma Inc.)

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

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

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

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

(4) Date of acquisition
April 13, 2006

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

(6) Source of financing
The full amount was paid out of on-hand cash</td></tr>
</table>

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
――――――	2. Sale of Daiichi Radioisotope Laboratories, Ltd. At a meeting held on September 11, 2006, the Board of Directors of Daiichi Pharmaceutical Co., Ltd., a wholly owned subsidiary of DAIICHI SANKYO, agreed to sell its entire 100% shares of Daiichi Radioisotope Laboratories, Ltd. (DRL) to Fuji Photo Film Co., Ltd. (FUJIFILM Holdings Corporation, effective October 1, 2006). The sale of the shares was completed on October 2, 2006. (1) Reasons for sale As a core company within its own medical and life science operations, FUJIFILM valued highly of DRL and made an attractive offer, which the Board of Directors at Daiichi Pharmaceutical decided to accept. (2) Schedule of sale October 2, 2006 share transfer (3) Name of subsidiary; nature of business; nature of transactions with the Company Name: Daiichi Radioisotope Laboratories, Ltd. Nature of business: Manufacture and sale of radiopharmaceuticals Transactions with the Company: None	(Sale of Wakodo Co., Ltd.) At its Board of Directors' Meeting held on April 24, 2006, Sankyo Co., Ltd., a wholly owned subsidiary of the Company, approved to apply for a sale of the shares of its subsidiary, Wakodo Co., Ltd., in response to a tender offer to be made by Asahi Breweries, Ltd. for Wakodo shares. The sale of the shares was completed with the conclusion of the tender offer in May 2006. (1) Reasons for sale To concentrate management resources on the pharmaceutical business, the Company has been reassessing its involvement in non-pharmaceutical businesses. In the course of this reassessment, a tender offer to purchase Wakodo Co. Ltd.'s shares was proposed by Asahi Breweries, Ltd., who has valued highly of both the nature of Wakodo's business and the growth prospects of that business. The Company has concluded to accept the tender offer taking into consideration Asahi Breweries' management's pursuit of customer satisfaction and quality, its technologies and know-how, and its variety of sales channels that would contribute to the future development of Wakodo's business, as well as the price and other terms of the tender offer. (2) Name of buyer Asahi Breweries, Ltd. (3) Date of sale April 25, 2006 Date of public notice of the tender offer May 15, 2006 Last day of the tender offer period May 19, 2006 Commencement date of settlement (4) Name of subsidiary; nature of business; and nature of transactions with the Company Name: Wakodo Co., Ltd. Nature of business: Manufacture and sale of powdered baby milk; baby foods; vending machine foods; household food items; commercial-use milk powder; pharmaceuticals; non-prescription drugs; cosmetics; sanitary goods; and general merchandise Transactions with the Company: None (5) Number of shares to be sold; sale price; gain or loss on sale and ownership percentage upon disposition Number of shares to be sold: 3,533,000 Sale price: ¥27.9 billion Gain on sales: ¥19.8 billion Ownership percentage upon disposition: 0%

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
————	3. Sale of Sankyo Agro Co., Ltd. At a meeting held on September 29, 2006, the Board of Directors of Sankyo Company Limited, a wholly owned subsidiary of DAIICHI SANKYO, agreed to sell its entire 100% shares of Sankyo Agro Co., Ltd. to Mitsui Chemicals, Inc., along with the Ameni-care business of Sankyo Lifetech Co., Ltd., another wholly owned subsidiary of Sankyo, following a spin-off of such operation from Sankyo Lifetech into Sankyo Agro. (1) Reasons for sale As a core company within its own agrochemical operations, Mitsui Chemicals valued highly of Sankyo Agro and made an attractive offer which the Board of Directors at Sankyo decided to accept. (2) Schedule of sale March 30, 2007 share transfer (3) Name of subsidiary; nature of business; nature of transactions with the Company Name: Sankyo Agro Co., Ltd. Nature of business: Sale and export of agrochemicals Transactions with the Company: None	————

