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[Translation]

Security Code No. 4506

June 2, 2011

Dear Shareholders:

**Notice of Convocation of the 191<sup>st</sup> Annual Shareholders' Meeting**

You are cordially invited to attend the 191<sup>st</sup> Annual Shareholders' Meeting (the "Meeting") of Dainippon Sumitomo Pharma Co., Ltd. (the "Company"), which will be held as stated below.

**If you will be unable to attend the Meeting in person, you may exercise your voting rights by either of the following methods. Please review the attached References Concerning the Shareholders' Meeting on pages 44 to 55 and exercise your voting rights no later than 5:00 p.m., Thursday, June 23, 2011 (JST).**

**[Voting in Writing]**

Please indicate your approval or disapproval of the proposals on the voting form enclosed herewith, and return the form within such period that would allow the Company to receive the form by the deadline noted above.

**[Voting by Electromagnetic Methods (the Internet, etc.)]**

After reading the "Instructions for Voting by Electromagnetic Methods (the Internet, etc.)" on pages 56 to 57, please access the online voting website designated by the Company (<http://www.webdk.net>) and indicate your approval or disapproval of the proposals by following the instructions displayed on the screen, within the deadline noted above.

1. **Date and Time:** 10:00 a.m. on Friday, June 24, 2011
2. **Place:** 7<sup>th</sup> Floor of the Company's  
Corporate Headquarters Building  
6-8, Doshomachi 2-Chome,  
Chuo-ku, Osaka, Japan
3. **Purpose of the Meeting:**  
**Matters to be Reported:**
  1. Business Report; Consolidated Financial Statements; and Non-consolidated Financial Statements for the 191<sup>st</sup> Fiscal Year (from April 1, 2010 to March 31, 2011)
  2. Audit Report of the Accounting Auditor and Audit Report of the Board of Corporate Auditors on the Consolidated Financial Statements**Matters to be Resolved:**  
**First Proposal:** Appropriation of Surplus  
**Second Proposal:** Election of Eight (8) Directors  
**Third Proposal:** Election of One (1) Corporate Auditor

Yours faithfully,

**Dainippon Sumitomo Pharma Co., Ltd.**  
6-8, Doshomachi 2-Chome,  
Chuo-ku, Osaka, Japan

By: Masayo Tada  
Representative Director and President

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- **If you will be attending the Meeting in person, please submit the voting form enclosed herewith to the receptionist at the place of the Meeting.**
  - **Any modification that may be made to the References Concerning the Shareholders' Meeting, Business Report, Consolidated Financial Statements and/or Non-consolidated Financial Statements will be displayed at the Company's website (<http://www.ds-pharma.co.jp/>).**

[Attachment]

## **Business Report**

(From April 1, 2010 to March 31, 2011)

Note: In this Business Report, Dainippon Sumitomo Pharma Co., Ltd. is referred to as the “Company,” and the Dainippon Sumitomo Pharma Group, consisting of the Company and its subsidiaries, is referred to as the “DSP Group.”

### **1. Matters Regarding the Current Circumstances of the DSP Group**

#### **(1) Course and Results of the Business of the DSP Group**

During the current consolidated fiscal year, the Japanese economy progressed under increasing uncertainty over the future, with a downside risk of the economy having been aggravated primarily due to the Great East Japan Earthquake, which caused unprecedented damage, under an ongoing severe employment and deflationary situation, although signs of recovery in the economy were seen in connection with the improvement in corporate profits.

The situation in the Japanese pharmaceutical industry is becoming increasingly severe, in part due to the increased difficulty in discovering new epoch-making drugs, and in part due to the continuous implementation of various domestic measures aimed at controlling medical costs, such as the drug price revisions in April 2010, in the face of the global movement toward drastic reform of healthcare systems.

Under such circumstances, the DSP Group has actively engaged in business development based on the understanding that the current consolidated fiscal year is extremely important as the starting year for the second mid-term business plan (“MTBP”) under the theme “Creation and Transformation Toward a New Stage of Globalization,” aggressively working on the tasks to achieve our mid- to long-term vision.

During the current consolidated fiscal year, the marketing approval of LATUDA<sup>®</sup> (generic name: lurasidone hydrochloride), an antipsychotic, being the Company’s global strategic product, was obtained for the indication of schizophrenia from the FDA (U.S. Food and Drug Administration) in October 2010, and LATUDA<sup>®</sup> was launched in the United States in February 2011. In addition, efforts were made to establish the systems for overseas business expansion, such as the conclusion of a contract for a development and sales alliance with Takeda Pharmaceutical Company Limited in March 2011, with a view to launching the said product in the European market at an early date and maximizing product values. Furthermore, efforts were made to continuously create globally competitive products and actively promote in-licensing and alliances for expansion of the drug pipeline.

As for business results of the current consolidated fiscal year, partly due to the contributions made by the U.S. subsidiaries, net sales amounted to 379,513 million yen (a 28.1% increase over the previous consolidated fiscal year). Operating income amounted to 30,951 million yen (a 13.1% decrease from the previous consolidated fiscal year) and ordinary income amounted to 28,616 million yen (a 15.4% decrease from the previous consolidated fiscal year). In addition, due to the posting of extraordinary losses associated with impairment loss and loss on valuation of investment securities, net income for the current fiscal year amounted to 16,796 million yen (a 19.9% decrease from the previous consolidated fiscal year).

As from the current consolidated fiscal year, we adopted the “Accounting Standards Pertaining to the Disclosure of Segment Information, etc.”; the pharmaceutical business of the DSP Group consists of the three reportable segments, i.e. Japan (Pharmaceuticals), the United States, and China, which are based on the business units. The results by reportable segment are as follows:

① Japan (Pharmaceuticals) segment

The Company has continued its intensive infusions of operating resources into its strategic products, such as AVAPRO<sup>®</sup>, a therapeutic agent for hypertension drug, LONASEN<sup>®</sup>, an atypical antipsychotic, and PRORENAL<sup>®</sup>, a vasodilator, as well as its new products, such as TRERIEF<sup>®</sup>, a Parkinson's disease drug, MIRIPLA<sup>®</sup>, a therapeutic agent for hepatocellular carcinoma, and METGLUCO<sup>®</sup>, a biguanide oral hypoglycemic, thereby working to maximize earnings. As a result, net sales amounted to 211,349 million yen and operating income amounted to 43,314 million yen.

② United States segment

Due to the business performance of the U.S. subsidiaries led by Sunovion Pharmaceuticals Inc. (hereinafter, "Sunovion"; the trade name was changed from Sepracor Inc. in October 2010), net sales amounted to 117,647 million yen, which is primarily attributable to LUNESTA<sup>®</sup>, a sedative hypnotic drug and XOPENEX<sup>®</sup>, a short-acting beta-agonist. The results of operating activities were operating loss of 11,620 million yen primarily due to the depreciation cost burden of patent rights, goodwill.

③ China segment

Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., sells MEROPEN<sup>®</sup> (sold in China as MEPEN<sup>®</sup>), a carbapenem antibiotic preparation, and the like, and net sales amounted to 5,589 million yen and operating income amounted to 780 million yen.

In addition to the above-mentioned reporting segments, the DSP Group has been marketing food ingredients, food additives, chemical product materials, veterinary drugs, diagnostic products, etc. and net sales of these products amounted to 44,927 million yen and operating income amounted to 1,917 million yen.

The status of research and development activities is as follows:

The DSP Group has positioned the central nervous system (CNS) field as its key strategic area, and designated the specialty field (where unmet medical needs are strong and sophisticated expertise is required in the areas of research, development and marketing, such as carcinoma and immune system disease) as the frontier therapeutic area, thereby aiming to create innovative pharmaceutical products.

In the early research stage, along with implementing measures to increase the efficiency of research and development by taking advantage of genomics, proteomics, metabolomics, and so forth, which are the advanced technologies held by the Company, the DSP Group has proactively promoted the formation of alliances with research institutes and the like, including domestic and foreign universities. In March 2011, aiming to develop a unique antineoplastic drug that controls malignant transformation of carcinoma, the DSP Group started “Laboratory for Malignancy Control Research”, a collaborative research with Kyoto University, a national university corporation (DSK Project), and furthermore, entered into a joint research agreement with the Center for iPS Cell Research and Application (CiRA) of Kyoto University for the purpose of establishing therapeutic methods for rare intractable diseases. In addition, with regard to nucleic acid drugs and antibody drugs, the DSP Group has been conducting research with designated specialized research groups.

In late research stages and during development, the DSP Group has set up “Global Portfolio Management Committee” to discuss R&D strategy from a global view point and optimized the DSP Group's R&D portfolio. In addition, in order to maximize product values, the DSP Group has taken a proactive approach to product life-cycle management with the development of dosage formulations.

The status of major development progress during the current consolidated fiscal year is as follows:

In Japan, approvals were granted for applications with respect to SUREPOST<sup>®</sup>, a rapid insulin secretagogue (generic name: repaglinide) in January 2011, and with respect to MEROPEN<sup>®</sup> for partial change of indication and dosage (change of the maximum daily dose for life-threatening or intractable infections) in March 2011. In addition, approvals were granted for additional formulations with respect to AMLODIN<sup>®</sup>, a treatment for hypertension and angina pectoris for the 10 mg formulation in July 2010 and with respect to DOPS<sup>®</sup>, a neural function ameliorant for OD tablet (orally disintegrating tablet) in January 2011. Furthermore, the DSP Group started the clinical studies on carcinoma peptide vaccine, WT4869 in collaboration with Chugai Pharmaceutical Co., Ltd.

Outside of Japan, during the current consolidated fiscal year, Sunovion obtained the marketing approval of lurasidone hydrochloride, an atypical antipsychotic, for the indication of schizophrenia from the FDA in October 2010, and is currently engaged in global phase III

clinical trials for depression from bipolar disorder. In addition, as for sales expansion of the above product to Europe, the DSP Group aims to apply for and obtain the marketing approval at an early stage by joint development with Takeda Pharmaceutical Company Limited. In addition, application for approval of HFA formulation (existing formulation is OMNARIS<sup>®</sup>, nasal spray) of ciclesonide (generic name), which has been under development in the United States was made to the FDA in March 2011, and furthermore, clinical studies of a depression drug, DSP-1053, were kicked off and clinical studies of DSP-8658, which has been under development as a treatment for diabetes, were newly started focusing on Alzheimer's disease.

The DSP Group has also been actively involved in in-licensing of developed products from outside the Group. In September 2010, the DSP Group entered into an exclusive development and distributorship option agreement on SB623, a treatment for cerebral infarction with SanBio Inc. (U.S.A.) with its territory being the United States and Canada. Furthermore, in March 2011, in addition to concluding an exclusive license agreement on the development, manufacturing and sales of INT-747, a treatment for hepatic disease in Japan and China with Intercept Pharmaceuticals, Inc. (U.S.A.), the DSP Group entered into an exclusive option agreement on the development and distributorship of BBI608, an antineoplastic agent, with its territory being Japan with Boston Biomedical Inc. (U.S.A.) and entered into an exclusive license agreement on the development, manufacturing and sales of ceftaroline fosamil (generic name), injectable cephem antibiotics in Japan with Takeda Pharmaceutical Company Limited.

In addition to the above-mentioned pharmaceuticals area, the DSP Group has implemented research and development for food ingredients, food additives, chemical product materials, veterinary drugs, etc.

## **(2) Current Status of Capital Investments by the DSP Group**

The total amount of the capital investments made by the DSP Group during the current consolidated fiscal year is 8,663 million yen, and the major capital investments are as follows:

- ① Major facilities completed during the current consolidated fiscal year:
  - Ibaraki Plant: Integration of product formulations development functions
  - Suzuka Plant: Renewal of PTP packaging line
- ② Major facilities under construction during the current consolidated fiscal year:
  - Osaka Research Center: Construction of the new chemistry research building

## **(3) Financing Status of the DSP Group**

The Company raised funds in the amount of 58,000 million yen through long-term borrowings in October 2010, and in March 2011, the Company raised capital in the amount of 50,000 million yen through the issuance of domestic unsecured straight bonds. Both funds were allocated to the repayment of a short-term borrowing.

#### **(4) Issues to be Addressed by the DSP Group**

The situation in the Japanese pharmaceutical industry is becoming increasingly severe, in part due to the increased difficulty in discovering new epoch-making drugs and increased new drug development expenses, and in part due to the global movement toward strict new drug approval screening and drastic reform of healthcare systems. Furthermore, we are faced with concern about the possible impact that the devastating Great East Japan Earthquake of March 2011 will have on the future economic activities.

