

January 31, 2007

**Consolidated Financial Results  
for the First Nine Months of Fiscal 2006  
(Nine-Month Period Ended December 31, 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.co.jp>

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**1. Matters Relating to the Preparation of the Quarterly Consolidated Financial Statements**

- (1) Adoption of simplified accounting methods: Yes  
 “Income taxes” were calculated using a simplified method.
- (2) Accounting methods differing from those adopted for the latest fiscal year: None
- (3) Changes in the scope of consolidation and application of the equity method: Yes  
 Consolidated subsidiaries:  
     Increase: 6  
     Decrease: 8
- Companies accounted for by the equity method:  
     Increase: 0  
     Decrease: 2

**2. Consolidated Financial Results for the First Nine Months of Fiscal 2006  
(from April 1, 2006 to December 31, 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
First nine months of fiscal 2006	730,647	3.8	131,997	(1.7)	146,121	5.2
First nine months of fiscal 2005	704,039	–	134,294	–	138,890	–
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
First nine months of fiscal 2006	77,693	(4.1)	106.57	–
First nine months of fiscal 2005	80,992	–	110.71	110.69
Fiscal 2005	87,692		119.49	119.47

Note:

Percentages for net sales, operating income, ordinary income, and net income represent a change from the corresponding results for the first nine months of the previous fiscal year.

## (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
First nine months of fiscal 2006	1,669,585	1,275,895	76.2	1,745.70
First nine months of fiscal 2005	1,566,723	1,221,431	78.0	1,675.35
Fiscal 2005	1,596,126	1,237,529	77.5	1,696.97

## 3. 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 year	925,000	152,000	71,000

Reference: Forecasted annual net income per share (basic): ¥97.39

**\*Note:**

The forecast figures shown above are based on information that was available at the time of preparation and are subject to certain risks and uncertainties. Actual performance and other factors may differ from these forecasts due to changes in circumstances and other developments. For more information related to above forecasts, please refer to page 4.

## Overview of Results of Operations

Consolidated net sales for the first nine months of fiscal 2006 totalled ¥730.6 billion, up 3.8% from a year earlier. Sales were firm due to significant growth in antihypertensive agent, *Olmotec*® (in Japan), *Benicar*® (in U.S.) and *Olmotec*® (in Europe), as well as steady growth for other mainstay items, contributing to maintaining high levels of profitability both in the domestic and overseas markets.

In terms of profitability, the growth due to higher sales was supplemented by a more profitable sales mix, which contributed to a 2.7-point year-to-year improvement in the cost-of-sales ratio to 28.5%. Selling, general and administrative expenses totaled ¥390.2 billion, of which R&D expenses accounted for ¥125.3 billion. These amounts reflected a substantial increase in investments in R&D and sales promotion. Operating income declined by 1.7% on a year-to-year basis to ¥131.9 billion and ordinary income increased by 5.2% to ¥146.1 billion.

While the Company recognized extraordinary gains of ¥52.4 billion mainly from the sale of Group subsidiaries operating in non-pharmaceutical business and other, it also suffered an extraordinary loss of ¥59.3 billion related to the business integration, including implementation of voluntary retirement program. As a result, net income for the nine-month period under review decreased by 4.1% from a year earlier to ¥77.6 billion.

The above Group results for the nine-month period under review reflected sales and profits of U.S. subsidiaries, Daiichi Sankyo Inc. and Luitpold Pharmaceuticals Inc., on the basis of the twelve-month period ended December 31, 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.

Net sales in the pharmaceuticals segment totaled ¥666.8 billion.

In the Japanese prescription drugs business, in which sales totaled ¥347.9 billion, the Company faced a difficult market environment, where 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 a mainstay antihyperlipidemic agent, *Mevalotin*®, sales of antihypertensive agent, *Olmotec*®, grew substantially, added by strong sales of *Cravit*®, a broad-spectrum oral antibacterial agent, *Loxonin*®, an analgesic, anti-inflammatory and antifebrile preparation, and *Artist*®, a treatment for high blood pressure, angina, and chronic cardiac insufficiency. Sales revenue also increased by a receipt of milestone payments related to the NHI listing of an antiplatelet agent, *Plavix*®. In addition, there was a contribution from new products such as *Urief*®, an agent for treating dysuria associated with benign prostatic hypertrophy (BPH) and *Loxonin*® *Pap*, percutaneous absorption-type analgesic and anti-inflammatory drug. In the meantime, the Company is vigorously promoting joint sales promotion activities between Sankyo Company, Limited and Daiichi Pharmaceutical Company, Limited for *Olmotec*® and *Cravit*®, in an earnest effort for achieving integration effect at an early stage.