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (For the year ended March 31, 2006)
――――	4. Sale of Sankyo Lifetech Co., Ltd. At a meeting held on September 29, 2006, the Board of Directors of Sankyo Company Limited, a wholly owned subsidiary of DAIICHI SANKYO, agreed to sell the food additive and drug ingredient businesses of a wholly owned subsidiary, Sankyo Lifetech Co., Ltd. to Mitsubishi-Kagaku Foods Corporation following a spin-off of those operations into a newly established company. At a meeting held on October 19, 2006, the Board agreed to sell the animal health products business of Sankyo Lifetech to Novartis Animal Health K.K. following a spin-off of such operation into a newly established company. At a meeting held on October 27, 2006, the Board also agreed to sell the chemical products business of Sankyo Lifetech to Ciba Specialty Chemicals Holding Inc. and its Japanese subsidiary. (1) Reasons for sale Each of the buyers valued highly of Sankyo Lifetech's respective business and made an attractive offer to acquire certain operating assets of Sankyo Lifetech, which the Board of Directors at Sankyo decided to accept. (2) Schedule of sale March 30, 2007 share and business transfers (3) Name of subsidiary; nature of business; nature of transactions with the Company Name: Sankyo Lifetech Co., Ltd. Nature of business: Manufacture, sale and import of veterinary pharmaceuticals, food additives, drug ingredients, wood preservatives, pesticides for public health, polymeric stabilizers, etc. Transactions with the Company: None	――――

5. Production, Orders and Sales

(1) Production

Production by operating segment for the interim period of fiscal 2006 is summarized as follows:

Operating segment	Amount (Millions of yen)	Changes (%)
Pharmaceuticals	333,081	106.1
Other	31,257	68.6
Total	364,339	101.4

(Notes)

1. Production amounts are based on net selling prices and are after elimination of inter-segment sales.
2. The above amounts are stated exclusive of consumption tax.

(2) Orders

The Daiichi Sankyo Group performs production according to its own production plans, which are primarily based on its sales forecast. Order-based production is carried out at certain subsidiaries; however, the amount of order back-log is not presented herein as such amounts were insignificant.

(3) Net Sales

Net sales by operating segment for the interim period of fiscal 2006 were as follows:

Operating segment	Amount (Millions of yen)	Changes (%)
Pharmaceuticals	441,381	114.5
Other	44,460	67.0
Total	485,842	107.5

(Notes)

1. Net sales amounts are after elimination of inter-segment sales.
2. Net sales to major customers and their percentage of total net sales were as follows:

Customers	Interim period of fiscal 2006	
	(Millions of yen)	%
Alfresa Corporation	50,654	10.4

3. The above amounts are stated exclusive of consumption tax.

FASF

November 6, 2006

Non-Consolidated Financial Results for the Interim Period of Fiscal 2006 (Six-Month Period Ended September 30, 2006)

Listed company name: DAIICHI SANKYO COMPANY, LIMITED
Stock code number: 4568
Listed exchanges: Tokyo, Osaka, and Nagoya
Head office: Tokyo, Japan
Homepage: http://www.daiichisankyo.com
Representative: Mr. Takashi Shoda, President and CEO
Contact: Mr. Toshio Takahashi, Corporate Officer, General Manager of Corporate Communication Department
Meeting of Board of Directors: November 6, 2006
Schedule date for commencement of dividend payments: December 1, 2006
Adoption of the unit stock system: Yes (One unit equals 100 shares)

1. Financial Results for the Interim Period of Fiscal 2006

(1) Non-Consolidated Financial Results

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

	Net operating revenue		Operating income		Ordinary income	
	Millions of yen	Percent change	Millions of yen	Percent change	Millions of yen	Percent change
Interim period of fiscal 2006	2,757	237.8	127	(68.2)	124	214.5
Interim period of fiscal 2005	816	–	400	–	39	–
Fiscal 2005	76,656	–	73,948	–	73,591	–

	Net income		Net income per share
	Millions of yen	Percent change	Yen
Interim period of fiscal 2006	60	159.9	0.08
Interim period of fiscal 2005	23	–	0.03
Fiscal 2005	73,545	–	100.06

Notes:
1. Weighted-average number of common shares issued and outstanding during the period:
   Interim period of fiscal 2006: 734,964,333 shares
   Interim period of fiscal 2005: 735,011,343 shares
   Fiscal 2005: 734,991,327 shares
2. Changes in accounting policies: None
3. Percentages for net operating revenue, operating income, ordinary income and net income represent a change from the corresponding interim results in the previous fiscal year.