The DSP Group adopted a mid- to long-term vision plan in 2007, aiming to achieve the principal goals by 2022 to “become an internationally competitive R&D-oriented pharmaceutical company and have two solid streams of revenue, the first from domestic operations and the second from international operations,” and for the next ten years, in defining its corporate identity, the DSP Group has set the targets of establishing a solid foundation for our domestic business, expanding our international business operations, and enriching our R&D product pipeline.

Furthermore, based on the big progress made in terms of globalization due to the acquisition of Sunovion in the first MTBP, the Company drew up the second five-year MTBP starting with fiscal year 2010 and announced it in February 2010. In this Plan, the DSP Group has put up a slogan, “Creation and Transformation Toward a New Stage of Globalization.” The DSP Group will strive to achieve the mid- to long-term vision, proceeding to a new stage of significant leap forward by raising its creative capabilities and further transforming itself.

The following five goals were established as basic policies of the Second MTBP:

- ① Transform the earnings structure in Japan
- ② Expand overseas operations and maximize earnings
- ③ Expanding the pipeline for continuous new drug creation
- ④ Promote corporate social responsibility (CSR) management and continuous increases in management efficiency
- ⑤ Establish a challenging corporate culture and cultivate human resources

Through implementation of the goals discussed above, the DSP Group aims to achieve net sales of 420 billion yen and operating income of 70 billion yen in the fiscal year ending March 2015 as the management goals of the second MTBP (See Notes below).

During the fiscal year ending March 2011, which was the starting year for the second

MTBP, the reinforcement of the business foundation was promoted in a steady manner by achieving the biggest goal of obtaining approval for and launching LATUDA<sup>®</sup> and producing results in terms of acquisition of the pipeline including the specialty field and the efforts made for low-cost management. During the fiscal year ending March 2012, the DSP Group intends to conduct business activities to achieve the mid- to long-term vision, by setting transforming the revenue source structure in Japan, expanding overseas operations and maximizing earnings, and expanding the drug pipeline for the future growth as the most important tasks.

(i) Transforming the revenue source structure in Japan

The Company aims to promote the DSP Ambition, which is the action guidelines for sales activities formulated to achieve the patient-oriented marketing that would be appreciated by our customers and establish the business system that is community-based and enables immediate response to environmental changes by firmly establishing the Regional Division System. Furthermore, the Company will concentrate its business resources on its strategic products, such as AVAPRO<sup>®</sup>, LONASEN<sup>®</sup>, and PRORENAL<sup>®</sup>, and certain new products, including TRERIEF<sup>®</sup>, MIRIPLA<sup>®</sup>, METGLUCO<sup>®</sup> and SUREPOST<sup>®</sup>.

In the CNS Sales & Marketing which was established in April 2011, the Company promotes marketing activity in CNS field in a strategic and efficient manner by integrating marketing and sales operation of CNS products and clarifying responsibility of profit. On the other hand, the DSP Group will continue to pursue low-cost operations and work to transform the revenue source structure of its pharmaceutical business in Japan.

(ii) Expanding overseas operations and maximizing earnings

In the United States, the DSP Group will make it a top priority to achieve market penetration and sales expansion of LATUDA<sup>®</sup>, the DSP Group's global strategic product at an early stage and strive to maintain the sales volume of the existing products such as LUNESTA<sup>®</sup> and XOPENEX<sup>®</sup> through effective and efficient promotion activities. The DSP Group will actively infuse its management resources into LATUDA<sup>®</sup> to additionally meet the indications for future sales expansion. In the meantime, in China, in the light of the ever-growing Chinese pharmaceuticals market, the DSP Group will reinforce the business foundation, including the increase in number of sales representatives of Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., and strive for further sales volume. In addition, the DSP Group will work to achieve the management targets by ensuring global-level compliance risk management and further business development and promoting the construction and establishing of the global governance system and pursuing further improvement in management efficiency.

(iii) Expanding the drug pipeline for the future growth

In research and development activities, the DSP Group aims to develop the next-generation strategic candidate products that should follow LATUDA<sup>®</sup> and continue

creating internationally competitive products by implementing global-level portfolio management primarily in the CNS field, which has been designated as the key therapeutic area, and the specialty field, such as the carcinoma field, designated as the frontier therapeutic area. In the meantime, the DSP Group will work to proactively address in-licensing and alliances of chemical compounds in the late development stage that can contribute to the business performance at an early stage and are expected to have a synergistic effect on existing products and of the products that underpin the DSP Group's continued growth.

The DSP Group will strive to promote creation and transformations for a new stage by the concerted effort of all the entire DSP Group to achieve the goals set out in the Second MTBP, and further accomplish the mid- to long-term vision.

In addition, aiming to be “a company that achieves its mission” that has lofty spirit and strong willingness, the DSP Group makes it a top priority among its business activities to ensure corporate ethics and will continue to work on rigorous ensuring of compliance, strengthening of risk management and CSR activities including social service activities. With respect to the unprecedented disasters caused by the Great East Japan Earthquake, the DSP Group will work to provide support services for reconstruction of the areas hit by the Earthquake primarily through the Earthquake Disaster Reconstruction Support Office newly established in May 2011.

On the other hand, the DSP Group will work to improve management efficiency through job streamlining and transformation and to transform the business structure on a global level, and to encourage new challenges and establish a corporate culture of speedy response, and to cultivate and energize diverse human resources.

(Note) The sales amount has been changed to 420 billion yen from 440 billion yen released at the time of announcement of the MTBP. This reduction derived from spin-off of the Company's animal health products business and has no impact on operating income. The target operating income of 70 billion yen has no change from the time of announcement of MTBP.

However, the figures of management targets are those deemed to be appropriate as of the end of the current consolidated fiscal year and may vary to a substantial degree depending on various factors in the future.

## **(5) Summary of Financial Position and Income of the Previous Three Business Years Immediately Preceding the Current Business Year**

### **① Summary of Financial Position and Income of the DSP Group**

	Fiscal year ended March 2008	Fiscal year ended March 2009	Fiscal year ended March 2010	Fiscal year ended March 2011 (the current consolidated fiscal year)
Net Sales (Millions of yen)	263,992	264,037	296,261	379,513
Ordinary Income (Millions of yen)	37,657	31,395	33,837	28,616
Net Income (Millions of yen)	25,591	19,987	20,958	16,796
Net Income per Share	64.39 yen	50.30 yen	52.75 yen	42.27 yen
Total Assets (Millions of yen)	399,790	391,294	626,743	589,868
Net Assets (Millions of yen)	318,277	324,495	343,483	323,983

② Summary of Financial Position and Income of the Company

	Fiscal year ended March 2008 188 <sup>th</sup> Fiscal year	Fiscal year ended March 2009 189 <sup>th</sup> Fiscal year	Fiscal year ended March 2010 190 <sup>th</sup> Fiscal year	Fiscal year ended March 2011 191 <sup>st</sup> Fiscal year (the current fiscal year)
Net Sales (Millions of yen)	247,789	248,433	248,697	229,756
Ordinary Income (Millions of yen)	38,001	30,893	34,426	41,155
Net Income (Millions of yen)	25,431	19,729	20,932	26,756
Net Income per Share	63.99 yen	49.65 yen	52.68 yen	67.34 yen
Total Assets (Millions of yen)	394,781	387,031	569,445	561,568
Net Assets (Millions of yen)	317,021	323,038	339,614	349,421

**(6) Particulars of Principal Businesses Conducted by the DSP Group**

Manufacturing, processing, purchase, sale, and import and export of pharmaceuticals,

food ingredients, food additives, chemical product materials, veterinary drugs and the like.

**(7) Major Sales Branches, Plants, etc., of the DSP Group**

	Name	Place	Name	Place	Name	Place
	Headquarters	Osaka	Tokyo Office	Chuo-ku, Tokyo	Osaka Center	Osaka
Branches	Sapporo Branch	Sapporo	Kita-tohoku Branch	Morioka, Iwate	Minami-tohoku Branch	Sendai
	Ibaraki Branch	Mito, Ibaraki	Kita-kanto Branch	Taito-ku, Tokyo	Niigata Branch	Niigata
	Koshin Branch	Matsumoto, Nagano	Chiba Branch	Chiba	Saitama Branch	Saitama
	Tokyo Branch I	Chuo-ku, Tokyo	Tokyo Branch II	Tama, Tokyo	Yokohama Branch	Yokohama
	Shizuoka Branch	Shizuoka	Nagoya Branch	Nagoya	San-gi Branch	Nagoya
	Hokuriku Branch	Kanazawa, Ishikawa	Keiji Branch	Kyoto	Osaka Branch I	Osaka
	Osaka Branch II	Sakai	Kobe Branch	Kobe	Higashi-chugoku Branch	Okayama
	Nishi-chugoku Branch	Hiroshima	Shikoku Branch	Takamatsu, Kagawa	Kyushu-kita Branch	Fukuoka
	Kyushu-minami Branch	Fukuoka				
Plants	Suzuka Plant	Suzuka, Mie	Ibaraki Plant	Ibaraki, Osaka	Ehime Plant	Niihama, Ehime
	Oita Plant	Oita, Oita				
Research Laboratories	Central Research Laboratories	Suita, Osaka	Osaka Research Center	Osaka		
Subsidiaries	DSP Gokyo Food & Chemical Co., Ltd.	Osaka	DS Pharma Animal Health Co., Ltd.	Osaka	DS Pharma Biomedical Co., Ltd.	Suita, Osaka
	Sunovion Pharmaceuticals Inc.	U.S.A.	Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.	China		

## (8) Employees

### ① Employees of the DSP Group

Business Segment	Number of Employees
Japan (Pharmaceuticals Business)	4,460
United States	2,419
China	560
Others	307
Total	7,746

(Note) The number of employees of the DSP Group indicated above is the total number of all persons currently working, including the seconded employees accepted by the DSP Group, but excluding the employees seconded to other companies.

### ② Employees of the Company

Number of Employees	Change from the Previous Business Year	Average Age	Average Length of Continuous Employment
4,469	-217	40.6	16.1 years

(Note) 1. The number of the Company's employees indicated above is the total number of all persons currently working, including the 123 seconded employees accepted by the Company, but excluding the 425 employees seconded to other companies.  
2. The average age and average length of continuous employment were calculated based on the number that excludes the seconded employees accepted by the Company.

## (9) Status of the Parent Company and Significant Subsidiaries

### ① Relation with the Parent Company

The parent company of the Company is Sumitomo Chemical Co., Ltd. ("Sumitomo Chemical") holding 199,434,000 shares of common stock of the Company (investment ratio: 50.12%). The business transactions between the Company and Sumitomo Chemical are: lease and rental of manufacturing/ research facilities for certain pharmaceuticals, consignment and undertaking of the services in relation thereto, purchase of raw materials, and lending of funds to Sumitomo Chemical.

② Status of the Significant Subsidiaries

	Name	Investment Ratio (%)	Principal Businesses
Japan	DSP Gokyo Food & Chemical Co., Ltd.	100	Manufacture and sale of food ingredients, food additives, chemical product materials and the like
	DS Pharma Animal Health Co., Ltd.	100	Manufacture and sale of veterinary drugs and the like
	DS Pharma Biomedical Co., Ltd.	100	Manufacture and sale of diagnostic products and the like
Overseas	Sunovion Pharmaceuticals Inc.	100 (100)	Manufacture and sale of medical drugs
	Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.	100	Manufacture and sale of medical drugs

- (Note)
1. The figure indicated in parentheses under the Investment Ratio column indicates the indirect ownership ratio (%) vis-a-vis the total ownership ratio.
  2. DSP Gokyo Food & Chemical Co., Ltd. (changed its trade name in July 2010 from Gokyo Trading Co., Ltd.) succeeded the Company's food & speciality products business through company split (absorption-type split) as of July 1, 2010.
  3. DS Pharma Animal Health Co., Ltd. was established as of July 1, 2010 through company split (incorporation-type split), and succeeded the Company's animal health products business
  4. Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. have merged Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd., which was a non-consolidated subsidiary of the Company. Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. is the surviving company.

**(10) Principal Lender and the Amount of the Loan**

Lender	Outstanding Amount of the Loan
Sumitomo Mitsui Banking Corporation	65,300 million yen
The Sumitomo Trust and Banking Co., Ltd.	9,000 million yen
The Norinchukin Bank	8,100 million yen

## (11) Other Significant Matters Concerning the Current State of the DSP Group

(Lawsuit)

In April 2007, Dey, L.P. and Dey, Inc. (together, “Dey”) filed a lawsuit in the U.S. District Court for the Southern District of New York against Sunovion Pharmaceuticals Inc., alleging that a Sunovion product, BROVANA<sup>®</sup>, a long-acting beta2-adrenergic agonist, is infringing a single United States patent owned by Dey in terms of its formulation and the application thereof. Sunovion is currently litigating this matter.

