DAINIPPON SUMITOMO PHARMA

True Quality

Dainippon Sumitomo Pharma Co., Ltd.

Annual Report 2006

For the year ended March 31, 2006

DAINIPPON SUMITOMO PHARMA

True Quality

In October 2005, Dainippon Sumitomo Pharma Co., Ltd. was formed through the merger of Dainippon Pharmaceutical Co., Ltd. and Sumitomo Pharmaceuticals Co., Ltd. The decision to merge was based on a firm conviction that this move would allow the two companies to capture significant synergies by sharing a common management philosophy, business strategies and sense of urgency. Our aim is to create a company that can reinforce the earnings base of the domestic pharmaceutical business, strengthen the quality and increase the capacity of R&D operations based on steady cash flows, increase the speed of product development and expand overseas businesses over the long term. With these goals in mind, we will speed up management processes to achieve sustained growth in corporate value.

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Disclaimer Regarding Forward-looking Statements

The forward-looking statements in this Annual Report are based on management's assumptions and beliefs in light of information available up to the date of publication , and involve both known and unknown risks and uncertainties.

Actual financial results may differ materially from those presented in this document, being dependent on a number of factors.

Information concerning pharmaceuticals (including compounds under development) contained within this material is not intended as advertising or medical advice.

To realize our vision of becoming "an innovative pharmaceutical company with a strong market presence," the Company believes it is essential to win the trust of society and increase its competitiveness. The Company expresses its mission and social significance in its Corporate Mission; its management goals and creed in its Management Mission; and its core guiding principles in the form of Values.

Corporate Mission

To broadly contribute to society through value creation based on innovative research and development activities for the betterment of healthcare and fuller lives of people worldwide

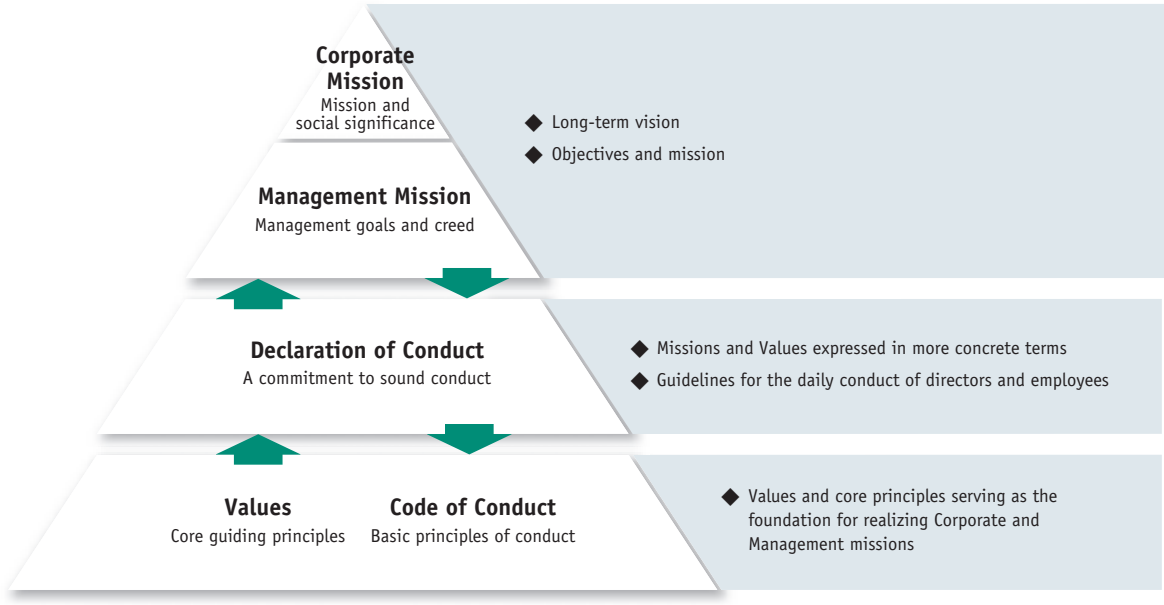
Management Mission

- To contribute to healthcare and people's well-being based upon the principles of patient-oriented management and innovative research
- To continuously strive to maximize corporate value through constant business development and to fulfill shareholder expectations
- To create an environment in which employees can fulfill their potential and increase their creativity
- To maintain the trust of society and to contribute to the realization of a better global environment

Values

1. Trust 2. Compliance 3. Transparency 4. Fairness 5. Innovation

Corporate Mission, Management Mission, Values and More



Message From the Chairman and President

Our New Beginning

Together with the rapid realization of integration synergies, Dainippon Sumitomo Pharma (DSP) aims to actualize its vision of becoming "an innovative pharmaceutical company with a strong market presence."

Yasuo Okamoto, Chairman **Kenjiro Miyatake,** President

MERGER OBJECTIVES AND FORECAST SYNERGIES

In October 2005, DSP commenced operations anew following the merger of Dainippon Pharmaceutical Co., Ltd. and Sumitomo Pharmaceuticals Co., Ltd. To remain competitive amid the increasingly challenging pharmaceutical business environment, it is essential that we strengthen our domestic earnings base and R&D capabilities, while achieving global business expansion. The decision to proceed with the merger reflected our mutual belief that significant synergies could be captured through our commonalities in management philosophy, business strategy and awareness of the urgency for change.

Following the merger, we have focused on expanding DSP's domestic market presence through our network of 1,500 MRs (Medical Representatives)—which now provides us with nationwide sales coverage—and the introduction of a specialist MR system in specialist fields, such as CNS (the central nervous system). DSP has also been pursuing cost synergies through reductions in personnel costs; increasing drug development efficiency by implementing a Project System and conducting prioritization evaluations of projects; the unification of procurement operations; and the consolidation and closure of business sites. Furthermore, it is anticipated that the fusion of different corporate cultures and histories, as well as their respective philosophies and techniques, will continue to be a significant source of stimulus for new ideas. Through the rapid realization of marketing, cost and knowledge synergies, a strengthened domestic operating base, and the careful consideration and pursuit of concrete initiatives to expand overseas operations, we aim to actualize our vision for DSP as "an innovative pharmaceutical company with a strong market presence."

OPERATING RESULTS IN THE FISCAL YEAR ENDED MARCH 31, 2006

DSP reported large increases in both net sales and earnings in the fiscal year ended March 31, 2006, reflecting the greater scale of operations in the second half of the fiscal year following the merger as well as the benefits of certain merger-derived synergies. Net

Financial Highlights

	Millions of Yen		Percent Change	Thousands of U.S. Dollars (Note 1)
	2006	2005	2006/2005	2006
For the Year:				
Net sales	¥245,784	¥175,088	40.4%	$2,100,718
Operating income	28,886	11,585	149.3	246,889
Net income	15,377	6,924	122.1	131,427
R&D costs	29,636	17,444	69.9	253,299
Capital expenditures	6,616	3,064	115.9	56,547
Depreciation and amortization	8,901	5,233	70.1	76,077
At Year-End:				
Total assets	392,966	201,431	95.1	3,358,684
Shareholders' equity	287,764	134,649	113.7	2,459,521
	Yen			U.S. Dollars (Note 1)
Per Share of Common Stock:				
Net income	¥ 54.57	¥ 41.76	30.7	$ 0.47
Cash dividends	12.00	10.00	20.0	0.10
	%			
Key Ratios:				
Return on equity (ROE)	7.3%	5.2%		
Return on assets (ROA)	5.2	3.5		

Notes 1: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥117 to U.S.$1, the approximate rate of exchange at March 31, 2006.