(2) Financial Position

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

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
Interim period of fiscal 2006	1,214,867	1,188,421	97.8	1,617.01
Interim period of fiscal 2005	1,155,425	1,133,373	98.1	1,541.98
Fiscal 2005	1,209,278	1,206,810	99.8	1,641,98

Notes 1. Total common shares issued at the end of the period
Interim period of fiscal 2006: 735,011,343 shares
Interim period of fiscal 2005: 735,011,343 shares
Fiscal 2005: 735,011,343 shares

2. Number of shares of treasury stock at the end of the period
Interim period of fiscal 2006: 62,613 shares
Interim period of fiscal 2005: – shares
Fiscal 2005: 37,608 shares

2. Forecasts of Results for Fiscal Year 2006 (from April 1, 2006 to March 31, 2007)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Full fiscal year	6,100	200	100

Reference: Forecasted basic net income per share for the year: ¥0.14

3. Dividends

Cash dividends

	Dividend per share		
	Interim	Year-end	Annual
	Yen	Yen	Yen
Fiscal 2005	–	25.00	25.00
Fiscal 2006 (Actual)	30.00	–	60.00
Fiscal 2006 (Forecast)	–	30.00	

* Note: The forecast figures shown above are based on information that was available at the time of preparation and may contain some uncertainties. Actual performance and other factors may differ from these forecasts due to changes in circumstances and other developments. For more information concerning these forecasts can be found in the attached Supplementary Information on page 16-17.

6. Non-Consolidated Financial Statements

(1) Non-Consolidated Balance Sheets

(Millions of yen)

	See Note	As of September 30, 2005			As of September 30, 2006			As of March 31, 2006		
		Amount		%	Amount		%	Amount		%
ASSETS										
I Current assets:										
1. Cash and time deposits		4,487			27.860			41,900		
2. Other current assets		1			179			16,286		
Total current assets			4,489	0.4		28,039	2.3		58,187	4.8
II Non-current assets										
1. Property and equipment	※1	1			32			39		
2. Intangible assets, net		275			288			296		
3. Investments and other assets:										
(1) Investments of affiliated companies		1,150,654			1,186,407			1,150,654		
(2) Other assets		4			99			100		
Total investments and other assets		1,150,658			1,186,506			1,150,755		
Total non-current assets			1,150,935	99.6		1,186,827	97.7		1,151,090	95.2
Total assets			1,155,425	100.0		1,214,867	100.0		1,209,278	100.0
LIABILITIES										
I Current liabilities:										
1. Short-term borrowings		–			25,000			–		
2. Accounts payable		18,393			1,041			2,110		
3. Income tax payable		22			72			138		
4. Other current liabilities		3,636			332			219		
Total current liabilities			22,052	1.9		26,446	2.2		2,467	0.2
Total liabilities			22,052	1.9		26,446	2.2		2,467	0.2
SHAREHOLDERS' EQUITY										
I Common stock			50,000	4.3		–	–		50,000	4.1
II Additional paid-in-capital:										
1. Capital surplus		1,083,349			–			1,083,349		
2. Other additional paid-in-capital		–			–			0		
Total additional paid-in-capital			1,083,349	93.8		–	–		1,083,350	89.6
III Retained earnings:										
1. Unappropriated retained earnings		23			–			73,545		
Total retained earnings			23	0.0		–	–		73,545	6.1
IV Treasury stock at cost			–	–		–	–		(84)	(0.0)
Total shareholders' equity			1,133,373	98.1		–	–		1,206,810	99.8
Total liabilities, and shareholders' equity			1,155,425	100.0		–	–		1,209,278	100.0

	See Note	As of September 30, 2005			As of September 30, 2006			As of March 31, 2006		
		Amount		%	Amount		%	Amount		%
NET ASSETS										
I Shareholders' capital										
1. Common stock			–	–		50,000	4.1		–	–
2. Additional paid-in-capital										
(1) Capital surplus		–			179,858			–		
(2) Other additional paid-in capital		–			903,493			–		
Total additional paid-in-capital			–	–		1,083,351	89.2		–	–
3. Retained earnings										
(1) Other retained earnings										
Retained earnings carried forward		–			55,231			–		
Total retained earnings			–	–		55,231	4.5		–	–
4. Treasury stock at cost			–	–		(162)	(0.0)		–	–
Total shareholders' capital			–	–		1,188,421	97.8		–	–
Total net assets			–	–		1,188,421	97.8		–	–
Total liabilities and net assets			–	–		1,214,867	100.0		–	–