### 2. Matters Regarding the Shares

- (1) **Total Number of Issuable Shares:** 1,500,000,000 shares
- (2) **Total Number of Issued Shares:** 397,900,154 shares (including 587,168 treasury stocks)
- (3) **Number of Shareholders at the end of this Business Year:** 21,211
- (4) **Top Ten Shareholders**

Name of Shareholder	Number of Shares Held (Thousand Shares)	Shareholding Ratio (%)
Sumitomo Chemical Co., Ltd.	199,434	50.20
Inabata & Co., Ltd.	27,282	6.87
The Master Trust Bank of Japan, Ltd. (trust account)	13,737	3.46
Nippon Life Insurance Company	10,530	2.65
Japan Trustee Services Bank, Ltd. (trust account)	10,153	2.56
Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account)	7,000	1.76
Sumitomo Life Insurance Company	5,776	1.45
Aioi Nissay Dowa Insurance Co., Ltd.	4,928	1.24
Dainippon Sumitomo Pharma Employee Shareholding Association	3,875	0.98
JPMorgan Securities Japan Co., Ltd.	3,801	0.96

- (Note) 1. The 7,000,000 shares of the Company held by Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Retirement Benefit Trust Account) which were contributed by Sumitomo Mitsui Banking Corporation, were placed in a retirement benefit trust account. After deducting the aforementioned shares that were

contributed, Sumitomo Mitsui Banking Corporation now holds 1,125,000 shares of the Company (shareholding ratio: 0.28%).

2. The shareholding ratios were calculated after deducting the treasury stocks (587,168 shares).

### 3. Matters Regarding the Directors and Auditors of the Company

#### (1) Directors and Auditors

Position	Name	Title and Responsibilities, Principal Duties, and Significant Positions Held Concurrently
Representative Director and Chairman	Kenjiro Miyatake	Chairman of the Board of the Japan Epilepsy Research Foundation Director of the Japan Wool Textile Co., Ltd.
Representative Director and President	Masayo Tada	President and Chief Executive Officer Member, Board of Directors of DS Pharma Animal Health Co., Ltd. Member, Board of Directors of Sunovion Pharmaceuticals Inc.
Member, Board of Directors	Keiichi Ono	Senior Executive Officer In charge of Corporate Communications, Intellectual Property, and the Drug Research Division
Member, Board of Directors	Kazumi Okamura	Senior Executive Officer In charge of Legal Affairs, Environment and Safety, Personnel, General Affairs, and Osaka Administration
Member, Board of Directors	Hiroshi Noguchi	Senior Executive Officer Executive Director, Strategic Planning and Business Development Division In charge of Corporate Planning Member, Board of Directors of Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.
Member, Board of Directors	Yutaka Takeuchi	Executive Officer Executive Director, Manufacturing Division In charge of the Technology Research and Development Division Member, Board of Directors of Sunovion Pharmaceuticals Inc.
Member, Board of Directors	Yoshihiro Okada	Executive Officer Executive Director, Drug Development Division

Member, Board of Directors	Tetsuya Oida	Representative Director and President of DSP Gokyo Food and Chemical Co., Ltd. Representative Director and Chairman of Sanno Foods Co., Ltd.
Full-Time Corporate Auditor	Ikuo Hino	Corporate Auditor of DS Pharma Animal Health Co., Ltd.
Full-Time Corporate Auditor	Nobuo Takeda	Corporate Auditor of DSP Gokyo Food and Chemical Co., Ltd. Corporate Auditor of DS Pharma Biomedical Co., Ltd.
Corporate Auditor	Toshiyuki Aoki	Attorney at Law (admitted in Japan)
Corporate Auditor	Masahiro Kondo	
Corporate Auditor	Harumichi Uchida	Attorney at Law (admitted in Japan and the State of New York) Corporate Auditor of Daifuku Co., Ltd. Director of Hitachi High-Technologies Corporation

- (Note)
1. Director Yoshihiro Okada, Full-Time Corporate Auditor Nobuo Takeda and Corporate Auditors Masahiro Kondo and Harumichi Uchida were newly appointed at the 190<sup>th</sup> Annual Shareholders' Meeting held on June 25, 2010 and assumed their respective offices thereafter.
  2. Director Yuichi Yokoyama, Full-Time Corporate Auditor Tadayoshi Nishimura and Corporate Auditors Michihiro Ishii and Takayuki Usui retired as of June 25, 2010 due to the expiration of their terms of office.
  3. Director Keiichi Ono was appointed to be in charge of Earthquake Disaster Reconstruction Support as of May 1, 2011.
  4. Corporate Auditors Toshiyuki Aoki, Masahiro Kondo and Harumichi Uchida are outside corporate auditors as defined in Item 16, Article 2 of the Companies Act.
  5. Corporate Auditor Masahiro Kondo has a considerable amount of knowledge in accounting and tax affairs. He has gained a wealth of experience working at the accounting and finance department of Sumitomo Chemical Co., Ltd. over the years, and he is also a qualified Certified Public Accountant.
  6. The Company designated Corporate Auditor Toshiyuki Aoki as an Independent Auditor, as defined by Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co., Ltd., and reported the same to the said exchanges.

## (2) Matters Regarding the Outside Corporate Auditors

### ① Outside Corporate Auditors

The Corporate Auditors, Toshiyuki Aoki, Masahiro Kondo and Harumichi Uchida are outside corporate auditors as defined in Item 16, Article 2 of the Companies Act.

② The Principal Activities of Each Outside Corporate Auditor

Name	Principal Activities
Toshiyuki Aoki	He attended all seventeen (17) meetings held by the Board of Directors, and all sixteen (16) meetings held by the Board of Corporate Auditors during the current business year, and he spoke at those meetings as necessary from the professional standpoint of an attorney.
Masahiro Kondo	Among the seventeen (17) meetings held by the Board of Directors and the sixteen (16) meetings held by the Board of Corporate Auditors during the current business year, he attended all fourteen (14) meetings held by the Board of Directors and all twelve (12) meetings held by the Board of Corporate Auditors, held after his assumption of office, and he spoke at those meetings as necessary from a professional standpoint with respect to accounting and tax affairs.
Harumichi Uchida	Among the seventeen (17) meetings held by the Board of Directors and the sixteen (16) meetings held by the Board of Corporate Auditors during the current business year, he attended thirteen (13) of fourteen (14) meetings held by the Board of Directors and all twelve (12) meetings held by the Board of Corporate Auditors, held after his assumption of office, and he spoke at those meetings as necessary from the professional standpoint of an attorney.

③ Matters Regarding the Agreement Limiting the Liability of the Outside Corporate Auditors

Pursuant to Paragraph 1, Article 427 of the Companies Act, with respect to the liability for damages, the Company executed an agreement (the “Limited Liability Agreement”) with the Corporate Auditors, Toshiyuki Aoki, Masahiro Kondo and Harumichi Uchida, to limit their liability for damages under the circumstances where they acted in good faith and were not grossly negligent in performing their respective duties. The Limited Liability Agreement provides for a total maximum liability of 10 million yen or any amount stipulated by the relevant laws and regulations, whichever is higher.

**(3) Remuneration and the like for Directors and Corporate Auditors**

	Number	Amount of Remuneration and the like (Millions of Yen)	Memo
Directors	9	314	
Corporate Auditors (Outside Corporate Auditors)	8 (5)	90 (34)	
Total	17	404	

- (Note)
1. The above includes one (1) Director and three (3) Corporate Auditors who retired upon the conclusion of the 190<sup>th</sup> Annual Shareholders' Meeting held on June 25, 2010.
  2. The respective amounts of remuneration and the like for Directors and Corporate Auditors that were determined in the Shareholders' Meeting are not more than 400 million yen annually for Directors; and not more than 100 million yen annually for Corporate Auditors.
  3. The total amount of remuneration and the like for Directors includes the amount of 35 million yen, which represents the bonuses for Directors, to be paid after the 191<sup>st</sup> Annual Shareholders' Meeting to be held in June 2011.
  4. In addition to the above, retirement benefits in the total amount of 12 million yen were paid to two (2) Outside Corporate Auditors who retired during the current business year due to the expiration of their terms of office. The payment of the retirement benefits was made in accordance with the resolution on the abolition of the retirement benefits program for the Directors and Corporate Auditors, which was approved at the 185<sup>th</sup> Annual Shareholders' Meeting held on June 29, 2005.

#### 4. Accounting Auditor

##### (1) Name

KPMG AZSA LLC

(Note) Due to the change in the nature of the auditing firm, KPMG AZSA & Co. has become KPMG AZSA LLC as of July 1, 2010.

##### (2) Amount of Remuneration and the like

	Amount to be paid (Millions of Yen)
Consideration to be paid for the services (audit attestation services) described in Paragraph 1, Article 2 of the Certified Public Accountant Act (Act No. 103 of 1948)	66
Total Amount of Fees to be paid in cash or otherwise by the Company or Subsidiaries of the Company	88

- (Note)
1. Under the Audit Agreement between the Company and the Accounting Auditor, there

is no distinction between the compensation and the like for an audit under the Companies Act and the Financial Instruments and Exchange Act. Moreover, the two amounts cannot be substantially distinguished from each other. Thus, the amount of compensation and the like related to the audit attestation services reflects the total sum of these two kinds of amounts.

2. Among the significant subsidiaries, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. and Sunovion Pharmaceuticals Inc. have been audited by auditing firms that are different from the Accounting Auditor of the Company.

### **(3) Particulars of Non-Audit Services**

The Company assigns the provision of “advisory services regarding the implementation of the International Financial Reporting Standards (IFRS)” and the like (i.e., non-audit services), which do not constitute the services provided in Paragraph 1, Article 2 of the Certified Public Accountant Act, to the Accounting Auditor.

### **(4) Policy for the Determination of the Dismissal or Non-Reelection of the Accounting Auditor**

In addition to dismissal by the Board of Corporate Auditors as set forth in Article 340 of the Companies Act, the Company will, in case it finds substantial concerns with respect to the performance by the Accounting Auditor of its duties, taking into consideration its independence, manner of performance of duties and the like, propose the dismissal or non-re-election of such Accounting Auditor as a matter to be resolved at the Annual Shareholders’ Meeting in accordance with the procedures set forth in Article 344 of the Companies Act.

## **5. System Assuring the Appropriateness of Business Operations**

The Company passed a resolution on the following basic policies for the establishment of a system to ensure the appropriateness of the business operations, and has been continually operating such system.

### **(1) System Concerning the Assurance of Compliance by Directors and Employees with Applicable Laws and Regulations, and the Articles of Incorporation of the Company in Respect of the Performance of Their Respective Duties**

- ① The Company ensures that legal compliance is the basis for carrying out any and all of the Company’s business activities by establishing the “Declaration of Conduct of Dainippon Sumitomo Pharma Co., Ltd.” (the application policy) and repeatedly communicating the spirit of such application policy to Directors and employees through the initiative of the Representative Directors.

- ② In order to implement the aforementioned policy, the Directors and employees comply with and adhere to corporate ethics in accordance with the corporate philosophy, management principles, values and code of conduct of the Company.
- ③ The Company endeavors to improve the audits by the Board of Corporate Auditors including the neutral and independent outside corporate auditors.
- ④ The Company establishes a department to promote compliance and a department in charge of internal audits, for the purposes of providing training to the Directors and employees and conducting compliance status audits and the like.
- ⑤ The Company establishes and operates a compliance hotline through which any employee can directly report or notify any doubtful activity under the laws and regulations and/or the Articles of Incorporation.
- ⑥ The Company establishes a department in charge of internal control over financial reporting under the Financial Instruments and Exchange Act, and conducts its formation, evaluation, maintenance, improvement and the like.

**(2) System Concerning the Maintenance and Management of Information in Relation to the Directors' Performance of Their Duties**

With regard to information in relation to the performance by the Directors of their duties, the Directors properly maintain and manage such information pursuant to the *SHA-SOKU*, the internal rules established by the Company (the "Company Regulations").

**(3) System Concerning the Rules on Management of Risk of Loss**

The Company develops the Company Regulations and strengthens its ability to respond to factors that could potentially threaten its management in conducting business activities. The Company establishes a committee that oversees company-wide risk management, formulates the basic policies regarding risk management, and optimizes the risk management in each division.

**(4) System to Ensure Efficiency in the Performance by the Directors of Their Duties**

Under the Company Regulations, by clarifying the rules on the allocation of duties, authority and decision making, the Company establishes a system that enables each Director to properly and efficiently perform his/her duties. Coupled with an endeavor to expedite decision making through the adoption of the electronic approval system and the like, efforts will be made to develop efficiency in business operations through the establishment of

headquarters for each division and the proper delegation by the Representative Directors of authority.