In the overseas prescription drug business (which had sales of ¥262.1 billion), sales of bulk pravastatin, an antihyperlipidemic agent, were affected by patent expirations in most of the countries in Europe and the U.S. However, sales of an antihypertensive agent, olmesartan (marketed as *Benicar*® in U.S. and as *Olmotec*® in Europe), and *Venofer*®, an agent for treating anemia, grew substantially, and sales of the antibacterial agent bulk

levofloxacin were robust. Currency translation gains arising from yen depreciation also contributed to higher sales.

In the healthcare product business (with sales of ¥39.7 billion), sales of mainstay products decreased over the same period in the previous year under an overall shrink in the market size in Japan of over-the-counter (OTC) medicines. However, new products such as *Lulu Attack IB®*, a cold remedy, and *Karoyan Gel Lotion I®*, a hair-growth agent, as well as the Zepharm brand products, which were added from April 2006 to the Group's OTC product lineup, contributed to maintaining and securing the market presence.

Sales in the other segment totaled ¥63.7 billion. Daiichi Sankyo is in the process of making non-pharmaceutical operations independent of the Group in order to focus its resources on the pharmaceutical business. During the first nine months of fiscal 2006, Wakodo Co., Ltd. and Fuji Flour Milling Co., Ltd., whose mainstay are food business, and Daiichi Pure Chemicals Co., Ltd., which manufactures and sells mainly chemical agent and diagnostics, became completely independent from the DAIICHI SANKYO Group, following the sale of shares to third-party companies. The Company also sold shares of Daiichi Radioisotope Laboratories, Ltd., which manufactures and sells mainly radiopharmaceuticals, during the same period.

### Overview of Financial Position

Total assets at the end of the third quarter of fiscal 2006 amounted to ¥1,669.5 billion (an increase of ¥73.4 billion from the end of the previous fiscal year) and net assets reached ¥1,275.8 billion (an increase of ¥26.7 billion from the end of the previous fiscal year), while equity ratio was 76.2% (77.5% at the end of the previous fiscal year).

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

The forecast of consolidated financial results for the 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	925.0	(0.1)	918.0	(0.9)	7.0	0.8	925.9
Operating income	138.0	(10.8)	127.0	(17.9)	11.0	8.7	154.7
Ordinary income	152.0	(4.8)	140.0	(12.3)	12.0	8.6	159.7
Net income	71.0	(19.0)	63.0	(28.2)	8.0	12.7	87.6

Net sales for the year ending March 2007 are expected to exceed the full-year financial results forecast at the time of interim results announcement, primarily thanks to growing sales of *Benicar®*, an antihypertensive agent, in U.S. as well as robust sales of mainstay items in the Japanese market.

The Group also expects profits to top the full-year financial results forecast at the time of interim results announcement, largely due to an increase of gross profit, in addition to cost reduction through promotion of more efficient operations.

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Millions of yen)

	First nine months of fiscal 2005 (as of December 31, 2005)		First nine months of fiscal 2006 (as of December 31, 2006)		Fiscal 2005 (as of March 31, 2006)	
	Amount	%	Amount	%	Amount	%
<b>ASSETS</b>						
I Current assets:						
1. Cash and time deposit	208,223		184,954		223,979	
2. Trade notes and accounts receivable	278,421		261,098		240,173	
3. Marketable securities	229,991		367,210		274,510	
4. Mortgage-backed securities	18,000		15,000		16,500	
5. Inventories	117,888		114,456		121,694	
6. Deferred tax assets	35,045		53,090		40,911	
7. Other current assets	41,346		27,583		41,313	
Allowance for doubtful accounts	(782)		(793)		(599)	
Total current assets	928,134	59.2	1,022,600	61.2	958,483	60.1
II Non-current assets:						
1. Property, plant, and equipment:						
(1) Buildings and structures	166,510		147,384		164,047	
(2) Machinery, equipment and vehicles	49,008		43,190		47,888	
(3) Land	48,974		41,965		48,892	
(4) Construction in progress	9,994		8,101		10,010	
(5) Other	20,138		16,958		18,874	
Total property, plant and equipment, net	294,626	18.8	257,601	15.5	289,712	18.1
2. Intangible assets:						
(1) Goodwill, net	10,376		19,470		9,788	
(2) Other intangible assets, net	24,314		46,102		26,378	
Total intangible assets	34,690	2.2	65,573	3.9	36,166	2.3
3. Investments and other assets:						
(1) Investment securities	251,172		272,098		256,338	
(2) Long-term loans	6,653		4,710		6,154	
(3) Prepaid pension costs	14,684		16,692		17,307	
(4) Deferred tax assets	11,012		8,244		7,403	
(5) Other assets	26,378		22,630		25,090	
Allowance for doubtful accounts	(630)		(564)		(529)	
Total investments and other assets	309,271	19.8	323,810	19.4	311,763	19.5
Total non-current assets	638,588	40.8	646,985	38.8	637,643	39.9
Total assets	1,566,723	100.0	1,669,585	100.0	1,596,126	100.0