(2) Non-Consolidated Statements of Income

(Millions of yen)

		Interim period of fiscal 2005 (From September 28, 2005 to September 30, 2005)			Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)			Change	Fiscal 2005 (From September 28, 2005 to March 31, 2006)		
	See Note	Amount		%	Amount		%	Amount	Amount		%
I Net operating revenue											
1 Management fee income		816			2,757				3,155		
2 Dividend income		—	816	100.0	—	2,757	100.0	1,941	73,501	76,656	100.0
II Operating expenses:											
1 Selling, general and administrative expenses:		416	416	51.0	2,630	2,630	95.4	2,214	2,707	2,707	3.5
Operating income			400	49.0		127	4.6	(273)		73,948	96.5
III Non-operating income	※1		1	0.2		57	2.1	56		4	0.0
IV Non-operating expenses	※2		361	44.3		59	2.2	(301)		361	0.5
Ordinary income			39	4.9		124	4.5	84		73,591	96.0
V Extraordinary gains			—	—		—	—	—		—	—
VI Extraordinary losses			—	—		—	—	—		—	—
Net income before income taxes			39	4.9		124	4.5	84		73,591	96.0
Income tax expense-current		21			29				235		
Income tax expense-deferred		(5)	16	2.0	33	63	2.3	47	(189)	45	0.1
Net income			23	2.9		60	2.2	37		73,545	95.9
Unappropriated retained earnings, end of period			23			—				73,545	

(3) Non-Consolidated Statement of Changes in Net Assets

Interim period of fiscal 2006 (for the six-month period ended September 30, 2006)

(Millions of yen)

	Shareholders' capital								Total net assets
	Common stock	Additional paid-in-capital			Retained earnings		Treasury stock at cost	Total Shareholders' capital	
		Capital surplus	Other additional paid-in-capital	Total additional paid-in-capital	Other retained earnings: Retained earnings carried forward	Total retained earnings			
Balance as of March 31, 2005	50,000	1,083,349	0	1,083,350	73,545	73,545	(84)	1,206,810	1,206,810
Changes during the period									
Dividends					(18,374)	(18,374)		(18,374)	(18,374)
Net income					60	60		60	60
Transfer from capital surplus		(903,491)	903,491	–				–	–
Acquisition of treasury stock							(81)	(81)	(81)
Reissuance of treasury stock			1	1			4	5	5
Total changes during the period	–	(903,491)	903,492	1	(18,313)	(18,313)	(77)	(18,389)	(18,389)
Balance as of September 30, 2006	50,000	179,858	903,493	1,083,351	55,231	55,231	(162)	1,188,421	1,188,421

Significant Accounting Principles and Policies for the Preparation of Non-Consolidated Financial Statements

Item	Interim period of fiscal 2005 (From September 28, 2005 to September 30, 2005)	Interim period of fiscal 2006 (From April 1, 2006 to September 30, 2006)	Fiscal 2005 (From September 28, 2005 to March 31, 2006)
1. Methods of Valuation of Investment Securities	(1) Investments in subsidiaries: Accounted for by the moving-average cost method	(1) Investments in subsidiaries: Same as September 30, 2005	(1) Investments in subsidiaries: Same as September 30, 2005
2. Depreciation and Amortization of Significant Depreciable Assets	(1) Property and Equipment Depreciation is calculated based on the declining balance method. (2) Intangible Assets Amortization is calculated based on the straight-line method.	(1) Property and Equipment Same as September 30, 2005 (2) Intangible Assets Same as September 30, 2005	(1) Property and Equipment Same as September 30, 2005 (2) Intangible Assets Same as September 30, 2005
3. Method for Amortization of Deferred Charges	(1) Start-up Costs Start-up costs are expensed as incurred.	(1) ____________	(1) Start-up Costs Start-up costs are expensed as incurred.
4. Other Significant Principles and Policies in Preparing the Financial Statements	Consumption tax accounting method: The tax-exclusion (net of tax) method is used to account for the national and local consumption taxes.	Same as September 30, 2005	Same as September 30, 2005