**(5) System to Secure the Appropriateness of the Operations of the Company and the DSP Group (including the Parent Company and Subsidiaries)**

Based on the Company Regulations on the operation management of the group companies, the Company establishes one department to manage each group company and a department that supervises the operational management of all of the group companies in order to understand and manage the business and operational conditions of each group company, and extend the proper support to assist the group companies in the conduct of their businesses.

**(6) Matters Concerning Employees Assisting Corporate Auditors If Such Corporate Auditors Decide to Use Such Employees, and Matters Concerning the Independence of Such Employees from the Directors**

The Company establishes a Corporate Auditors' office to assist Corporate Auditors in performing their duties. At least one (1) employee, who is not under the direction or supervision of the division in charge of the business operations, is placed in such office.

**(7) System for Directors and Employees to Report to Corporate Auditors, and System Concerning Other Reports to Corporate Auditors**

The Directors and employees develop rules setting forth the matters to be reported to the Corporate Auditors and the Board of Corporate Auditors and providing the reporting procedures.

**(8) System to Ensure Effective Implementation of Audits by Corporate Auditors**

By holding regular meetings with the Corporate Auditors and the Board of Corporate Auditors or otherwise, the Representative Directors endeavor to promote an environment where efficient audits by the Corporate Auditors can be ensured.

## Consolidated Balance Sheet

(As of March 31, 2011)

(millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>332,999</b>	<b>Current liabilities</b>	<b>157,203</b>
Cash and time deposits	14,938	Notes and accounts payable	15,647
Notes and accounts receivable	107,803	Short-term loans payable	50,000
Marketable securities	90,921	Current portion of long-term loans payable	10,600
Merchandise and finished goods	38,442	Income taxes payable	7,678
Work-in-process	2,388	Reserve for bonuses	7,431
Raw materials and supplies	15,140	Reserve for sales returns	2,289
Deferred tax assets	33,489	Reserve for sales rebates	15,875
Short-term loans	25,000	Other accounts payable	33,849
Others	4,998	Others	13,831
Allowance for doubtful receivables	(122)		
<b>Fixed assets</b>	<b>256,868</b>	<b>Long-term liabilities</b>	<b>108,680</b>
<b>Property, plant and equipment</b>	<b>69,793</b>	Bonds payable	50,000
Buildings and structures	41,730	Long-term loans payable	43,000
Machinery, equipment and carriers	12,058	Liability for retirement benefits	10,266
Land	10,291	Liability for directors' retirement benefits	6
Construction in progress	941	Others	5,407
Others	4,771		
<b>Intangible assets</b>	<b>143,266</b>	<b>Total liabilities</b>	<b>265,884</b>
Goodwill	70,369	<b>Net assets</b>	
Patent rights	60,984	<b>Shareholders' equity</b>	<b>341,798</b>
Others	11,912	Common stock	22,400
<b>Investments and other assets</b>	<b>43,807</b>	Capital surplus	15,860
Investment securities	27,922	Retained earnings	304,186
Deferred tax assets	7,023	Treasury stock	(648)
Others	8,961	<b>Accumulated other comprehensive</b>	<b>(17,814)</b>
Allowance for doubtful receivables	(99)	<b>income (loss)</b>	
		Unrealized gains on available-for-sale securities, net of tax	5,413
		Foreign currency translation adjustment	(23,228)
		<b>Total net assets</b>	<b>323,983</b>
<b>Total assets</b>	<b>589,868</b>	<b>Total liabilities and net assets</b>	<b>589,868</b>

Note: All amounts are rounded down to the nearest million yen.

# Consolidated Statement of Income

(April 1, 2010 to March 31, 2011)

(millions of yen)

Item	Amount	
<b>Net sales</b>		<b>379,513</b>
<b>Cost of sales</b>		110,047
Gross profit		269,466
Reversal of reserve for sales returns		16
<b>Gross profit-net</b>		<b>269,482</b>
<b>Selling, general and administrative expenses</b>		238,531
<b>Operating income</b>		<b>30,951</b>
<b>Non-operating income</b>		
Interest and dividend income	1,248	
Others	2,056	3,304
<b>Non-operating expenses</b>		
Interest expense	1,919	
Contribution	1,835	
Loss on disposal of fixed assets	459	
Others	1,425	5,639
<b>Ordinary income</b>		<b>28,616</b>
<b>Extraordinary loss</b>		
Impairment loss	3,246	
Loss on valuation of investment securities	320	3,566
<b>Income before income taxes and minority interests</b>		<b>25,049</b>
Income taxes-current	13,988	
Income taxes-deferred	(5,735)	8,253
Income before minority interests		16,796
<b>Net Income</b>		<b>16,796</b>

Note: All amounts are rounded down to the nearest million yen.

## Consolidated Statement of Changes in Net Assets

(April 1, 2010 to March 31, 2011)

(millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2010	22,400	15,860	294,701	(646)	332,315
Changes during the fiscal year					
Cash dividends			(7,151)		(7,151)
Net income			16,796		16,796
Purchases of treasury stock				(2)	(2)
Sales of treasury stock			(0)	0	0
Changes in scope of consolidation			(159)		(159)
Changes in items other than shareholders' equity (net)					
Total changes during the fiscal year	—	—	9,484	(1)	9,482
Balance as of March 31, 2011	22,400	15,860	304,186	(648)	341,798

	Accumulated other comprehensive income (loss)			Total net assets
	Unrealized gains on available-for-sale securities	Foreign currency translation adjustment	Total accumulated other comprehensive income	
Balance as of March 31, 2010	7,945	3,222	11,167	343,483
Changes during the fiscal year				
Cash dividends				(7,151)
Net income				16,796
Purchases of treasury stock				(2)
Sales of treasury stock				0
Changes in scope of consolidation		(120)	(120)	(280)
Changes in items other than shareholders' equity (net)	(2,531)	(26,330)	(28,862)	(28,862)
Total changes during the fiscal year	(2,531)	(26,451)	(28,982)	(19,499)
Balance as of March 31, 2011	5,413	(23,228)	(17,814)	323,983

Note: All amounts are rounded down to the nearest million yen.

# Notes to Consolidated Financial Statements

## 1. Summary of significant accounting policies for consolidated financial statements

### (1) Scope of consolidation

Number of consolidated subsidiaries: 13 companies

Names of the major consolidated subsidiaries

DSP Gokyo Food & Chemical Co., Ltd., DS Pharma Animal Health Co., Ltd., DS Pharma Biomedical Co., Ltd., Sunovion Pharmaceuticals Inc., Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.

DSP Gokyo Food & Chemical Co., Ltd. succeeded to the food and specialty products business of the Company by way of a corporate separation (absorption-type company split).

Established by way of a corporate separation (incorporation-type company split), DS Pharma Animal Health Co., Ltd., succeeded to the animal health products business of the Company.

Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., as a surviving company, merged itself with Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd., which was our non-consolidated subsidiary.

Our 7 non-consolidated subsidiaries have been excluded from the scope of consolidation because they are small companies and their exclusion does not have a material impact on our consolidated financial statements.

### (2) Application of the equity method

7 non-consolidated subsidiaries and 5 affiliated companies have been excluded from the scope of the application of the equity method as their exclusion does not have a material impact on our consolidated financial statements.

An affiliate company of Sunovion Pharmaceuticals Inc. has been excluded from our affiliates by disposition of all of its shares.

### (3) Fiscal year end of consolidated subsidiaries

There are 10 consolidated overseas subsidiaries. All of fiscal year ends of the 10 companies are December 31. The Company uses the consolidated subsidiaries' financial statements, as of December 31, to prepare the consolidated financial statements. For significant transactions which have occurred during the period between the fiscal year ends of the consolidated subsidiaries and March 31, necessary adjustments have been made for the consolidated financial statements.

### (4) Significant accounting policies

#### ① Valuation of significant assets

##### (i) Marketable and investment securities

Held-to-maturity securities	Amortized cost (straight-line method)
-----------------------------	---------------------------------------

Available-for-sale securities	
-------------------------------	--

With market values	
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Market value method, based on the market price as of the last day of the consolidated fiscal period (All valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated using the moving-average method.)

Without market values	
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Cost method using the moving-average method

##### (ii) Inventories

Inventories held for sale in the regular course of business

Weighted average cost method (Book values have been calculated using the lower of cost or market principle.)

Certain consolidated subsidiaries use the FIFO (first-in, first-out) costing method (Book values have been calculated using the lower of cost or market principle).

② Depreciation and amortization of capital assets

(i) Property, plant and equipment (excluding leased assets)

Buildings are depreciated using the straight-line method. Other tangible fixed assets are depreciated using the declining-balance method. At certain subsidiaries, all tangible fixed assets are depreciated using the straight-line method. The estimated useful life of each asset is as follows:

Buildings and structures	3 to 60 years
Machinery, equipment and carriers:	2 to 17 years

(ii) Intangible assets (excluding lease assets)

Intangible assets are depreciated using the straight-line method. The estimated useful life of intangible assets is as follows:

Patent rights:	1 to 10 years
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(iii) Leased assets

Leased assets related to finance lease transactions do not transfer ownership

The straight-line method is used where the lease period is taken as the useful life and the residual value is zero.

Finance lease transactions which do not transfer ownership, which started on or before March 31, 2008, are accounted for in the same manner as ordinary operating lease transactions.

③ Accounting for significant allowances/reserves

(i) Allowance for doubtful receivables

In order to provide for losses arising from uncollectable receivables and other bad debts, we review the loan loss ratio of general claims and collectability on an individual basis of particular loans, such as those with a higher probability of default, and accrue provisions for the amounts that we estimate will be uncollectible.

(ii) Reserve for bonuses

In order to provide for the payment of employee bonuses, the amounts that we estimate will be paid are accrued.

(iii) Reserve for sales returns

A reserve is accrued for the profits from sales which are expected to be returned. In certain consolidated subsidiaries, a reserve is accrued for losses from sales which are expected to be returned.

(iv) Reserve for sales rebates

A reserve for sales rebates is accrued in order to provide for the disbursement of sales rebates for public programs, wholesalers, and other contracts.

(v) Liability for retirement benefits

In order to provide for the retirement benefits of employees, amounts are accrued based on the projected benefit obligations and estimated value of pension assets as of the end of the consolidated fiscal year.

Unrecognized prior service costs are treated as an expense and recognized using the straight-line method, based on the average number of remaining service years of employees when incurred (fifteen years).

Unrecognized actuarial gains and losses are treated as an expense and recognized from the following consolidated fiscal year using the straight-line method based on the average number of remaining service years of employees when incurred (fifteen years).

(vi) Liability for directors' retirement benefits

Amounts are accrued, based on calculations pursuant to internal rules, of certain consolidated subsidiaries at the end of the consolidated fiscal year for directors' retirement benefits.

④ Standards applicable to the conversion of material foreign currency-denominated assets and liabilities into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into yen at the spot exchange rate of the last day of the consolidated fiscal year. Any foreign exchange gain or loss resulting from translation is charged to income.

Assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rate in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the period into yen. Differences arising from translations have been reported in foreign currency translation adjustment in net asset section.

⑤ Significant hedge accounting method

(i) Hedge accounting

The DSP Group uses the deferred hedge accounting method. Foreign exchange forward contracts are accounted for by recognizing gains and losses on foreign monetary rights or obligations, preset prices, when the contracts conditions are satisfied.

(ii) Hedging instruments and hedged items

• Hedging instruments

Foreign exchange forward contracts

• Hedged items

Monetary assets and liabilities denominated in foreign currencies and monetary assets and liabilities specifically related to anticipated transactions, denominated in foreign currencies, which are covered by an agreement.

(iii) Hedge policy

Foreign exchange forward contract are conducted pursuant to internal rules and regulations in order to hedge foreign currency risks.

(iv) Method of evaluating the effectiveness of hedges

The effectiveness has been evaluated by comparing the accumulated changes in market value of hedged items with the accumulated changes in market value of hedging instruments. With regard to foreign exchange forward contracts, the effectiveness of such contracts has not been evaluated as important conditions for hedged items and hedging instruments are the same.

⑥ Amortization of goodwill

Goodwill accrued due to the acquisition of Sunovion Pharmaceuticals Inc. has been amortized on a straight-line basis over a period of 20 years.

⑦ Other significant accounting policies for consolidated financial statements

Accounting for consumption taxes

All financial statement items are net of consumption taxes.

(5) Changes to significant accounting policies for consolidated financial statements

(Application of “Accounting Standard for Asset Retirement Obligations”)

Effective from the year ended March 31, 2011, “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18 of March 31, 2008) and “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21 of March 31, 2008) have been applied. Consequently, operating income, ordinary income, and net income before income taxes and minority interests have been reduced by 310 million yen, respectively.