2: Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and consolidated subsidiaries made reclassifications to recognize royalty income as net sales from fiscal years beginning on or after April 1, 2005. In accordance with this reclassification, financial highlights of 2005 have been reclassified.

sales were ¥245.8 billion, up 40.4% year on year; operating income was ¥28.9 billion, up 149.3%; and net income was ¥15.4 billion, an increase of 122.1%. On the basis of comparing the simple sums of the results of the merged companies, net sales were up 0.2% at ¥318.2 billion, operating income increased 12.9% to ¥44.7 billion, and net income rose 11.6% to ¥25.3 billion. Based on these results we are pleased to say that DSP has made a strong start without any disruptions caused by the merger.

OUR VISION FOR DSP

By leveraging innovative and creative R&D capabilities, superior quality and manufacturing techniques that engender trust in our products, and one of Japan's leading domestic marketing capabilities to provide accurate and timely drug information, DSP is committed to doing its utmost to satisfy people's desire to lead healthy and fulfilling lives. It is furthermore our resolve to meet the expectations of all stakeholders by delivering sustained growth in corporate value through constant business development.

We look forward to your continued support as we endeavor to reach our goals.

August 2006

Yasuo Okamoto, Chairman

Kenjiro Miyatake, President

An Interview with the President

Kenjiro Miyatake, President

Through the realization of integration synergies such as our greatly enhanced marketing capability, Dainippon Sumitomo Pharma is endeavoring to solidify a strong operating base in the domestic market, enhance its R&D capabilities, and launch a steady stream of innovative new pharmaceuticals.

Q1. WHAT IS YOUR BASIC STRATEGY FOR SUCCEEDING IN AN INCREASINGLY COMPETITIVE BUSINESS ENVIRONMENT?

As we seek to realize our vision for Dainippon Sumitomo Pharma, I believe it is essential that we have a highly responsive management team that can rapidly realize the marketing, cost and knowledge synergies created by the merger process and, based on an optimal organizational structure, can effectively invest resources in R&D. To this end, initially, efforts will be focused on achieving our targets announced at the time of the merger for the fiscal year ending March 31, 2008, that is, net sales of ¥280.0 billion and operating income of ¥50.0 billion. Having positioned enhanced customer satisfaction as the base of our marketing strategy to guide our 1,500 MRs (Medical Representatives), marketing resources are now focused on our four main products—AMLODIN®, a therapeutic agent for hypertension and angina pectoris; GASMOTIN®, a gastroprokinetic agent; PRORENAL®, a vasodilator; and MEROPEN®, a carbapenem antibiotic—with sales of more than ¥110.0 billion targeted from these four main products in the fiscal year ending March 31, 2008. Using the stable cash flows generated by these sales, we will further strengthen R&D capabilities in order to launch a steady stream of innovative pharmaceuticals.

Financial Performance Targets

(Billions of yen)

	Fiscal year ended March 31, 2006 (Simple aggregate)	Fiscal year ending March 31, 2007 (planned)	Fiscal year ending March 31, 2008 (target)
Net sales	¥318.2	¥260.0	¥280.0
Sales of four main products	99.9	105.5	Over 110.0
R&D costs	41.8	42.0	45.0
Operating income	44.7	41.0	50.0

Q2. HOW HAS INTEGRATION PROGRESSED OVER THE SIX MONTHS SINCE THE MERGER?

My impression is that integration has proceeded far more smoothly than was originally anticipated.

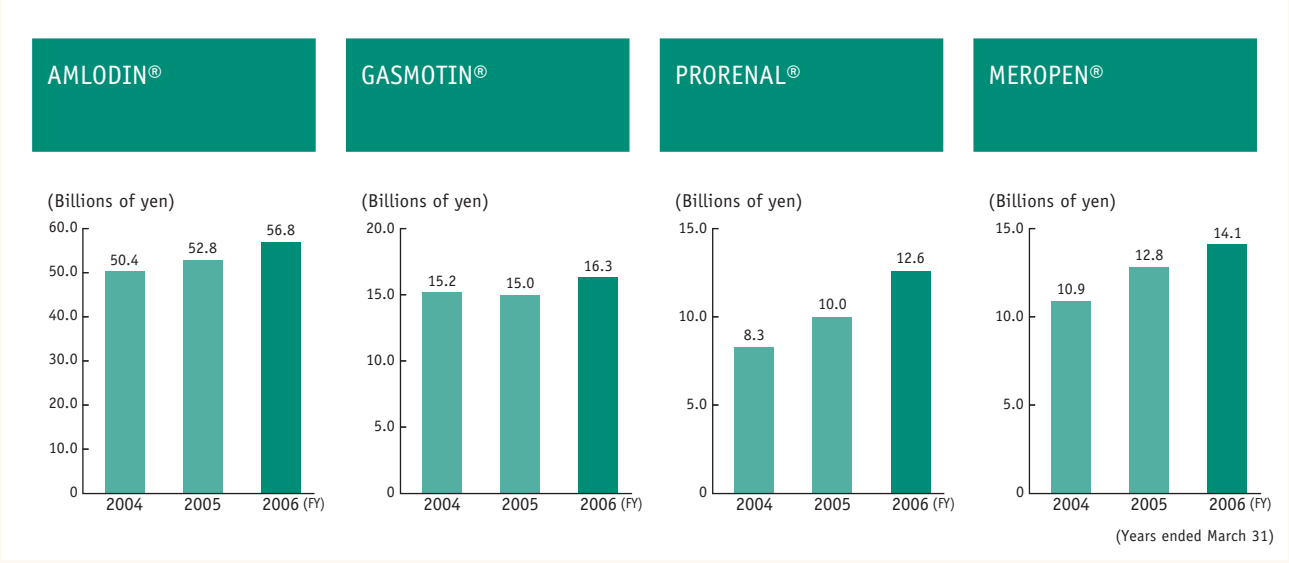
Integration of the Sales and Marketing Division, in particular with respect to the MR system, was facilitated by co-promotion of EBASTEL® OD tablets prior to the merger creating Dainippon Sumitomo Pharma (DSP). Since August 2005, training programs on the four core products were held for MRs in both of the merging companies. Following the merger, a marketing system that gave top priority to frequent visits and achieving a smooth transfer of site representation was implemented, where two MRs—one from each of the merged companies—were assigned to each client medical institution. The result has been a strong start for DSP, without any disruptions caused by the merger. In the fiscal year ended March 31, 2006, sales of each of the main products increased from the previous fiscal year, having increased in total 10.2% year-on-year to around ¥100 billion.