Change in Significant Accounting Principles and Policies for the Preparation of Non-Consolidated Financial Statements

Interim period of fiscal 2005 (For the six-month period ended September 30, 2005)	Interim period of fiscal 2006 (From April 1, 2006 to September 30, 2006)	Fiscal 2005 (From September 28, 2005 to March 31, 2006)
____________	(Presentation of net assets in the balance sheet) Effective in the interim period for the six months ended September 30, 2006, the Company adopted the ASBJ Accounting Standards for Presentation of Net Assets in the Balance Sheet (ASBJ Statement No5; December 9, 2005) and the related ASBJ guidelines concerning the Implementation Guidance (ASBJ Guidance No8; December 9, 2005) Total shareholders' equity at September 30, 2006 that would have otherwise been reported under the previous accounting standard was ¥1,188,421million. As a result of revisions to the regulations governing interim financial statements, the amount under net assets at September 30, 2006 as reported in the interim balance sheet has been prepared based on the revised regulations.	____________

Notes to Non-Consolidated Financial Statement

(Notes to Non-Consolidated Balance Sheets)

As of the September 30, 2005	As of the September 30, 2006	As of the March 31, 2006
*1. Accumulated depreciation of property and equipment: ¥0 million	*1. Accumulated depreciation of property and equipment: ¥12 million	*1. Accumulated depreciation of property and equipment: ¥5 million

(Notes to Non-Consolidated Statements of Income)

Interim period of fiscal 2005 (From September 28 to September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (From September 28 to March 31, 2006)
*1. ______	*1. Major categories of non-operating income (Millions of yen) Interest income 14 Corporate income tax rebates 42	*1. ______
*2. Major categories of non-operating expenses (Millions of yen) Amortization of start-up costs 361	*2. Major categories of non-operating expenses (Millions of yen) Interest expense 59	*2. Major categories of non-operating expenses (Millions of yen) Amortization of start-up costs 361
3. Depreciation (Millions of yen) Property, plant and equipment 0 Intangible assets 2	3. Depreciation (Millions of yen) Property, plant and equipment 6 Intangible assets 15	3. Depreciation (Millions of yen) Property, plant and equipment 5 Intangible assets 17

(Note to Non-Consolidated Statement of Changes in Net Assets)

Interim period of fiscal 2006 (for the six-month period September 30, 2006)

1. Class and number of treasury stock held

In 1,000 shares	Number of shares outstanding at end of previous fiscal year	Increase in number of shares outstanding during interim period	Decrease in number of shares outstanding during interim period	Number of shares outstanding at end of interim period
Common stock	37	26	1	62
Total	37	26	1	62

(Note)

1. The increase in treasury stock of 26,000 common shares was due to the Company's purchases of shares in less than a share-trading unit.
2. The decrease in treasury stock of 1,000 common shares was due to top-off sales for shares in less than a share-trading unit.

(Lease Transactions)

Pro-forma information on financing leases has not been presented herein because the Company discloses such information through EDINET (Electronic Disclosure for Investors' NETwork).

(Investment Securities)

None of the stock of subsidiaries and affiliates has a quoted market value.

(Per Share Information)

Interim period of fiscal 2005 (From September 28, 2005 to September 30, 2005)		Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)		Fiscal 2005 (From September 28, 2005 to March 31, 2006)	
Net assets per share	¥1,541.98	Net assets per share	¥1,617.01	Net assets per share	¥1,641.98
Net income per share (basic)	¥0.03	Net income per share (basic)	¥0.08	Net income per share (basic)	¥100.06

Note 1: Diluted net income per share is not presented because the Company does not have any dilutive shares.

Note 2: Calculations of basic net income per share were based on the following numerators and denominators:

	Interim period of fiscal 2005 (From September 28, 2005 to September 30, 2005)	Interim period of fiscal 2006 (For the six-month period ended September 30, 2006)	Fiscal 2005 (From September 28, 2005 to March 31, 2006)
Net income per share (basic):			
Net income (millions of yen)	23	60	73,545
Amount not available for common shareholders (millions of yen)	–	–	–
Net income available for dividends on common shares (millions of yen)	23	60	73,545
Weighted-average number of common shares outstanding during the period (1,000 shares)	735,011	734,964	734,991

(Subsequent Events)

Not Applicable