(Changes in Presentation of Consolidated Statements of Income)

Based on “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22 of December 26, 2008), “Ministerial Ordinance for Partial Revision of the Ordinance for Enforcement of the Companies Act and the Ordinance on Company Accounting, etc.” (Ordinance of the Ministry of Justice No.7 of March 27, 2009) has been applied. As a result, “Income before minority interests” is included in the consolidated financial statements for the year ended March 31, 2011.

2. Notes to the Consolidated Balance Sheet

(1) Assets pledged as collateral and secured liabilities

① Assets pledged as collateral

Investment securities 60 million yen

② Secured Liabilities

Accounts payable 168 million yen

(2) Accumulated depreciation of tangible fixed assets 137,286 million yen

Accumulated depreciation of tangible fixed assets is included in accumulated impairment losses.

(3) Liabilities on guarantees

Debt guarantees covering amounts borrowed by affiliated companies from financial institutions have been extended as follows:

Sanno Foods Co., Ltd. 277 million yen

Others 152 million yen

3. Notes to the Consolidated Statement of Changes in Net Assets

(1) Type and total number of issued shares as of the end of the current consolidated fiscal year

Common Stock 397,900,154

(2) Dividends

① Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Declaration date	Effective date of distribution
June 25, 2010 Annual shareholders' Meeting	Common Stock	3,575 million yen	9.00 yen	March 31, 2010	June 28, 2010
October 29, 2010 Meeting of the Board of Directors	Common Stock	3,575 million yen	9.00 yen	September 30, 2010	December 1, 2010

② Dividends for which the declaration date belongs to the current consolidated fiscal year and for which the effective date of distribution falls in the following consolidated fiscal year

Resolution schedule	Type of share	Total dividend amount	Source of Funds for dividend distribution	Dividend amount per share	Declaration date	Effective date of distribution
June 24, 2011 Annual shareholders' Meeting	Common Stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2011	June 27, 2011

#### 4. Notes to financial instruments

##### (1) Matters pertaining to the status of financial instruments

###### ① Policies for using financial instruments

The Group procures funds by bank loans and issuance of corporate bonds that are required for investment plans and other purposes in order to carry out business inside and outside of Japan. Temporary surplus funds are to be invested only in safe financial instruments, for which there is a low probability for losses of invested capital. Derivative transactions are used only to avoid risk as described below, and speculative transactions are not taken.

###### ② Details of financial instruments and risks, policies and systems for risk management

In order to reduce the credit risks of notes and accounts receivable associated with customers, due dates and amounts outstanding are managed for each customer in accordance with the standards pertaining to the management of loans as determined by each group company. In addition, a system to regularly obtain and review the credit standing of major clients has been adopted.

Marketable securities and investment securities consist primarily of negotiable certificates for deposit, bonds held to maturity and shares. These investments are exposed to risks associated with changes in market prices. The market values of the securities and the financial standing of the issuers of these investments are regularly monitored. The shareholding status is also reviewed continuously, and relationships with the client companies are taken into account. In addition, bonds held to maturity consist of only highly rated bonds, pursuant to the Group regulations for the management of funds to minimize credit risks.

Operating payables such as notes and trade accounts payable, and other accounts payable are all due within one year. As some of these payables consist of notes and accounts payable that are denominated in foreign currencies due to the import of raw materials, they are also exposed to the risks of fluctuations in exchange rates. When significant, these risks are hedged using foreign exchange forward contracts.

Loans payable and corporate bonds are instruments that are primarily used for the purpose of procuring funds in accordance with business plans; the redemption date of each such instrument falls, at the latest, less than seven years after the applicable settlement date. Some loans payable are subject to variable interest rates and are exposed to the risks of fluctuations in interest rates.

Almost all income taxes payable are due within two months.

While accounts payable, loans payable and bonds are exposed to liquidity risks, the risks are managed within the Group by producing cash flow plans on a monthly basis.

Derivative financial instruments of the Group include forward exchange contracts for the purpose of hedging risks of fluctuations in exchange rates of receivables and payables denominated in foreign currencies. With respect to forward exchange contracts, the Finance & Accounting Division formulates an implementation plan for hedging foreign currency risks every half year pursuant to the regulations for management of foreign currency risks and, upon reporting to the Board of Directors, executes transactions, and posts the applicable entries. The results of derivative transactions are also reported to the Board of Directors. Certain consolidated subsidiaries also set forth internal standards pertaining to forward exchange contracts and engage in transactions in accordance therewith. See “Significant hedge accounting method” as stated in the above “Significant accounting policies” for information on hedging instruments, hedged items, hedging policy, and the method of evaluating the effectiveness of hedges, as they relate to hedge accounting.

###### ③ Supplemental information on market values

In addition to value based on quoted market prices, the market value of financial instruments includes fair value which is determined by using valuation techniques. Since certain assumptions are considered in the calculation of

such amounts, the adoption of different assumptions may cause prices to vary.

(2) Fair value of financial instruments

Consolidated balance sheet amounts compared to the corresponding fair values, and the differences between these figures, as of March 31, 2011, are as follows (financial instruments for which the ascertainment of fair value is deemed to be exceedingly difficult are not included, see note 2);

	(millions of yen)		
	Amount on consolidated balance sheet(*1)	Fair value(*1)	Difference
① Cash and time deposits	14,938	14,938	—
② Notes and accounts receivable	107,803	107,803	—
③ Short-term loans payable	25,000	25,000	—
④ Marketable securities and investment securities	115,608	115,615	7
⑤ Notes and accounts payable-trade	(15,647)	(15,647)	—
⑥ Short-term loans payable	(50,000)	(50,000)	—
⑦ Income taxes payable	(7,678)	(7,678)	—
⑧ Accounts payable-other	(33,849)	(33,849)	—
⑨ Bonds payable	(50,000)	(50,002)	(2)
⑩ Long-term loans payable (*2)	(53,600)	(53,421)	178
⑪ Derivative transactions	—	—	—

(\*1) Liabilities are noted by ( ).

(\*2) Long-term loans payable include the amount of Current portion of long-term loans payable.

(Note 1): Basis of determining fair value of financial instruments, and matters pertaining to securities and derivative transactions

① Cash and time deposits,

As all time deposits are short-term, fair value is approximately equal to book value and is calculated according to the applicable book value.

② Notes and accounts receivable, and ③ Short-term loans payable

As these assets are settled on a short-term basis, fair value is approximately equal to their book value and is calculated according to the applicable book value.

④ Marketable securities and investment securities

The fair value of these assets is calculated according to the quoted market price for shares and the price indicated by the applicable financial trading institution for bonds. As negotiable certificates of deposit are settled on a short-term basis, fair value is approximately equal to book value and is calculated according to the applicable book value.

⑤ Notes and accounts payable, ⑥ Short-term loans payable, ⑦ Income taxes payable and ⑧ Other accounts payable

As these liabilities are settled on a short-term basis, fair value is approximately equal to book value and is calculated according to the applicable book value.

⑨ Bonds payable

The fair value of corporate bonds is calculated according to market price.

⑩ Long-term loans payable

The fair value of long-term loans payable is calculated according to the present value of the total sum of principal and interest as discounted by an assumed rate that would have been applicable had a new identical loan been undertaken.

⑪ Derivative transactions

As foreign exchange forward contracts subject to appropriation are processed in an integrated manner together with the accounts payable items constituting hedged items, the fair value has been included in the applicable accounts payable items and stated accordingly.

(Note 2): The fair value of unlisted shares and others (the amount of which is posted in the consolidated balance sheet at 3,235 million yen) is not included in “④ Marketable securities and investment securities” because they are deemed to be exceedingly difficult to ascertain given the unavailability of quoted market prices.

## 5. Notes to per share information

(1) Net assets per share	815.44 yen
(2) Net income per share	42.27 yen

## 6. Other notes

### Business combinations

#### Operations under common control

#### (1) Corporate separation of our animal health products business

(i) Type and description of the target business, the date of the business combination, the legal form of the business combination, the name of the combined company, and matters pertaining to an outline of the transaction

(a) Type and description of the target business

Type of business: Animal health products

Description of business: production, processing, buying and selling, and exporting and importing of veterinary drugs, animal medical devices, feed, and feed additives

(b) Date of the business combination

July 1, 2010

(c) Legal form of the business combination

An incorporation-type company split (a simple company split), in which the Company shall be the splitting company and DS Pharma Animal Health Co., Ltd. shall be the succeeding company.

(d) Name of the combined company

DS Pharma Animal Health Co., Ltd. (consolidated subsidiary of the Company)

(e) Matters pertaining to an outline of the transaction

The transaction was undertaken with the aim of maintaining and reinforcing close links with our research and development section, enhancing the degree of managerial freedom, clarifying management responsibilities, accelerating the decision-making process, and improving profitability.

(ii) Outline of accounting treatment as performed

The corporate separation of our animal health products business has been processed as an operation under common control pursuant to “Accounting Standard for Business Combinations” (ASBJ Statement No. 21; December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10; December 26, 2008).

#### (2) Corporate separation of our food and specialty products business

(i) Type and description of the target business, the date of the business combination, the legal form of the business combination, the name of the combined company, and matters pertaining to an outline of the transaction

(a) Type and description of the target business

Type of business: Food and specialty products

Description of business: production, processing, buying and selling, and exporting and importing of food additives, industrial chemicals, and other chemical products

(b) Date of the business combination

July 1, 2010

(c) Legal form of the business combination

An absorption-type company split (a simple company split) in which the Company shall be the splitting company and Gokyo Trading Co., Ltd. shall be the succeeding company.

(d) Name of the combined company

DSP Gokyo Food & Chemical Co., Ltd. (consolidated subsidiary of the Company)

(e) Matters pertaining to an outline of the transaction

The transaction was undertaken with the aim of maximizing the synergy effects to be generated by a company whose structure is based on a completely new model of integrated research, development, and sales in the field of food and chemical products.

(ii) Outline of accounting treatment as performed

The corporate separation of our food and specialty products business has been processed as an operation under common control pursuant to “Accounting Standard for Business Combinations” (ASBJ Statement No. 21; December 26, 2008) and “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10; December 26, 2008).

### Impairment losses

Among the fixed assets owned by the DSP Group, business assets are grouped by segment, with individual assets constituting the smallest grouping unit for idle assets, patents, and other such assets.

In this consolidated fiscal year, the Group posted impairment losses with respect to the following assets:

Use	Type	Location	Amount
Exclusive rights with respect to pharmaceuticals	Patents	United States	2,179 million yen
Idle assets	Buildings, machinery, equipment, etc.	Osaka	274 million yen
Idle assets	Buildings, machinery, equipment, etc.	Suzuka, Mie	792 million yen

The recoverability of patents deemed to be lacking in future profitability was assessed at zero, and their unamortized balance has been posted as impairment losses.

The book values of idle assets that are not expected to be used in the future owing to reviews of the production system and the unification of research facilities were diminished to recoverable amounts and the diminished amounts have been posted as impairment losses. While the recoverable amounts of idle assets are normally measured according to their net sales prices, these idle assets were assessed according to their memorandum prices in light of the low likelihood that they could be sold.

## Non-Consolidated Balance Sheet

(As of March 31, 2011)

(millions of yen)

Item	Amount	Item	Amount
<b>Assets</b>		<b>Liabilities</b>	
<b>Current assets</b>	<b>218,553</b>	<b>Current liabilities</b>	<b>106,270</b>
Cash and time deposits	6,188	Accounts payable	7,822
Notes receivable	370	Short-term loans payable	50,000
Accounts receivable	79,904	Current portion of long-term loans payable	10,000
Marketable securities	40,296	Other accounts payable	20,724
Merchandise and finished goods	30,561	Consumption taxes payable	407
Work-in-process	2,430	Accrued expenses	1,709
Raw materials and supplies	11,704	Income taxes payable	6,632
Advance payments	1,067	Advances received	1,210
Other accounts receivable	2,477	Deposits received	346
Deferred tax assets	18,533	Reserve for bonuses	6,860
Short-term loans to affiliates	25,100	Reserve for sales returns	43
Others	26	Reserve for sales rebates	511
Allowance for doubtful receivables	(108)		
<b>Fixed assets</b>	<b>343,014</b>	<b>Long-term liabilities</b>	<b>105,876</b>
<b>Property, plant and equipment</b>	<b>61,891</b>	Bonds payable	50,000
Buildings	36,085	Long-term loans payable	43,000
Structures	1,029	Long-term other accounts payable	19
Machinery and equipment	10,521	Long-term deposits received	2,723
Carriers	19	Liability for retirement benefits	10,133
Tools, furniture, and fixtures	3,346		
Land	9,975	<b>Total liabilities</b>	<b>212,147</b>
Construction in progress	913	<b>Net assets</b>	
<b>Intangible assets</b>	<b>4,534</b>	<b>Shareholders' equity</b>	<b>344,244</b>
Software	2,984	Common stock	22,400
Sales rights	728	Capital surplus	15,860
Others	821	Legal capital surplus	15,860
<b>Investments and other assets</b>	<b>276,588</b>	Retained earnings	306,632
Investment securities	25,493	Legal retained earnings	5,288
Investments in affiliates	236,846	Other retained earnings	301,344
Amount invested in capital of affiliates	3,347	Reserve for advanced depreciation of fixed assets	923
Long-term prepaid expenses	3,134	General reserve	275,510
Deferred tax assets	2,867	Retained earnings carried forward	24,911
Others	4,992	Treasury stock	(648)
Allowance for doubtful receivables	(94)	<b>Valuation, translation adjustments and others</b>	<b>5,177</b>
		Unrealized gains on available-for-sale securities, net of tax	5,177
<b>Total assets</b>	<b>561,568</b>	<b>Total net assets</b>	<b>349,421</b>
		<b>Total liabilities and net assets</b>	<b>561,568</b>

Note: All amounts are rounded down to the nearest million yen.