(Millions of yen)

	First nine months of fiscal 2005 (as of December 31, 2005)		First nine months of fiscal 2006 (as of December 31, 2006)		Fiscal 2005 (as of March 31, 2006)	
	Amount	%	Amount	%	Amount	%
<b>LIABILITIES</b>						
<b>I Current liabilities:</b>						
1. Trade notes and accounts payable	65,342		67,343		65,596	
2. Short-term bank loans	10,262		6,116		13,547	
3. Income taxes payable	27,724		31,192		26,169	
4. Deferred tax liabilities	895		2		31	
5. Allowance for sales returns	915		1,613		657	
6. Allowance for sales rebates	4,008		4,115		2,204	
7. Allowance for contingent losses	2,240		3,345		3,379	
8. Other current liabilities	117,763		175,794		125,246	
Total current liabilities	229,153	14.6	289,525	17.4	236,833	14.9
<b>II Non-current liabilities:</b>						
1. Long-term debt	3,642		1,682		3,374	
2. Deferred tax liabilities	21,117		27,219		23,926	
3. Accrued retirement and severance benefits	70,466		62,306		68,321	
4. Accrued directors' retirement and severance benefits	2,860		2,699		3,140	
5. Accrued soil remediation costs	—		4,234		2,850	
6. Other non-current liabilities	6,720		6,022		8,540	
Total non-current liabilities	104,807	6.7	104,165	6.2	110,154	6.9
Total liabilities	333,960	21.3	393,690	23.6	346,987	21.8
<b>MINORITY INTERESTS</b>						
Minority interests	11,331	0.7	—		11,609	0.7
<b>SHAREHOLDERS' EQUITY</b>						
<b>I Common stock</b>						
Common stock	50,000	3.2	—		50,000	3.1
<b>II Additional paid-in-capital</b>						
Additional paid-in-capital	179,858	11.5	—		179,858	11.3
<b>III Retained earnings</b>						
Retained earnings	929,812	59.3	—		936,513	58.7
<b>IV Net unrealized gain on investment securities</b>						
Net unrealized gain on investment securities	74,979	4.8	—		80,254	5.0
<b>V Foreign currency translation adjustments</b>						
Foreign currency translation adjustments	(3,409)	(0.2)	—		735	0.0
<b>VI Treasury stock at cost</b>						
Treasury stock at cost	(9,809)	(0.6)	—		(9,832)	(0.6)
Total shareholders' equity	1,221,431	78.0	—		1,237,529	77.5
Total liabilities, minority interests and shareholders' equity	1,566,723	100.0	—		1,596,126	100.0

	First nine months of fiscal 2005 (as of December 31, 2005)		First nine months of fiscal 2006 (as of December 31, 2006)		Fiscal 2005 (as of March 31, 2006)	
	Amount	%	Amount	%	Amount	%
NET ASSETS						
I Shareholders' equity						
1. Common stock	—		50,000		—	
2. Additional paid-in-capital	—		179,859		—	
3. Retained earnings	—		970,626		—	
4. Treasury stock at cost	—		(9,961)		—	
Total shareholders' equity	—		1,190,524	71.3	—	
II Valuation and translation adjustments, etc.						
1. Net unrealized gain on investment securities	—		77,573		—	
2. Foreign currency translation adjustments	—		4,535		—	
Total valuation and translation adjustments, etc.	—		82,109	4.9	—	
III Minority interests	—		3,261	0.2	—	
Total net assets	—		1,275,895	76.4	—	
Total liabilities and net assets	—		1,669,585	100.0	—	

**(2) Consolidated Statement of Income**

(Millions of yen)

	First nine months of fiscal 2005 (from April 1, 2005 to December 31, 2005)		First nine months of fiscal 2006 (from April 1, 2006 to December 31, 2006)		Change Amount	Fiscal 2005 (from April 1, 2005 to March 31, 2006)	
	Amount	%	Amount	%		Amount	%
I Net sales	704,039	100.0	730,647	100.0	26,608	925,918	100.0
II Cost of sales	219,728	31.2	208,361	28.5	(11,367)	290,735	31.4
Gross profit	484,310	68.8	522,285	71.5	37,975	635,182	68.6
III Selling, general and administrative expenses	350,016	49.7	390,288	53.4	40,272	480,454	51.9
Operating income	134,294	19.1	131,997	18.1	(2,297)	154,728	16.7
IV Non-operating income	8,627	1.2	16,060	2.2	7,433	10,951	1.2
V Non-operating expenses	4,031	0.6	1,936	0.3	(2,094)	5,964	0.7
Ordinary income	138,890	19.7	146,121	20.0	7,230	159,714	17.2
VI Extraordinary gains	5,751	0.8	52,408	7.2	46,657	6,890	0.8
VII Extraordinary losses	13,248	1.8	72,816	10.0	59,568	29,712	3.2
Net income before income taxes	131,393	18.7	125,712	17.2	(5,680)	136,892	14.8
Income tax expenses	50,589	7.2	47,924	6.6	(2,665)	49,196	5.3
Minority interests in net losses of subsidiaries	(189)	(0.0)	95	0.0	284	3	0.0
Net income	80,992	11.5	77,693	10.6	(3,299)	87,692	9.5