Focusing on costs, DSP offered a re-employment assistance plan in April 2006 that attracted 124 applicants. This program is projected to reduce personnel costs by over ¥1 billion annually. By continuing to reduce personnel levels, we aim to reduce personnel costs by more than ¥4.0 billion by the fiscal year ending March 31, 2008. In other initiatives to raise the efficiency of R&D activities, a Project System has been introduced horizontally across the Company's divisions to conduct prioritization evaluations of projects.

Moreover, integration of core information systems, unification of the procurement functions for facilities and equipment, sales-related materials, reagents and other items, and consolidations and closures related to Head Office and sales network sites were all completed in the fiscal year ended March 31, 2006.

In the fiscal year ending March 31, 2007, we aim to further maximize synergies from the integration process by progressing with the remaining issues related to the integration process. This will entail the integration of the production, sales, and logistics systems, the concentration of logistics bases, and the unification of the personnel systems.

Sales of Four Main Products in Japan



Q3. CAN YOU DISCUSS DSP'S MARKETING STRATEGY FOR THE DOMESTIC MARKET, YOUR PRIMARY SOURCE OF INCOME?

As I mentioned, we have positioned enhanced customer satisfaction as the base of our marketing strategy. I believe that trust and reliability are the two most important characteristics required of a pharmaceutical company, because of the ability of our drug products to directly impact on people's health. To maintain and further build on the trust and reputation for reliability established by the merged companies over many years with customers, we will further develop our MR's capability to meet the demands for increasingly sophisticated product knowledge from medical professionals, while continuing to provide appropriate feedback on side effects and other relevant information.

In April 2006, the system of assigning two MRs to each medical institution ended and was replaced with a system that, as a rule, assigns one MR per client medical institution, thereby allowing for the realization of the maximum potential of DSP's 1,500 MRs. Resources will be concentrated on six primary products, namely our four main products, as well as EBASTEL® and SEIBULE®. EBASTEL® OD tablets is a long-acting antiallergic agent for which an orally disintegrating tablet form was launched in July 2005, while SEIBULE® is an ameliorant for postprandial hyperglycemia due to diabetes that has been sold by Sanwa Kagaku Kenkyusho Co., Ltd. and co-promoted by DSP since January 2006. In addition, the therapeutic agent for systemic fungal infection, AmBisome®, was launched in June 2006, followed by the orally disintegrating tablet, AMLODIN® OD tablets, in July 2006. Additionally, SMP-536, a treatment for Fabry's disease, is to be launched within the fiscal year ending March 31, 2007. Efforts

Main Drug Research Areas

Dainippon	+	Sumitomo	→	Dainippon Sumitomo
Cardiovascular (Diabetes)		Cardiovascular/ Metabolic (Diabetes)		Diabetes
				Cardiovascular
CNS		CNS		CNS
Immunology/ Inflammation		Inflammation/ Immunology/Allergy		Inflammation/Allergy
Infection		Oncology/Infection		Oncology/Infection

will also be focused on these new products to achieve our sales targets for the current fiscal year.

I believe that the key point to increasing marketing efficiency and productivity is a combination of the number of MRs, their quality and the support functions available to them. With 1,500 MRs, DSP has a sufficiently large marketing team, but our next priority will be to enhance their quality through integrated management of MRs spanning personnel systems to training programs. By working to put in place backup support systems by appointing area marketing managers and instructors, as well as establishing support groups nationwide, we plan to raise the productivity of each and every MR.

Q4. WITH R&D AS A DRIVING FORCE BEHIND DSP'S FUTURE GROWTH, CAN YOU COMMENT ON WHAT ACTIONS ARE BEING TAKEN TO STRENGTHEN THE COMPANY'S R&D CAPABILITIES?

I believe that to realize our vision for DSP as a company that can not only survive but grow in an increasingly competitive environment, it is crucial that the Company concentrate its resources in its main areas of strength and establish its own competitive advantage. Having positioned diabetes and CNS—previously, both common R&D fields of the now merged companies—as main areas, DSP has an opportunity to leverage a wide-base of specialist expertise in these fields gained through a diversity of experiences over many years in drug development and product marketing. We will continue to further concentrate resource allocation in these areas through initiatives, such as redirecting the focus of researchers' efforts, with the aim of becoming the domestic market leader in these fields.

Given DSP's greater capital base following the merger, we will be more aggressive when investing in R&D. In doing so, we also aim to optimize the R&D portfolio in two ways. Firstly, by raising the efficiency of the R&D pipeline through prioritizing products under development and then secondly, by raising the efficiency and speed of R&D through concentrated resource allocation on strategic projects from the early stages of development, supported by optimal judgments on whether to continue further development or not.

Other priorities to accelerate R&D activities include further leveraging core drug discovery technologies, such as genomics and bioinformatics technologies established by DSP, and expanding alliances with research institutes, universities and biotechnology ventures in Japan and overseas.

Meanwhile, we will actively in-license drug products to complement our R&D pipeline. Beginning with the in-licensing of SMP-862 (metformin hydrochloride) from Merck Santé SAS in March 2003, we have been strategically in-licensing products in the diabetes area. In the fiscal year ended March 31, 2005, products were licensed from two companies in the diabetes area, namely Novo Nordisk A/S and Kissei Pharmaceutical Co., Ltd. Through these and other steps, we are steadily establishing a system to supply frontline medical professionals with our existing drug products alongside our new diabetes treatments with differing modes of action.

Amid growing difficulties to develop new drugs around the world, product life cycle management is also another key strategic theme.

Q5. OVERSEAS BUSINESS DEVELOPMENT IS A TOPIC THAT IS ON THE MINDS OF MANY. WHAT IS YOUR STRATEGY IN THIS RESPECT?

I believe that overseas expansion is essential for DSP to achieve further growth. Currently, the only overseas market where we have already developed a business base is China. However, the merger has significantly strengthened DSP's operating base, giving us more resources to achieve what was previously difficult on a stand-alone basis. As part of our overseas strategy, a new department named the International Business Management Department was established in June 2006 to take initiatives in expanding our businesses overseas over the medium-to-long term, which includes the possible establishment of a presence with our own sales force in the U.S. market.

Q6. CAN YOU DISCUSS YOUR PHILOSOPHY AND APPROACH TO CORPORATE GOVERNANCE?

DSP recognizes that strengthening corporate governance is a key managerial issue that must be addressed to earn the trust of shareholders and other stakeholders, as well as ensure sustained growth in corporate value.

The organizational structure of the Company currently follows the corporate auditor model. With the introduction of an executive officer system, the Company aims to separate management oversight and operational execution in a way that promotes the delegation of authority while clarifying lines of operational responsibility, thereby realizing a faster and more transparent decision-making process. The Company views this as an initial step in an ongoing program to improve the quality of corporate governance.

The management structure of the DSP comprises a Management Committee, which deliberates on important business matters, guided by the basic policies that have been provided by the Board of Directors; the Executive Committee, which ensures that top managers are fully aware of the operational status of the business and related important matters; and the Audit Committee, which discusses and decides important audit-related matters and also previews agenda items for meetings of the Board of Directors. DSP has formulated basic policies to guide the establishment of internal control systems, based on the stipulations of the Company Law and the regulations pertaining to its enforcement. Future plans call for further development of the system of internal controls at the Company along with measures to improve its quality.