## Non-Consolidated Statement of Income

(April 1, 2010 to March 31, 2011)

(millions of yen)

Item	Amount	
<b>Net sales</b>		<b>229,756</b>
<b>Cost of sales</b>		69,396
<b>Gross profit</b>		160,359
Reversal of reserve for sales returns		17
<b>Gross profit-net</b>		<b>160,377</b>
<b>Selling, general and administrative expenses</b>		116,912
<b>Operating income</b>		<b>43,464</b>
<b>Non-operating income</b>		
Interest and dividend income	966	
Others	1,459	2,426
<b>Non-operating expenses</b>		
Interest expense	1,346	
Contribution	1,814	
Loss on disposal of fixed assets	370	
Others	1,204	4,735
<b>Ordinary Income</b>		<b>41,155</b>
<b>Extraordinary loss</b>		
Impairment loss	1,066	
Loss on valuation of investment securities	157	<b>1,224</b>
<b>Income before income taxes</b>		<b>39,930</b>
Income taxes-current	11,796	
Income taxes-deferred	1,377	13,173
<b>Net Income</b>		<b>26,756</b>

Note: All amounts are rounded down to the nearest million yen.

## Non-Consolidated Statement of Changes in Net Assets

(April 1, 2010 to March 31, 2011)

(millions of yen)

	Shareholders' equity								
	Common stock	Capital surplus	Retained earnings					Treasury stock	Total shareholders' equity
		Legal capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings		
				Reserve for advanced depreciation of fixed assets	General reserve	Retained earnings carried forward			
Balance as of March 31, 2010	22,400	15,860	5,288	968	262,510	25,243	294,010	(646)	331,623
Changes during the fiscal year									
Cash dividends						(7,151)	(7,151)		(7,151)
Reversal of reserve for advanced depreciation of fixed assets				(45)		45	—		—
Provision for general reserve					13,000	(13,000)	—		—
Decrease by corporate division						(6,982)	(6,982)		(6,982)
Net Income						26,756	26,756		26,756
Purchases of treasury stock								(2)	(2)
Sales of treasury stock						(0)	(0)	0	0
Changes in items other than shareholders' equity (net)									
Total changes during the fiscal year	—	—	—	(45)	13,000	(332)	12,622	(1)	12,620
Balance as of March 31, 2011	22,400	15,860	5,288	923	275,510	24,911	306,632	(648)	344,244

	Valuation, translation adjustments and others		Total net assets
	Unrealized gains on available-for-sale securities	Total valuation, translation adjustments and others	
Balance as of March 31, 2010	7,991	7,991	339,614
Changes during the fiscal year			
Cash dividends			(7,151)
Reversal of reserve for advanced depreciation of fixed assets			—
Provision for general reserve			—
Decrease by corporate division			(6,982)
Net Income			26,756
Purchases of treasury stock			(2)
Sales of treasury stock			0
Changes in items other than shareholders' equity (net)	(2,813)	(2,813)	(2,813)
Total changes during the fiscal year	(2,813)	(2,813)	9,806
Balance as of March 31, 2011	5,177	5,177	349,421

Note: All amounts are rounded down to the nearest million yen.

## Notes to Non-consolidated Financial Statements

### 1. Summary of significant accounting policies

#### (1) Valuation of marketable and investment securities

Held-to-maturity securities	Amortized cost (straight-line method)
Shares held in subsidiaries and affiliates	Cost using the moving-average method
Available-for-sale securities	
With market values	Market value method, based on the market price as of the last day of the fiscal period (All valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated using the moving-average method.)
Without market values	Cost method using the moving-average method

#### (2) Valuation of inventories

Inventories held for sale in the regular course of business	Weighted average cost method (Book values have been calculated using the lower of cost or market principle.)
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#### (3) Depreciation and amortization of fixed assets

Property, plant and equipment	
Buildings	Straight-line method
Other tangible fixed assets	Declining-balance method
Intangible assets	Straight-line method

#### (4) Accounting for allowances/reserves

##### ① Allowance for doubtful receivables

In order to provide for losses arising from uncollectable receivables and other bad debts, we review the loan loss ratio of general claims and collectability on an individual basis of particular loans, such as those with a higher probability of default, and accrue provisions for the amounts that we estimate will be uncollectible.

##### ② Reserve for bonuses

In order to provide for the payment of employee bonuses, the amounts that we estimate will be paid are accrued.

##### ③ Reserve for sales returns

A reserve is accrued for the profits from sales which are expected to be returned.

##### ④ Reserve for sales rebates

A reserve for the disbursement of sales rebates to wholesalers is accrued. The reserve amounts are calculated accordingly:

- (i) The sales rebate, as calculated based on the sales performance of wholesalers, which equals the wholesale inventory as of the end of the fiscal term, multiplied by the rebate rate.
- (ii) The sales rebate, as calculated based on the accounts receivable collected, which equals the applicable accounts receivable as of the end of the fiscal term, multiplied by the rebate rate.

##### ⑤ Liability for retirement benefits

In order to provide for the retirement benefits of employees, amounts are accrued based on the projected benefit obligations and estimated value of pension assets as of the end of the fiscal year.

Unrecognized prior service costs are treated as an expense and recognized using the straight-line method, based on the average number of remaining service years of employees when incurred (fifteen years).

Unrecognized actuarial gains and losses are treated as an expense and recognized from the following fiscal year

using the straight-line method based on the average number of remaining service years of employees when incurred (fifteen years).

(5) Significant hedge accounting method

(i) Hedge accounting

The Company uses the deferred hedge accounting method. Foreign exchange forward contracts are accounted for by recognizing gains and losses on foreign monetary rights or obligations, preset prices, when the contracts conditions are satisfied.

(ii) Hedging instruments and hedged items

• Hedging instruments

Foreign exchange forward contracts

• Hedged items

Monetary assets and liabilities denominated in foreign currencies and monetary assets and liabilities specifically related to anticipated transactions, denominated in foreign currencies, which are covered by an agreement.

(iii) Hedge policy

Foreign exchange forward contract are conducted pursuant to internal rules and regulations in order to hedge foreign currency risks.

(iv) Method of evaluating the effectiveness of hedges

The effectiveness has been evaluated by comparing the accumulated changes in market value of hedged items with the accumulated changes in market value of hedging instruments. With regard to foreign exchange forward contracts, the effectiveness of such contracts has not been evaluated as important conditions for hedged items and hedging instruments are the same.

(6) Other significant accounting policies for the non-consolidated financial statements

Accounting for consumption taxes

All financial statement items are net of consumption taxes.

(7) Changes to significant accounting policies

(Application of “Accounting Standard for Asset Retirement Obligations”)

Effective from the year ended March 31, 2011, “Accounting Standard for Asset Retirement Obligations” (ASBJ Statement No. 18 of March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21 of March 31, 2008) have been applied. Consequently, operating income, ordinary income, and net income before income taxes have been reduced by 310 million yen, respectively.

2. Notes to the Non-Consolidated Balance Sheet

(1) Accumulated depreciation of tangible fixed assets 134,586 million yen

Accumulated depreciation of tangible fixed assets is included in accumulated impairment losses.

(2) Liabilities on guarantees

Debt guarantees covering amounts borrowed by our employees from financial institutions have been extended as follows:

152 million yen

(3) Monetary claims and liabilities to affiliated companies

Short-term monetary claims 25,930million yen

Short-term monetary liabilities	7,470million yen
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### 3. Notes pertaining to the Income Statement

#### Amounts of transactions with affiliated companies

##### Transaction amounts based on operating transactions

Net sales	8,451million yen
Amount of goods purchased	7,974million yen
Other operating transactions	10,091million yen
Non-operating transactions	661million yen

### 4. Notes to tax effect accounting

#### (1) Breakdown of deferred tax assets and deferred tax liabilities by main cause of occurrence

##### Deferred tax assets

Reserve for bonuses	2,788 million yen
Reserve for sales rebates	208 million yen
Accrued enterprise taxes	696 million yen
Liabilities for retirement benefits	2,964 million yen
Loss on valuation of investment securities	593 million yen
Research and development costs	11,003 million yen
Inventories	2,284 million yen
Stocks of subsidiaries and affiliates	
[Stocks of succeeding company associated with corporate separation]	2,856 million yen
Others	<u>5,877 million yen</u>
Subtotal of deferred tax assets	29,269 million yen
Valuation allowance	<u>(3,746 million yen)</u>
Total deferred tax assets	25,523 million yen
Deferred tax liabilities	
Unrealized gains on available-for-sale securities	(3,490 million yen)
Reserve for advanced depreciation of fixed assets	<u>(632 million yen)</u>
Total deferred tax liabilities	<u>(4,122 million yen)</u>
Net amount of deferred tax assets	<u>21,400 million yen</u>

#### (2) Reconciliation of effective tax rate

Statutory tax rate	40.6%
(Adjustments)	
Entertainment expenses and other items that are excluded from nontaxable expenses	3.4%
Dividend income and other items that are excluded from taxable income	(0.5%)
Tax credit for R&D expenses	(9.4%)
Residence tax on per-capita basis	0.3%
Change in valuation allowance	(1.5%)
Others	<u>0.1%</u>
Actual effective tax rate	<u>33.0%</u>

### 5. Notes to fixed assets to be used under lease

(1) Acquisition costs of leased properties as of the end of the current fiscal year	546 million yen
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(2) Accumulated depreciation of leased properties as of the end of the current fiscal year 464 million yen

(3) Future lease payments obligation as of the end of the current fiscal year 82 million yen

## 6. Notes to transactions with affiliated parties

### Parent company and main corporate shareholders

Type	Name of company	Ratio of voting rights (or ownership)	Relationship with affiliated party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Parent company	Sumitomo Chemical Co., Ltd.	Direct ownership: 50.22%	· Supplier of raw materials · Leasing land, etc. · Purchasing plant utilities, etc. · Lending funds	Lending funds	25,000 million yen	Short-term loans to affiliates	25,000 million yen

Transaction terms and policies for determining transaction terms, etc.

Note: With respect to the lending of funds, a reasonable rate of interest is determined, by considering the market rate of interest.

## 7. Notes to Non-Consolidated Statement of Changes in Net Assets

Type and total number of Company's shares (treasury stock) as of the end of the current consolidated fiscal year

Common Stock 587,168 shares

## 8. Notes to per share information

(1) Net assets per share 879.46 yen

(2) Net income per share 67.34 yen

## 9. Other notes

### Business combinations

Notes are omitted because they are shown in "Business combinations" of Notes to Consolidated Financial Statements.

### Impairment losses

Among the fixed assets owned by the Company, business assets are grouped by segment, with individual assets constituting the smallest grouping unit for idle assets.

In this fiscal year, the Company posted impairment losses with respect to the following assets:

Use	Type	Location	Amount
Idle assets	Buildings, machinery, equipment, etc.	Osaka	274 million yen
Idle assets	Buildings, machinery, equipment, etc.	Suzuka, Mie	792 million yen

The book values of idle assets that are not expected to be used in the future owing to reviews of the production system and the unification of research facilities were diminished to recoverable amounts and the diminished amounts have been posted as impairment losses. While the recoverable amounts of idle assets are normally measured according to their net sales prices, these idle assets were assessed according to their memorandum prices in light of the low likelihood that they could be sold.

**Independent Auditors' Report**

May 9, 2011

The Board of Directors  
Dainippon Sumitomo Pharma Co., Ltd.