### (3) Segment Information

#### [Operating Segments]

(Millions of yen)

First nine months of fiscal 2005 (from April 1, 2005 to December 31, 2005)	Pharmaceuticals	Other	Total	Eliminations & corporate	Consolidated
Net sales					
(1) External sales	605,765	98,273	704,039	–	704,039
(2) Inter-segment sales and transfers	584	3,066	3,651	(3,651)	–
Total	606,349	101,340	707,690	(3,651)	704,039
Operating expenses	474,950	98,841	573,791	(4,046)	569,744
Operating income	131,399	2,499	133,898	395	134,294

(Millions of yen)

First nine months of fiscal 2006 (from April 1, 2006 to December 31, 2006)	Pharmaceuticals	Other	Total	Eliminations & corporate	Consolidated
Net sales					
(1) External sales	666,861	63,785	730,647	–	730,647
(2) Inter-segment sales and transfers	326	2,728	3,054	(3,054)	–
Total	667,188	66,513	733,702	(3,054)	730,647
Operating expenses	538,475	63,743	602,219	(3,569)	598,650
Operating income	128,712	2,770	131,482	514	131,997

(Millions of yen)

Fiscal 2005 (from April 1, 2005 to March 31, 2006)	Pharmaceuticals	Other	Total	Eliminations & corporate	Consolidated
Net sales					
(1) External sales	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:

- Method of classifying operating segments  
Classification into 'Pharmaceuticals' and 'Other' is based on consideration of product type, market characteristics, and other factors.
- Principal products in each operating segment  
Pharmaceuticals: Prescription drugs and healthcare products  
Other: Food Products, agrochemicals, chemicals, and other

**[Geographic Segments]**

(Millions of yen)

First nine months of fiscal 2005 (from April 1, 2005 to December 31, 2005)	Japan	North America	Other	Total	Eliminations & corporate	Consolidated
Net sales						
(1) External sales	579,881	83,079	41,077	704,039	–	704,039
(2) Inter-segment sales and transfers	14,997	12,495	4,129	31,623	(31,623)	–
Total	594,879	95,575	45,207	735,662	(31,623)	704,039
Operating expenses	481,409	75,197	44,852	601,458	(31,713)	569,744
Operating income	113,470	20,377	355	134,203	90	134,294

(Millions of yen)

First nine months of fiscal 2006 (from April 1, 2006 to December 31, 2006)	Japan	North America	Other	Total	Eliminations & corporate	Consolidated
Net sales						
(1) External sales	529,432	149,549	51,666	730,647	–	730,647
(2) Inter-segment sales and transfers	64,524	28,437	9,527	102,489	(102,489)	–
Total	593,956	177,986	61,193	833,136	(102,489)	730,647
Operating expenses	478,686	143,618	53,429	675,735	(77,084)	598,650
Operating income	115,270	34,367	7,763	157,401	(25,404)	131,997

(Millions of yen)

Fiscal 2005 (from April 1, 2005 to March 31, 2006)	Japan	North America	Other	Total	Eliminations & corporate	Consolidated
Net sales						
(1) External sales	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)	–
Total	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:

- Method of classifying geographic segments  
Geographic segments are classified on the basis of geographic proximity.
- Countries and regions included in segments other than Japan  
North America: the United States  
Other: Germany, the United Kingdom, France, Spain, Italy, Taiwan, and others

**[Overseas Net Sales]**

(Millions of yen)

First nine months of fiscal 2005 (from April 1, 2005 to December 31, 2005)	North America	Europe	Other areas	Total
I Overseas net sales	139,706	68,665	22,524	230,896
II Consolidated net sales				704,039
III Percentage of overseas net sales to consolidated net sales (%)	19.8	9.8	3.2	32.8

(Millions of yen)

First nine months of fiscal 2006 (from April 1, 2006 to December 31, 2006)	North America	Europe	Other areas	Total
I Overseas net sales	189,047	63,644	22,839	275,530
II Consolidated net sales				730,647
III Percentage of overseas net sales to consolidated net sales (%)	25.9	8.7	3.1	37.7

(Millions of yen)

Fiscal 2005 (from April 1, 2005 to March 31, 2006)	North America	Europe	Other areas	Total
I Overseas net sales	182,614	98,440	26,210	307,265
II Consolidated net sales				925,918
III 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 are transacted in countries or regions outside of Japan.