Q7. WHAT IS YOUR POLICY ON RETURNING PROFITS TO SHAREHOLDERS?

Our basic profit distribution policy has been to pay steady dividends to shareholders. Moving forward, one of our highest priorities will be to appropriately return profits to shareholders at all times, as we aim to further enhance corporate value.

In addition to retaining a strong operating base and enhancing our financial position, we will work hard to ensure that profits are distributed appropriately in line with operating results. Our goal is to raise the consolidated dividend payout ratio to 30% over the medium term.

Based on this basic policy, we increased the year-end dividend to ¥7 per share, including an ordinary dividend of ¥5 per share and a commemorative dividend of ¥2 to mark the favorable progress of the integration process following the merger. Therefore, including an interim dividend of ¥5 per share, the annual dividend for the fiscal year ended March 31, 2006 was ¥12 per share.

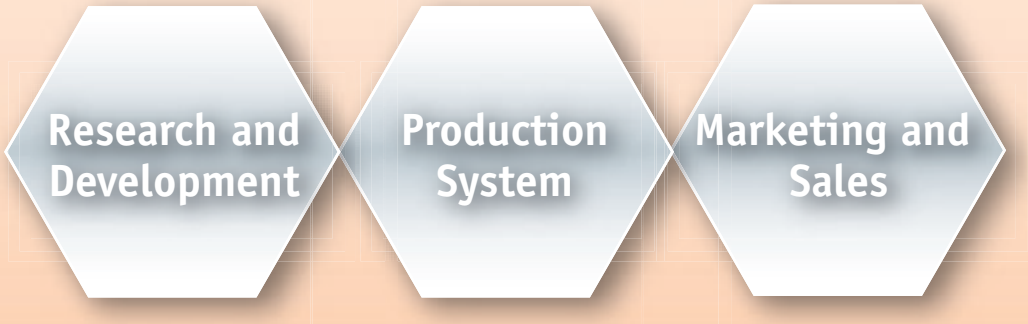
Q8. DO YOU HAVE ANY CLOSING REMARKS?

I believe that fiscal 2007 heralds the true beginning of DSP and will be a highly significant year. Since the announcement of the merger, I have stated both publicly and within the Company that my goal is to make DSP a company that provides aspirations and hope to younger people. In this context, the Mid-term Corporate Plan Development Department—which was established this May—brings together both younger and mid-career employees from each of the company's various divisions and other departments to formulate a mid-term corporate plan based on a lively exchange of views and opinions. The new mid-term corporate plan will cover the three-year period from the fiscal year ending March 31, 2008 to March 31, 2010 and is anticipated to be completed within the current fiscal year.

It is equally important that we foster a new corporate culture at DSP that does more than merely follow precedents. To realize our goal of being an innovative organization, I want at the core of DSP's new corporate culture to be a spirit where each employee, rather than fearing failure, is prepared to embrace all challenges.

True Quality

By enhancing quality at all stages of R&D, production, and marketing and sales in conjunction with strengthening cooperation between various divisions, we aim to become "an innovative pharmaceutical company with a strong market presence" that continuously creates new pharmaceuticals.



Research and Development

The Company's R&D activities are conducted on a project basis through collaboration among the Drug Research Division—which is responsible for drug discovery research; the Technology Research and Development Center—which oversees the technical process of product development linking drug discovery to commercial production; and the Drug Development Division—which is responsible for clinical development.

R&D SYSTEM AND RESEARCH LABORATORIES

Central Research Laboratories

Osaka Research Center

Following the merger that created Dainippon Sumitomo Pharma, the R&D organization was concentrated in two locations: the Central Research Laboratories and Osaka Research Center. The personnel of the five research laboratories affiliated with the Drug Research Division (namely, the Chemistry Research Laboratories, Pharmacology Research Laboratories, Safety Research Laboratories, Pharmacokinetics Research Laboratories, and Genomic Science Laboratories) have been assigned to these locations based on research fields and their research roles. This system facilitates more efficient research activities by enabling researchers engaged in related fields to more closely communicate with one another.

R&D activities related to API (active pharmaceutical ingredients), product formulation and chemical analysis, as well as to quality assurance for investigational drugs, have been unified at the Technology Research and Development Center. This organization effectively concentrates all personnel necessary to operate as a unit specialized in investigational drug production. As a result, the Company is able to take an integrated global response to issues related to regulatory science.

Clinical Development has been concentrated in the Central Research Laboratories in Osaka and the Tokyo Branch Office, and combined with organizational reforms now has a more efficient development system. To conduct global clinical drug development based on closer cooperation between bases in Japan, the U.S. and Europe, the Company

integrated our overseas bases in April 2006 into Dainippon Sumitomo Pharma America, Inc. in the U.S. and Dainippon Sumitomo Pharma Europe Ltd. in Europe.

STRENGTHS IN THE MAIN R&D AREAS OF CNS AND DIABETES

Dainippon Sumitomo Pharma positions CNS (the central nervous system) and diabetes as its main R&D areas.

In the diabetes field, the Company is establishing a comprehensive pipeline of therapeutic agents with various modes of action at the research and discovery stages. By continuously advancing promising chemical compounds with new modes of action to the development stage, the Company will further enhance its R&D pipeline. In the CNS field, integration has further strengthened our research in monoamine and GABA/benzodiazepine receptor compounds, both traditional areas of expertise of the merged companies. With this, the Company is well positioned to pursue a multifaceted approach to its research into treatments for functional psychiatric conditions, such as schizophrenia, depression and anxiety—treatments for which there is likely to be an even greater social need in the future. The Company also focuses its research on dementia-related conditions, such as Alzheimer's disease.

At the drug development stage, the merger has also provided Dainippon Sumitomo Pharma with a seamless, powerful pipeline. This pipeline and the sharing of expertise developed by the merged companies will enable Dainippon Sumitomo Pharma to conduct faster, more efficient and higher-quality drug development in main R&D areas.

TOWARDS THE DISCOVERY AND LAUNCH OF HIGHLY COMPETITIVE DRUGS

To strengthen R&D capabilities in the Company's main R&D areas of CNS and diabetes, and to allow the discovery and production of highly competitive drug products, the Drug Research Division has sharply increased the number of researchers working on these key disorders as part of a review of the allocation of research-related resources. Furthermore, efforts are being made to actively form alliances with domestic and foreign research institutions, including universities, and with venture enterprises holding promising technologies, as well as to participate in government-led national healthcare projects. Notably, the Company's research laboratory at the Karolinska Institutet of Sweden (Karolinska Institutet and Sumitomo Pharmaceuticals Alzheimer Center; KASPAC) is seeing promising results emerge from drug discovery research into new treatments and the diagnosis of Alzheimer's disease, as well as exploratory research into biomarkers.

The ability to flexibly leverage leading-edge core technologies is essential to continuously creating new drugs. Dainippon Sumitomo Pharma is applying its extensive range of genomics technologies to investigate the modes of action of various compounds under development, and to conduct exploratory research into new biomarkers and drug discovery targets. These research efforts have delivered encouraging results. Furthermore, by systematically incorporating evaluation technologies for candidate compounds into drug discovery research through such means as initial pharmacokinetics and toxicity studies, the Company believes it can further shorten research periods.