KPMG AZSA LLC

Koichi Kohori (Seal)  
Designated Limited Liability Partner  
Certified Public Accountant

Kenryo Goto (Seal)  
Designated Limited Liability Partner  
Certified Public Accountant

Takaharu Higashiura (Seal)  
Designated Limited Liability Partner  
Certified Public Accountant

We have audited the consolidated statutory report, comprising the consolidated balance sheet, the consolidated statement of income, the consolidated statement of changes in net assets and the related notes of Dainippon Sumitomo Pharma Co., Ltd. (the "Company") as of March 31, 2011 and for the year from April 1, 2010 to March 31, 2011 in accordance with Article 444(4) of the Corporate Law. The consolidated statutory report is the responsibility of the Company's management. Our responsibility is to express an opinion on the consolidated statutory report based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the consolidated statutory report is free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the consolidated statutory report. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated statutory report referred to above presents fairly, in all material respects, the financial position and the results of operations of the Company and its consolidated subsidiaries for the period, for which the consolidated statutory report was prepared, in conformity with accounting principles generally accepted in Japan.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

**Independent Auditors' Report**

May 9, 2011

The Board of Directors  
Dainippon Sumitomo Pharma Co., Ltd.

KPMG AZSA LLC

Koichi Kohori (Seal)  
Designated Limited Liability Partner  
Certified Public Accountant

Kenryo Goto (Seal)  
Designated Limited Liability Partner  
Certified Public Accountant

Takaharu Higashiura (Seal)  
Designated Limited Liability Partner  
Certified Public Accountant

We have audited the statutory report, comprising the balance sheet, the statement of income, the statement of changes in net assets and the related notes, and its supporting schedules of Dainippon Sumitomo Pharma Co., Ltd. (the "Company") as of March 31, 2011 and for the 191st business year from April 1, 2010 to March 31, 2011 in accordance with Article 436(2) ( i ) of the Corporate Law. The statutory report and supporting schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the statutory report and supporting schedules based on our audit as independent auditors.

We conducted our audit in accordance with auditing standards generally accepted in Japan. Those auditing standards require us to obtain reasonable assurance about whether the statutory report and supporting schedules are free of material misstatement. An audit is performed on a test basis, and includes assessing the accounting principles used, the method of their application and estimates made by management, as well as evaluating the overall presentation of the statutory report and supporting schedules. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the statutory report and supporting schedules referred to above present fairly, in all material respects, the financial position and the results of operations of the Company for the period, for which the statutory report and supporting schedules were prepared, in conformity with accounting principles generally accepted in Japan.

Our firm and engagement partners have no interest in the Company which should be disclosed pursuant to the provisions of the Certified Public Accountants Law of Japan.

## Audit Report

The Board of the Corporate Auditors prepared and reported this audit report with regards to the performance of duties of Directors of the Company for the 191<sup>st</sup> fiscal year from April 1, 2010, to March 31, 2011, as a consensus opinion by all Corporate Auditors upon deliberation, based on the audit reports prepared by each Corporate Auditors and hereby reports as follows:

### 1. Auditing Method conducted by Corporate Auditors and the Board of Corporate Auditors and details thereof

The Board of Corporate Auditors established the audit policies, assignment of duties, and other matters for this fiscal year, and received reports from each Corporate Auditors on the status of implementation of their audits and results thereof. In addition, the Board of Corporate Auditors received reports from Directors and Accounting Auditor on the status of the performance of their duties, and requested explanations as necessary.

In conformity with Corporate Auditors auditing standards established by the Board of Corporate Auditors, and in accordance with the audit policies, assignment of duties, each Corporate Auditor endeavored to communicate with Directors, the internal auditing division and other employees, the Corporate Auditors of the parent company and others, endeavored to collect information and maintain and improve the audit environment, has attended meetings of the Board of Directors and other important meetings, received reports from Directors and employees on the status of the performance of their duties, requested explanations as necessary, examined important approval documents, and inspected the status of the corporate affairs and assets at the head office and other principal offices. Also, with regard to the contents of the Board of Directors' resolutions regarding the development and maintenance of the system to ensure that the Directors' performance of their duties on the business reports complied with all laws, regulations and the Articles of Incorporation of the company and other systems for ensuring the appropriateness of the corporate affairs, and the systems (internal control systems) based on such resolutions, we received reports from Directors and employees on the status of their construction and implementation, requested explanations as necessary and expressed our opinion. For subsidiaries, we endeavored to facilitate a mutual understanding and exchanged information with the Directors and Corporate Auditors of each subsidiary and received from subsidiaries reports on their respective business as necessary. We thus examined the business reports and supporting schedules for the fiscal year in accordance with the above method.

In addition, we examined whether the Accounting Auditor maintained its independence and properly conducted its audit, received a report from the Accounting Auditor on the status of its performance of duties and requested explanations as necessary. We were notified by the Accounting Auditor that a system to ensure that performance of the duties of the Accounting Auditor was properly conducted had been established with an emphasis on ensuring independence and quality control, we requested explanations as necessary. We examined the financial statements (Balance Sheet, Statement of Income, Statement of Changes in Net Assets, and Notes to Non-consolidated Financial Statements) and supporting schedules for the fiscal year, as well as the consolidated financial statements (Consolidated Balance Sheet, Consolidated Statements of Income, Consolidated Statements of Changes in Net Assets, and Notes to Consolidated Financial Statements) in accordance with the above method.

### 2. Results of audit

#### (1) Results of audit of business reports and other documents

- ① We confirm that the business reports and supporting schedules accurately represent the position of the Company according to the law and the Articles of Incorporation.
- ② We have not found any improper conduct or any material evidence of violations of the law or any articles of incorporation in relation to the performance of duties by Directors.
- ③ We confirm that the resolutions adopted by the Board of Directors with respect to our internal control system are reasonable. In addition, we have not found any matters that should be noted regarding the contents of the business reports and the performance of duties by Directors in relation to the internal control system.

(2) Results of audit of financial statements and supporting schedules

We confirm that the method used by KPMG AZSA LLC, Accounting Auditor of the Company, for this audit and the results thereof are reasonable.

(3) Results of audit of consolidated financial statements

We confirm that the method used by KPMG AZSA LLC, Accounting Auditor of the Company, for this audit and the results thereof are reasonable.

May 10, 2011

Board of Corporate Auditors, Dainippon Sumitomo Pharma Co., Ltd.

Ikuo Hino, Corporate Auditor (full-time) (seal)

Nobuo Takeda, Corporate Auditor (full-time) (seal)

Toshiyuki Aoki, Corporate Auditor (seal)

Masahiro Kondo, Corporate Auditor (seal)

Harumichi Uchida, Corporate Auditor (seal)

Note: Auditors Toshiyuki Aoki, Masahiro Kondo, and Harumichi Uchida are Outside Corporate Auditors.

## References Concerning the Shareholders' Meeting

Proposals and Matters for Reference:

### **First Proposal: Appropriation of Surplus**

The allocation of the Company's profits in a customarily appropriate manner to its shareholders is one of the Company's fundamental management policies.

In addition to stressing the distribution of surplus in a manner that reflects the Company's performance, the Company intends to make decisions on distribution from a comprehensive standpoint, while actively investing in its future growth, ensuring a solid management base and enhancing its financial condition to further increase its enterprise value. The Company believes that it is important to allocate profits to its shareholders in a consistent manner.

Based on such policy, and in view of the financial condition and business outcome of the closed fiscal year, as well as certain future business plans to be implemented, we hereby propose to appropriate the surplus at the end of the 191<sup>st</sup> fiscal year as follows.

1. Matters related to the year-end dividend
  - (1) Category of property for distribution:

Money
  - (2) Matters related to the allocation of the property for distribution to the shareholders, and the aggregate amount of the dividend:

Nine (9) yen per share of common stock of the Company (3,575,816,874 yen in aggregate)

Therefore, the annual dividend, including the interim dividend, shall be eighteen (18) yen per share.
  - (3) The date on which the said distribution of surplus will take effect:

June 27, 2011

## Second Proposal: Election of Eight (8) Directors

The term of office of all the current Directors (8 persons) of the Company will expire at the conclusion of this Shareholders' Meeting.

Therefore, we would like you to elect eight (8) Directors.

The candidates for Directors are as follows:

Candidate No.	Name (Date of birth)	Summary of Profile, Position(s), Responsibilities and Significant Position(s) Held Concurrently	Number of Shares of the Company Owned
1	Masayo Tada (Jan. 13, 1945)	<p>April 1968: Joined Sumitomo Chemical Co., Ltd.</p> <p>June 1998: Director of Sumitomo Chemical Co., Ltd.</p> <p>June 2002: Managing Director of Sumitomo Chemical Co., Ltd.</p> <p>June 2003: Retired from the position of Director of Sumitomo Chemical Co., Ltd.</p> <p>June 2003: Managing Executive Officer of Sumitomo Chemical Co., Ltd.</p> <p>January 2005: Retired from the position of Managing Executive Officer of Sumitomo Chemical Co., Ltd.</p> <p>January 2005: Managing Executive Officer of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>January 2005: In charge of the Merger Promotion Office of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2005: Director of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>October 2005: Member of the Board of Directors, and Vice President of the Company</p> <p>October 2005: In charge of Merger Promotion and Purchasing; and Executive Director of the Non-Pharmaceutical Operations Division of the Company</p> <p>June 2006: In charge of Mid-term Corporate Plan Development; Assistant to the Executive Director of the Sales and Marketing Division; and Executive</p>	68,300 shares

		<p>Director of the Non-Pharmaceutical Operations Division of the Company</p> <p>April 2007: Assistant to the Executive Director of the Sales and Marketing Division; and Executive Director of the Non-Pharmaceutical Operations Division of the Company</p> <p>June 2007: Member of the Board of Directors, and Executive Vice President of the Company</p> <p>June 2007: In charge of Corporate Planning, International Business Management, and the Sales and Marketing Division of the Company</p> <p>June 2008: Representative Director, President and Chief Executive Officer of the Company (up to the present)</p> <p>[Significant Positions Held Concurrently]</p> <p>Member of the Board of Directors of DS Pharma Animal Health Co., Ltd.</p> <p>Member of the Board of Directors of Sunovion Pharmaceuticals Inc.</p>	
2	Keiichi Ono (Jan. 22, 1947)	<p>April 1971: Joined Sumitomo Chemical Co., Ltd.</p> <p>September 1984: Retired from Sumitomo Chemical Co., Ltd.</p> <p>October 1984: Joined the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2000: Director of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>April 2001: General Manager of the Product Development Division of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2004: Director and Executive Officer of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2004: General Manager of the Product Development Division; and in charge of Intellectual Property of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>October 2005: Member of the Board of</p>	25,300 shares

		<p>Directors, and Executive Officer of the Company</p> <p>October 2005: Executive Director of the Drug Development Division of the Company</p> <p>June 2007: Executive Director of the Drug Development Division; and in charge of Portfolio and Product Strategy Planning of the Company</p> <p>June 2008: Member of the Board of Directors, and Senior Executive Officer of the Company (up to the present)</p> <p>June 2008: Executive Director of the Drug Research Division; and in charge of Intellectual Property of the Company</p> <p>June 2010: In charge of Corporate Communications, Intellectual Property, and the Drug Research Division of the Company</p> <p>May 2011: In charge of Corporate Communications, Intellectual Property, Earthquake Disaster Reconstruction Support, and the Drug Research Division of the Company (up to the present)</p>	
3	Kazumi Okamura (Dec. 8, 1946)	<p>April 1969: Joined Sumitomo Chemical Co., Ltd.</p> <p>March 2004: Retired from Sumitomo Chemical Co., Ltd.</p> <p>April 2004: Joined the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2004: Executive Officer of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2004: In charge of General Affairs and Personnel / Accounting and Finance of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>December 2004: In charge of General Affairs and Personnel / Accounting and Finance / Information Systems Planning of the former Sumitomo Pharmaceuticals Co., Ltd.</p>	27,300 shares

		<p>October 2005: Executive Officer of the Company</p> <p>October 2005: In charge of Finance and Accounting, and Information Systems of the Company</p> <p>June 2006: Member of the Board of Directors, and Executive Officer of the Company</p> <p>June 2006: In charge of Public Relations, Finance and Accounting, Information Systems, and Purchasing for the Company</p> <p>June 2007: In charge of Environment and Corporate Social Responsibility, Finance and Accounting, and Purchasing for the Company</p> <p>June 2008: Member of the Board of Directors, and Senior Executive Officer of the Company (up to the present)</p> <p>June 2008: In charge of Legal Affairs, Environment and Corporate Social Responsibility, Personnel, General Affairs, and Osaka Center General Affairs of the Company</p> <p>January 2010: In charge of Legal Affairs, Environment and Safety, Personnel, General Affairs, and Osaka Administration of the Company (up to the present)</p>	
4	Hiroshi Noguchi (Mar. 29, 1947)	<p>April 1971: Joined Sumitomo Chemical Co., Ltd.</p> <p>September 1992: Retired from Sumitomo Chemical Co., Ltd.</p> <p>October 1992: Joined the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2000: Director of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2000: In charge of Business Planning and Promotion of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2002: In charge of Corporate Planning (Licensing, Business Promotion,</p>	32,200 shares