The Technology Research and Development Center is concentrating its efforts on priority projects, as well as taking a strategic approach to product life-cycle management with the aim of maximizing product value.

The Drug Development Division accelerates the development of drug candidates that satisfy global medical needs and then aims to rapidly obtain approval for these drug candidates. To achieve this, the division formulates and pursues drug development plans based on Company strategy and, by clearly identifying priority projects and issues for the Company, can strategically and efficiently allocate drug development resources among its three global R&D locations in Japan, the U.S. and Europe.

A Project System has been introduced across the R&D divisions to improve the success rate of projects and increase their speed by fostering stronger cooperation between the departments within divisions and to allow for optimization of the R&D portfolio.

PRODUCTS FILED FOR APPROVAL AND PROMISING PRODUCTS CURRENTLY UNDER DEVELOPMENT

Products currently under review for approval include AD-5423 (blonanserin), a treatment for schizophrenia; AD-810N (zonisamide), a treatment for Parkinson's disease; and SMP-536 (agalsidase alfa) a treatment for Fabry's disease.

Promising products currently under development in the main CNS area include SM-13496 (lurasidone), a treatment for schizophrenia; AC-5216, an antianxiety and antidepression drug; and AC-3933, an antidementia agent. SM-13496 was licensed to Merck & Co., Inc. in 2005. Merck is currently conducting clinical pharmacological studies of SM-13496 required for Phase III clinical studies overseas. In addition, overseas phase II clinical studies of AC-3933 and AC-5216 are being conducted by Dainippon Sumitomo Pharma and Novartis Pharma AG, respectively.

In the diabetes area, Dainippon Sumitomo Pharma concluded an exclusive licensing agreement in 2005 with Eisai Co., Ltd. for AS-3201 (ranirestat), a treatment for diabetic neuropathy with strong market potential for which the Company is currently conducting Phase III clinical studies overseas. Two other drugs, SMP-862 (metformin hydrochloride) and SMP-508 (repaglinide), both diabetes treatments for lowering blood sugar levels, are currently undergoing Phase II studies in Japan.

New Drugs in the R&D Pipeline

Product/Code name	Generic name	Formulation	Efficacy or new indication	Development location	Development stage				Remarks
					Phase Ⅰ	Phase Ⅱ	Phase Ⅲ	NDA filed	
Diabetes									
AS-3201	ranirestat	Oral	Diabetic neuropathy	Japan	■	■			Developed in-house; jointly developed by Kyorin Pharmaceutical Co., Ltd.
				U.S./Canada	■	■	■		Licensed to Eisai Co., Ltd.; clinical studies conducted in-house
SMP-508	repaglinide	Oral	Diabetes	Japan	■	■			Licensed from Novo Nordisk A/S
SMP-862	metformin hydrochloride	Oral	Diabetes	Japan	■	■			Licensed from Merck Santé SAS
CNS									
AD-5423	blonanserin	Oral	Schizophrenia	Japan	■	■	■	■	Developed in-house
				Europe	■	■			
				U.S.	■	■			
AD-810N	zonisamide	Oral	Parkinson's disease (new indication)	Japan	■	■	■	■	Developed in-house
SM-13496	lurasidone	Oral	Schizophrenia	Japan	■	■			Developed in-house
				U.S.	■	■			Licensed to Merck & Co., Inc., which is conducting clinical studies
AC-5216	Not determined	Oral	Anxiety and depression	Japan	■	■			Developed in-house
				U.S./Canada	■	■			Licensed to Novartis Pharma AG, which is conducting clinical studies
AC-3933	Not determined	Oral	Dementia	Japan	■				Developed in-house
				Europe	■	■			
				U.S.	■	■			
Others									
SMP-536	agalsidase alfa	Injection	Fabry's disease	Japan	■	■	■	■	Licensed from Shire Pharmaceuticals Group plc
EPHEDRINE "NAGAI"®	ephedrine hydrochloride	Injection	Approved for subcutaneous dose Indication: hypotension during anesthesia	Japan	■	■	■	■	
SUMIFERON®	interferon-alfa	Injection	Compensated cirrhosis (new indication)	Japan	■	■	■		Licensed from GlaxoSmithKline plc
MEROPEN®	meropenem trihydrate	Injection	Febrile neutropenia (new indication)	Japan	■	■	■		Developed in-house
SM-11355	miriplatin hydrate	Injection	Hepatocellular carcinoma	Japan	■	■			Developed in-house
SMP-114	Not determined	Oral	Rheumatoid arthritis	Japan	■	■			Developed in-house
				Europe	■	■			
AG-7352	Not determined	Injection	Cancer	U.S.	■	■			Licensed to Sunesis Pharmaceuticals Inc., which is conducting clinical studies
SMP-601	Not determined	Injection	Carbapenem antibiotic	U.S.					Licensed to Protez Pharmaceuticals Inc., which is preparing for clinical studies
CALSED®	amrubicin hydrochloride	Injection	Cancer	Europe	■	■			Licensed to Cabrellis Pharmaceuticals
				U.S.	■	■			Corporation, which is conducting clinical studies
GASMOTIN®	mosapride citrate	Oral	Post-gastrectomy syndrome (new indication)	Japan	■	■			Developed in-house
PRORENAL®	limaprost alfadex	Oral	Cervical spondylosis (new indication)	Japan	■	■			Jointly developed by Ono Pharmaceutical Co., Ltd.
SMP-797	Not determined	Oral	Hypercholesterolemia	Japan	■				Developed in-house
				Europe	■	■			
SMP-986	Not determined	Oral	Overactive bladder syndrome and urinary incontinence	Europe	■				Developed in-house
SMP-028	Not determined	Oral	Bronchial asthma	U.S.	■				Developed in-house

(As of July 28, 2006)

Production System

Following the merger, the Company's manufacturing sites consist of four plants: the Suzuka Plant (Mie Prefecture), Ibaraki Plant (Osaka Prefecture), Ehime Plant (Ehime Prefecture), and Oita Plant (Oita Prefecture).

The key focus of the Company's efforts to further improve the Manufacturing Division's ability to provide a stable supply of superior-quality pharmaceutical products is based on an integrated strategy that encompasses the manufacturing process from not only the production of the API (active pharmaceutical ingredients) to the final product, but also the subsequent distribution logistics. The Company will continue to improve the competitiveness of its four-plant production network through optimization of the production and logistics systems.

REALIZING SYNERGIES FROM THE MERGER

The Manufacturing Division is implementing the following initiatives to maximize synergies realized from the merger.

Suzuka Plant (Mie Prefecture)

Raising Production Efficiency

Efforts to realize synergies in this area are focused on the review and promotion of measures that raise the efficiency of the production system, such as through the reallocation of product manufacturing operations among plants, the utilization of contract manufacturers, and the optimization of the number of product items manufactured. It is also a priority to further integrate the production and logistics management systems across the Company.

We will actively promote contract manufacturing at other companies that satisfy our requirements in terms of production technologies and GMP (Good Manufacturing

Practice), thereby allowing a flexible response to sales increases and a reduction of manufacturing costs.