		<p>Technology) / Quality Management / Environmental Management of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2004: Director and Executive Officer of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2004: In charge of Quality Management / Medical Information / Environmental Management of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>June 2005: Retired from the position of Director of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>October 2005: Executive Officer of the Company</p> <p>October 2005: Executive Director of the Technology Research and Development Center of the Company</p> <p>June 2007: Member of the Board of Directors, and Executive Officer of the Company</p> <p>June 2007: Executive Director of the Technology Research and Development Center; and in charge of the Licensing Division of the Company</p> <p>June 2008: Executive Director of the Manufacturing Division; and in charge of the Technology Research and Development Division of the Company</p> <p>June 2009: Member of the Board of Directors, and Senior Executive Officer of the Company (up to the present)</p> <p>June 2010: Executive Director of the Strategic Planning and Business Development Division; and in charge of Corporate Planning of the Company (up to the present)</p> <p>[Significant Position Held Concurrently]</p> <p>Member of the Board of Directors of Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.</p>	
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5	Yoshihiro Okada (Nov. 7, 1952)	<p>April 1975: Joined the Company</p> <p>June 2001: Head of the London Office of the Company</p> <p>June 2003: Director of Development Management of the Company</p> <p>October 2005: Director of Clinical Development I of the Company</p> <p>June 2007: Deputy Executive Director of the Drug Development Division of the Company</p> <p>June 2008: Executive Officer of the Company</p> <p>June 2008: Executive Director of the Drug Development Division of the Company (up to the present)</p> <p>June 2010: Member of the Board of Directors, and Executive Officer of the Company (up to the present)</p>	16,600 shares
6	Tetsuya Oida (Feb. 12, 1954)	<p>April 1980: Joined the Company</p> <p>June 2001: General Manager of the International Clinical Development Department of the Company</p> <p>June 2003: General Manager of the Corporate Planning Office of the Company</p> <p>June 2004: Director and Executive Officer of the Company</p> <p>June 2004: General Manager of the Corporate Planning Office; and in charge of Public Relations of the Company</p> <p>December 2004: General Manager of the Corporate Planning Office; General Manager of the Merger Promotion Office; and in charge of Public Relations of the Company</p> <p>June 2005: Director of Corporate Planning; Director of the Merger Promotion Office; and in charge of Public Relations of the Company</p> <p>October 2005: Director of Corporate Planning of the Company</p> <p>June 2006: Director of Corporate Planning; and in charge of Portfolio and Product Strategy Planning, and Licensing of</p>	11,900 shares

		<p>the Company</p> <p>June 2007: Executive Director of the Non-Pharmaceutical Operations Division; Director of Animal Health Products; in charge of Information Systems; and in charge of Quality Assurance (Non-Pharmaceutical Products) of the Company</p> <p>October 2007: Executive Director of the Non-Pharmaceutical Operations Division; Director of Animal Health Products; and in charge of Information Systems of the Company</p> <p>June 2008: Member of the Board of Directors, and Senior Executive Officer of the Company</p> <p>June 2008: Executive Director of the Non-Pharmaceutical Operations Division; and in charge of Purchasing for the Company</p> <p>June 2008: Member of the Board of Directors of the Company (up to the present)</p> <p>[Significant Positions Held Concurrently]</p> <p>Representative Director and President of DSP Gokyo Food and Chemical Co., Ltd</p> <p>Representative Director and Chairman of Sanno Foods Co., Ltd.</p>	
7	Makoto Hara (Mar.15, 1951)	<p>April 1974: Joined Sumitomo Chemical Co., Ltd.</p> <p>April 1999: General Manager of the Corporate Planning Office of the former Sumitomo Pharmaceuticals Co., Ltd.</p> <p>August 1999: General Manager of the Corporate Planning Office of the former Sumitomo Pharmaceuticals Co., Ltd.; and General Manager of the Pharmaceuticals Business Planning and Coordination Office of Sumitomo Chemical Co., Ltd.</p> <p>April 2003: General Manager of the Planning and Coordination Office - Petrochemicals and Plastics Sector of</p>	7,100 shares

		<p>Sumitomo Chemical Co., Ltd</p> <p>June 2005: Executive Officer of Sumitomo Chemical Co., Ltd.</p> <p>June 2005: In charge of the Corporate Planning and Coordination Office, and the Finance and Accounting Office; and General Manager of the Finance and Accounting Office (Finance and Accounting) of Sumitomo Chemical Co., Ltd.</p> <p>June 2007: In charge of the Corporate Planning and Coordination Office, and the New Business Development Office; and General Manager of the New Business Development Office of Sumitomo Chemical Co., Ltd.</p> <p>December 2007: In charge of the Corporate Planning and Coordination Office, and the New Business Development Office of Sumitomo Chemical Co., Ltd.</p> <p>March 2008: In charge of the Corporate Planning and Coordination Office, the New Business Development Office, the Rabigh Project - Planning &amp; Coordination Office, and the Rabigh Project Office of Sumitomo Chemical Co., Ltd.</p> <p>April 2008: Managing Executive Officer of Sumitomo Chemical Co., Ltd.</p> <p>April 2010: In charge of the Rabigh Project - Planning &amp; Coordination Office, and the Rabigh Project Office of Sumitomo Chemical Co., Ltd.</p> <p>April 2010: Senior Managing Executive Officer of Sumitomo Chemical Co., Ltd.</p> <p>August 2010: Retired from the position of Senior Managing Executive Officer of Sumitomo Chemical Co., Ltd.</p> <p>September 2010: Senior Executive Officer of the Company (up to the present)</p> <p>September 2010: Executive Director of the</p>	
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		Global Business Division of the Company (up to the present)	
8	Masaru Ishidahara (Nov. 25, 1951)	<p>April 1976: Joined The Sumitomo Bank, Limited (presently Sumitomo Mitsui Banking Corporation)</p> <p>October 1999: General Manager of the Itachibori Corporate Business Office of The Sumitomo Bank, Limited</p> <p>June 2003: Retired from The Sumitomo Bank, Limited</p> <p>July 2003: Joined the Company</p> <p>June 2006: Director of General Affairs of the Company</p> <p>June 2008: Executive Officer of the Company (up to the present)</p> <p>June 2008: Director of Personnel; and in charge of Career Development Support of the Company</p> <p>June 2010: Director of Personnel; and in charge of Career Development Support, and Procurement of the Company (up to the present)</p>	4,600 shares

- (Notes)
1. None of the above candidates has any special interest in the Company.
  2. The positions and responsibilities in the parent company, etc., for the past five (5) years, of Makoto Hara, are as described in the “Summary of Profile, Position(s), Responsibilities and Significant Position(s) Held Concurrently”.

### Third Proposal: Election of One (1) Corporate Auditor

Corporate Auditor Toshiyuki Aoki will resign from the office of Corporate Auditor at the conclusion of this Shareholders' Meeting.

Therefore, we would like you to elect one (1) Corporate Auditor.

The Board of Corporate Auditors has already approved this proposal.

The candidate for Corporate Auditor is as follows.

Name (Date of birth)	Summary of Profile, Position(s), Responsibilities and Significant Position(s) Held Concurrently	Number of Shares of the Company Owned
Hidehiko Sato (Apr. 25, 1945)	<p>April 1968: Joined the National Police Agency</p> <p>August 1986: Counselor of the Second Department of the Cabinet Legislation Bureau</p> <p>April 1992: Director General of the Criminal Investigation Bureau of the Metropolitan Police Department</p> <p>February 1995: Chief of the Saitama Prefectural Police Headquarters</p> <p>December 1996: Director General of the Criminal Investigation Bureau of the National Police Agency</p> <p>January 1999: Chief of the Osaka Prefectural Police Headquarters</p> <p>January 2000: Deputy Commissioner General of the National Police Agency</p> <p>August 2002: Commissioner General of the National Police Agency</p> <p>August 2004: Retired from the National Police Agency</p> <p>February 2005: President of the Police Personnel Mutual Aid Association</p> <p>November 2010: Retired from the Police Personnel Mutual Aid Association</p> <p>January 2011: Advisor of Imperial Hotel, Ltd. (up to the present)</p> <p>February 2011: Advisor of The Bank of Tokyo-Mitsubishi UFJ, Ltd. (up to the present)</p>	0 share

(Notes) 1. The above candidate has no special interest in the Company.

2. Mr. Hidehiko Sato is a candidate for Outside Corporate Auditor as defined in Item 8, Paragraph

3, Article 2 of the Ordinance for Enforcement of the Companies Act. The Company intends to designate Mr. Sato as an Independent Auditor, as defined by Tokyo Stock Exchange, Inc. and Osaka Securities Exchange Co., Ltd., and to report the same to the said exchanges.

3. The reasons for recommending the election of the aforementioned person as an Outside Corporate Auditor are as follows:

Mr. Hidehiko Sato has a great deal of experience and a wide range of knowledge acquired in the course of his career during which he held various positions such as the Counselor of the Cabinet Legislation Bureau and the Commissioner General of the National Police Agency. The Company recommends his election as an Outside Corporate Auditor in the hope that he will help strengthen the auditing system of the Company with his experience and knowledge. Although Mr. Sato has not been involved in company management, the Company believes that he will be able to appropriately perform his duties as an Outside Corporate Auditor based on the aforementioned reasons.

4. The summary of the agreement with this candidate for Outside Corporate Auditor, which limits his liability, is as follows:

Upon the approval of the election of Mr. Hidehiko Sato as an Outside Auditor, pursuant to Paragraph 1, Article 427 of the Companies Act and Article 33 of the Articles of Incorporation of the Company, the Company intends to enter into an agreement with Mr. Sato, which will limit his liability for damages caused by his failure to perform his services. Under the terms of the agreement, Mr. Sato's liability will be limited to either an amount specified in advance, which will not be less than 10 million yen, or the amount stipulated under applicable laws and regulations, whichever is higher.

**[Instructions for Voting by Electromagnetic Methods (the Internet, etc.)]**

*\*Please be reminded that the online voting website and phone inquiries services are available only in Japanese.*

**1. To Shareholders Who Will Use the Internet**

Please note the following matters if you chose to exercise your voting rights via the Internet.

- (1) Online voting is possible only by accessing the following online voting website designated by the Company. This website is available through the Internet via cellular phone also.

[Online voting website URL] <http://www.webdk.net>

**\*You may also access the online voting website by scanning the two-dimensional code on the right if your cellular phone is equipped with a barcode reader. For more detailed instructions on this procedure, please refer to the user manual of your cellular phone.**

2D  
Code

- (2) When you vote online, please enter the “voting code” and the “password” provided in the enclosed voting form, and indicate your approval or disapproval of the proposals by following the instructions displayed on the screen.
- (3) Online votes will be accepted until 5:00 p.m., Thursday, June 23, 2011 (JST), the day immediately prior to the date of the Annual Shareholders’ Meeting. However, your early voting would be highly appreciated for the convenience of vote counting.
- (4) In the event that a voting right is exercised twice via the enclosed voting form and online, only the online vote shall be counted as an effective vote.
- (5) In the event that a voting right is exercised online more than once, only the most recent vote shall be counted as an effective vote.
- (6) Shareholders shall bear the connection charges of the Internet providers and the communication charges of the telecommunications carriers (telephone charges, etc.) for accessing the online voting website.
- (7) The following system environments are required for accessing the online voting website:
- (i) Internet access;
  - (ii) When voting via PC, either Microsoft® Internet Explorer version 6.0 or above as the Internet browsing software (browser), and a hardware environment that enables the use of the relevant browser; and
  - (iii) When voting via cellular phone, a handset model that supports 128-bit SSL communication (encrypted communication). (To ensure security, only cellular phones that support 128-bit SSL communication may access the online voting website. Some models do not support this system. Additionally, although voting via smart phones and other cellular phones with full browser functionality is also supported, please note that some models may not be compatible with this system.)  
(Microsoft is a registered trademark of Microsoft Corporation in the United States and other countries.)
- (8) If you have any question related to online voting, please contact the following for inquiry services.

**Shareholder Registry Administrator:**

**Stock Transfer Agency Department, The Sumitomo Trust & Banking Co., Ltd.**

[Special Phone Line] ☎ 0120-186-417

(9:00 a.m. to 9:00 p.m. (JST), toll-free within Japan)

**2. Electronic Voting Platform for Institutional Investors**

In addition to the aforementioned online voting method, nominee shareholders (including any standing proxy) such as trust banks who have registered beforehand for the use of the electronic voting platform operated by ICJ, Inc., a joint venture established by the Tokyo Stock Exchange, Inc., among others, may use the said platform as a means of exercising their voting rights by electromagnetic method for the Annual Shareholders' Meeting of the Company.

End