Systems integration will be completed by March 2007 with an integrated production and logistics management system that incorporates everything from orders received to delivery, thereby allowing for efficient production management and the optimization of inventory levels.

Designing a Production System Responsive to Sales Growth

Dainippon Sumitomo Pharma aims to maximize earnings by carefully focusing resources on its four main products. In line with this, the design of the production system and investment in production facilities will need to allow for the ability to respond to higher sales of main products and to manage their associated risks. Another priority is to efficiently adopt a unified product packaging that appropriately represents Dainippon Sumitomo Pharma.

Improving Production Technologies

Through inter-factory personnel exchanges and sharing of information and expertise on production technologies, we aim to realize improvements in production technologies.

Raising the Efficiency of Logistics Systems

With the goal of realizing an even more reliable, accurate and rapid logistics system that is more responsive to customer orders by March 2007, the Company plans to integrate and redesign its logistics bases.

IMPROVING PRODUCTION AND QUALITY MANAGEMENT TECHNOLOGIES

Based on extensive experience in producing MEROPEN®, a carbapenem antibiotic launched in more than 100 countries around the world, the Company has production facilities and quality management systems that can satisfy the strictest U.S. and European requirements. Furthermore, the Company has excellent cell culture facilities meeting Japanese standards, as well as outstanding production technologies for aseptic control, such as for sterilization management.

In September 2003, the Company completed a new plant equipped with state-of-the-art facilities for API production, as well as a new MEROPEN® formulation plant at the Oita Plant, to enhance quality and comply with stricter GMP. In the latter half of 2007, a new plant dedicated to the production of solid dosage forms is to be completed at the Suzuka Plant. Renovation plans are also under way at the Ibaraki Plant to comply with stricter GMP.

Ibaraki Plant (Osaka Prefecture)

Ehime Plant (Ehime Prefecture)

Oita Plant (Oita Prefecture)

Marketing and Sales

The Company's sales force, having reached a critical mass of 1,500 MRs (Medical Representatives) as a result of the merger, aims to focus its available resources on the four main products to swiftly maximize synergies in marketing activities.

LEVERAGING 1,500 MRs TO MAXIMIZE MARKETING SYNERGIES

We are already starting to see the benefits of our larger sales force of 1,500 MRs with greater coverage of practitioners and a higher frequency of sales calls. By focusing resources on six products, namely the four main products, as well as EBASTEL®, a long-acting antiallergic agent, and SEIBULE®, an ameliorant for postprandial hyperglycemia due to diabetes, we aim to rapidly maximize marketing synergies to become one of the top five pharmaceuticals companies in terms of domestic sales in the near future. In addition to scale, we also seek to become a leading company in terms of quality, in such areas as customer satisfaction, reliability and execution.

AMLODIN®

AMLODIN®, a therapeutic agent for hypertension and angina pectoris, is widely prescribed as a first-choice medication for its strong, sustained lowering of blood pressure, and as a proven, long-acting calcium antagonist backed by extensive clinical evidence.

Moreover, AMLODIN® OD tablets, an orally disintegrating tablet product launched in July 2006, can help improve medication compliance on the part of patients. We will continue to provide useful drug-related information backed by extensive clinical evidence as part of our efforts to further increase sales.

AMLODIN®

GASMOTIN®

GASMOTIN®

GASMOTIN®, a product developed in-house, is the world's first selective serotonin 5-HT_4 receptor agonist. It is an entirely new kind of gastroprokinetic agent that promotes gastrointestinal motility without blocking dopamine D_2 receptors, which could cause side effects affecting the central nervous or endocrine systems. In the JMMS (Japan Mosapride Mega-Study), a large-scale clinical study involving some 1,000 patients led by the Japan-International Society for Gastrointestinal Motility, GASMOTIN® was shown to be effective against functional dyspepsia. Using this clinical evidence, we aim to drive further growth by actively increasing recognition and awareness of this condition.

PRORENAL®

PRORENAL®

PRORENAL® is a vasodilator jointly developed with Ono Pharmaceutical Co., Ltd. Sales of this product have been increasing following approval of a new therapeutic indication in 2001, namely acquired lumbar spinal canal stenosis, which is a common condition among the elderly. However, there remains a lack of recognition and awareness of this condition. Therefore, through the use of the Lumbar Spinal Canal Stenosis Diagnostic Support Tool developed by The Japanese Spine Research Society, the Company will further its awareness-raising activities aimed at increasing recognition of this condition among patients at the primary care stage. Through these and other efforts, we aim to further expand the market and sales.

MEROPEN®

MEROPEN®

MEROPEN® is a carbapenem antibiotic that is most strongly and broadly effective against infections caused by Gram-negative bacteria, including pseudomonas aeruginosa. MEROPEN® is a prescription of first choice for severe infections around the world as a medication with very little nephrotoxicity and proven efficacy even when used as a single agent. In Japan, MEROPEN® is positioned as a drug of first choice, and is recommended by various health-related guidelines. Moving forward, by continuing to provide information on the efficacy and safety of MEROPEN®, the Company intends to maintain this drug's standing as the de facto treatment for severe infections.

EBASTEL®

EBASTEL®, a long-acting antiallergic agent licensed from Almirall Prodesfarma, S.A. of Spain, is positioned as a key product alongside the Company's four main products. EBASTEL® exhibits potent antihistamine action and superior efficacy with a single daily dose, as well as reduced incidence of side effects such as drowsiness. In July 2005, the Company additionally launched EBASTEL® OD tablets, which are easier for patients to take. Through these and other actions, the Company is seeking to capture a greater share of the highly competitive market for antiallergy drugs.

SEIBULE®

Launched by Sanwa Kagaku Kenkyusho Co., Ltd. in January 2006 and co-promoted with Dainippon Sumitomo Pharma, SEIBULE® is taken prior to meals by diabetic patients to ameliorate postprandial hyperglycemia by delaying the digestion and absorption of sugars. In the diabetes area, the Company also sells the two products GLIMICRON®—a sulfonylurea-type oral hypoglycemic—and MELBIN®—a biguanide-type oral hypoglycemic. In Japan's market for oral diabetes drugs, Dainippon Sumitomo Pharma is ranked fourth in terms of sales. By handling diabetes drugs with different working mechanisms, the Company aims to build a strong presence in the diabetes area.

New Products

In June 2006, Dainippon Sumitomo Pharma launched AmBisome®, a therapeutic agent for systemic fungal infection sold in 45 countries outside Japan and for which there is strong demand from within the clinical field. This product is the first therapeutic agent for systemic fungal infection to obtain approval for its efficacy as an empirical therapy for presumed fungal infection in febrile neutropenic patients. As such, AmBisome® promises to make a large contribution to the treatment of systemic fungal infection.

Furthermore, the Company launched AMLODIN® OD tablets in July 2006. Based on the Company's proprietary technologies, this drug is the first calcium antagonist administered in the form of an orally disintegrating tablet. These tablets rapidly disintegrate in the mouth, enabling administration with or without water, with the 5 mg OD tablets also being smaller than existing tablets. Because the tablets dissolve readily and are unlikely to become caught in the throat or esophagus, these tablets are easier to take for the elderly who have difficulty swallowing.

A MARKETING SYSTEM DESIGNED TO ENHANCE CUSTOMER SATISFACTION

With the aim of enhancing customer satisfaction, the Company is harnessing its nationwide network of 22 branches and 55 sales offices to focus its marketing activities within local communities, which also allows coverage of secondary medical regions. During the fiscal year ended March 31, 2006, the Company implemented a system that assigned two MRs to each client institution, thereby ensuring frequent visits and a smooth transition between MRs. In the fiscal year ending March 31, 2007, the two-MR system was ended and a new system launched within which each MR now provides information to customers on the entire range of pharmaceuticals products offered by the newly merged company.

In addition, measures have also been implemented to strengthen Dainippon Sumitomo Pharma's presence in the hospital market. The Company has established 55 hospital-focused marketing groups across Japan, and has assigned multiple MRs to major hospitals certified by the Ministry of Health, Labour and Welfare as advanced treatment facilities.

In the CNS area, where the Company has a broad product lineup and an outstanding R&D pipeline, 72 MRs with specialized knowledge have been assigned. In parallel with establishing a strong foundation in this area of expertise, the Company plans to rapidly increase the number of MRs to 100.

FOSTERING HIGHLY SPECIALIZED MRs OF SUPERIOR ABILITY

A company's marketing capabilities are measured as a product of the number of its MRs, the abilities of those MRs, and the quality of the support functions. In terms of raw numbers, the Company has achieved a critical mass of 1,500 MRs with the goal of conducting 5 million detailing visits per year. As we now turn to further enhancing the quality of these detailing visits, the Company's focus is to develop MRs with outstanding personal abilities who also possess a high degree of specialization and superior detailing skills. This goal will be achieved through the provision of training tailored to each individual's career level and through the assignment of suitably qualified people to the positions where they are most needed. We are also enhancing the support functions, through such means as introducing an instructor system, assigning marketing promotion staff, deploying a Sales Force Automation system called "Supatto" and disseminating information via the Company's website.

Other Products

In addition to ethical pharmaceuticals operations, the Company conducts operations in animal health products, food and food additives, fine chemicals, and laboratory products.

ANIMAL HEALTH PRODUCTS

Animal Health Products markets pharmaceuticals for companion animals, farm animals and aquaculture use; however, our primary focus is on the veterinary market for companion animals. The Company has a lineup featuring many products that are well accepted by small animal veterinary clinicians. These products include the VICTAS®-S series of new quinolone antibacterial preparations containing the active ingredient orbifloxacin, which was discovered and developed in-house. The lineup also includes canine and feline therapeutic nutritional formulas under the PRESCRIPTION DIET® brand and wellness formulas under the SCIENCE DIET® PRO brand, both licensed from Hill's Pet Nutrition, Inc. The Company also organizes a membership network of small animal hospitals throughout Japan, called VMA. Through the provision of various types of information to this network, the Company endeavors to build stronger relationships with veterinarians and understand their needs. In addition, subsidiary Marupi Lifetech Co., Ltd. supports veterinary medical care by providing clinical lab tests and diagnostic services to veterinarians specializing in companion animals. The Company's comprehensive range of operations in the companion animal field has won many accolades from a wide variety of sources.

In the farm animal field, the Company launched sales of BIMURON®, an oral human interferon alpha preparation, in partnership with BioVet, Inc. in June 2005. In the aquaculture field, the Company sells vaccines manufactured by the Research Foundation for Microbial Diseases of Osaka University, and holds the top share in the aquaculture vaccine market.

FOOD AND FOOD ADDITIVES

In the food business, the Company is mainly focused on the development of natural food and food ingredients. Our goal is to supply ingredients indispensable to the production of high-quality and safe food products.

In the polysaccharide business, the Company provides a diverse array of products tailored to customer needs, centering on GLYLOID® (tamarind gum), which was the first such product to be successfully produced on an industrial scale and whose production and sale dates back more than 40 years. Another product is ECHO GUM® (xanthan gum), which the Company first began offering in Japan over 30 years ago.

In the seasoning business, the Company leverages its extraction and processing technologies to create an authentic bouillon soup with a kitchen-made taste from livestock ingredients.

The Company is also focused on the development of superior global food ingredients with various applications, such as the already marketed malt extract PUREMALT®, and an ongoing project to develop a new beverage ingredient.

FINE CHEMICALS

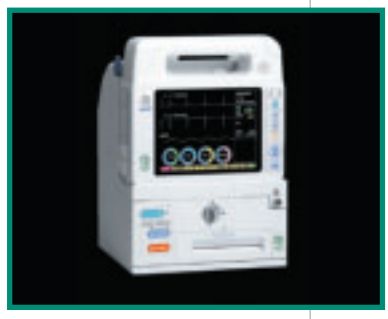
Dainippon Sumitomo Pharma has been involved in the fine chemicals business for more than 90 years. The main operations and products include personal care-related chemicals operations, which include natural polysaccharides and their derivatives, as well as pharmaceutical additives, electronic materials-related chemicals operations, and tannic acid derivatives operations. Leveraging its strengths as a pharmaceuticals company, Dainippon Sumitomo Pharma is also working to develop businesses as a chemicals supplier.

Guided by the concept of developing products in strategic partnership with related partner companies and satisfying user needs, the Company is developing a new technology in personal care-related chemicals operations called NAPLAS for biodegradable product applications.

LABORATORY PRODUCTS

In the diagnostics field, the Company sells MARKIT®-M Zonisamide, MARKIT®-G Haloperidol and MARKIT®-G Bromperidol for measuring blood concentrations of EXCEGRAN® (generic name: zonisamide), SERENES® (generic name: haloperidol) and LUNAPRON® (generic name: bromperidol), respectively, all drug products sold by the Company. Zonisamide is an anti-epileptic treatment, while haloperidol and bromperidol are both treatments for schizophrenia. In addition, RAPICHECK® H-FABP is widely used in the diagnosis of early phases of acute myocardial infarction. Diagnostic products are anticipated to directly benefit from synergies with the ethical pharmaceuticals business.

In the research materials field, the Company primarily supplies research reagents, devices and measuring equipment related to cell culture products—such as established cell lines and cell culture media—to medical and dental universities and biological research institutions. These products are used to advance fundamental research into the causes of diseases and deepen our understanding of life-sustaining activities. Our cellular products are paving the way for alternatives to animal testing and the conduct of basic research into regenerative medicine, and have the potential for greater demand in the future. The Company will continue to introduce new cell products alongside related product offerings.



RADARCIRC®

RADARCIRC® BUSINESS

Launched in December 2005, RADARCIRC® is a multifunctional electrocardiograph with analysis functions based on technologies used in FLUCLET®, the Company's proprietary analysis software for electrocardiographic waveforms. RADARCIRC® enables medical professionals to perform high-precision electrocardiographic analyses even under poor conditions where electrocardiographs are susceptible to sudden impacts, vibrations and body movements. This device is therefore useful in evaluating the cardiac function of patients in fields where prompt decisions are required, such as emergency medical care, pediatrics, and cardiovascular internal medicine. By applying new RADARCIRC® technologies, the Company aims to expand the potential of medical care while helping to enhance the diagnosis and treatment of numerous patients.

Corporate Governance

BASIC POLICY ON CORPORATE GOVERNANCE

Dainippon Sumitomo Pharma recognizes that strengthening corporate governance is a key managerial issue that must be addressed to earn the trust of shareholders and other stakeholders, as well as ensure sustained growth in corporate value.

The organizational structure of the Company currently follows the corporate auditor model. With the introduction of an executive officer system, the Company aims to separate management oversight and operational execution in a way that promotes the delegation of authority while clarifying lines of operational responsibility, thereby realizing a faster and more transparent decision-making process. The Company views this as an initial step in an ongoing program to improve the quality of corporate governance.

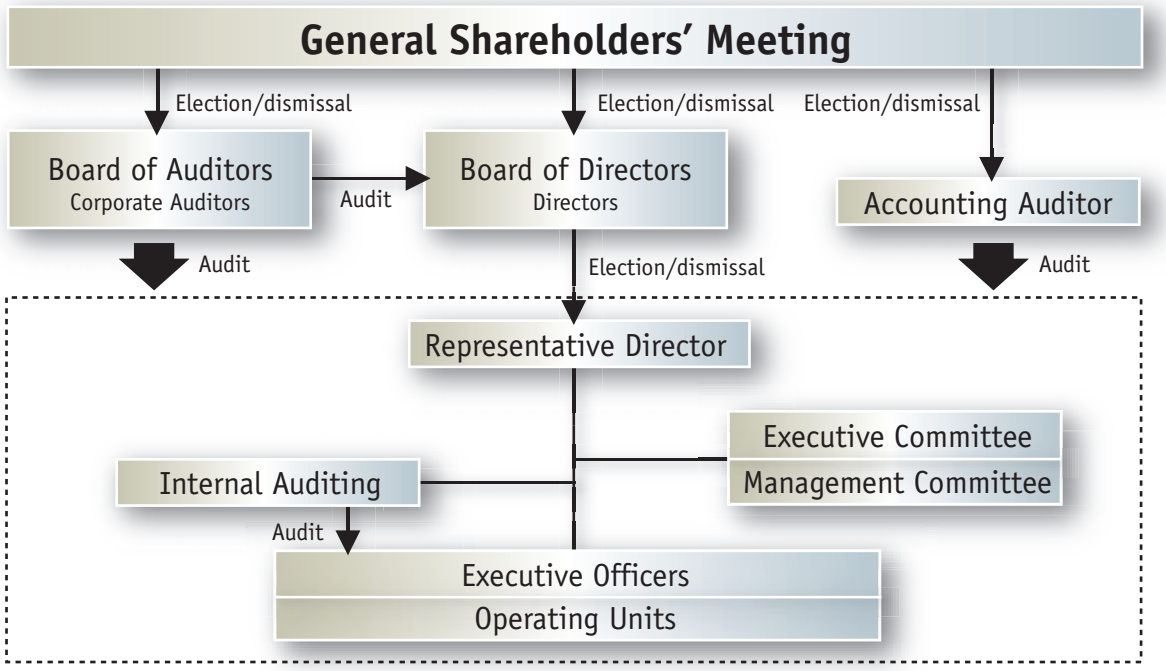
As a rule, the Board of Directors meets at least once a month. The Chairman of the Company presides over these meetings, which are currently attended by all directors and all corporate auditors.

The Company has established the Management Committee as a consultative body to assist the President of the Company in making decisions. As a rule, it convenes at least twice a month. The committee deliberates on important business matters, guided by the basic policies that have been provided by the Board of Directors. As an additional measure to ensure that top managers are fully aware of the operational status of the business and related important matters, the Company has also instituted the Executive Committee, a meeting of all executive officers that, as a rule, convenes at least once a month.

As a rule, the Board of Auditors meets at least once a month to discuss and decide important audit-related matters. These meetings also serve as a means of previewing agenda items for meetings of the Board of Directors. Besides Board meetings, corporate auditors also attend all other key business meetings, including those of the Management Committee. This enables the corporate auditors to adopt a proactive internal auditing stance, focusing in particular on the legal and regulatory compliance of operational execution as well as its efficiency. Corporate auditors also have access to a dedicated internal team of staff to assist them in their duties.

The Company has formulated basic policies to guide the establishment of internal control systems, based on the stipulations of the Company Law and the regulations pertaining to its enforcement. Future plans call for further development of the system of internal controls at the Company along with measures to improve its quality.

Corporate Governance Structure



From left: Masayo Tada, Yuichi Yokoyama, Ph.D., Hisashi Fujita, Keiichi Ono, Ph.D., Yasuo Okamoto, Kenjiro Miyatake, Tetsuya Oida, Ph.D., Ken-Ichiro Kimura, Kazumi Okamura, Fujio Okamoto

Representative Director, Chairman
Yasuo Okamoto

Representative Director, President
Kenjiro Miyatake

Members, Board of Directors, Senior Vice Presidents
Hisashi Fujita
Ken-Ichiro Kimura

Member, Board of Directors, Vice President
Masayo Tada

Member, Board of Directors, Senior Executive Officer
Fujio Okamoto

Members, Board of Directors, Executive Officers
Keiichi Ono, Ph.D.
Tetsuya Oida, Ph.D.
Yuichi Yokoyama, Ph.D.
Kazumi Okamura

Full-time Corporate Auditors
Fuminori Hashimoto
Tadayoshi Nishimura

Corporate Auditors
Michihiro Ishii
Takayuki Usui
Toshiyuki Aoki

Executive Officers
Akira Takegami
Junichi Mizuno
Hiroshi Noguchi, Ph.D.
Hideya Hayashi, Ph.D.
Shinsaku Mishio, Ph.D.
Yutaka Takeuchi, Ph.D.
Hiroshi Shimizu
Yasuji Furutani, Ph.D.
Masao Noto
Nobuo Takeda

(As of June 29, 2006)

Corporate Social Responsibility (CSR)

As an active member of society, Dainippon Sumitomo Pharma is committed to contributing to society throughout its various business activities, thereby fulfilling its Corporate Social Responsibility (CSR) mandate.

CSR PROMOTION DEPARTMENT ESTABLISHED

CSR activities cover a broad range of activities centered on compliance, as well as environmental and social contribution activities. In the past, various departments in the Company's predecessors were independently responsible for these various CSR activities. With the formation of the Company, the CSR Promotion Department was established—a department that now acts with an even greater scope as the Environment & CSR Promotion Department. In addition to bringing a continuous perspective to individual CSR activities, this new department additionally enables overall coordination of CSR activities.

PROMOTION OF COMPLIANCE

Promotion of compliance activities is at the heart of all of the Company's business activities. The Compliance Committee meets regularly to ascertain the progress made with compliance on a Company-wide basis, and to consider potential measures to further promote compliance. The Company has also established a Declaration of Conduct, with directors and employees alike striving to incorporate its spirit into their daily conduct and decisions.

ENVIRONMENTAL ACTIVITIES

The Company's guiding environmental principle is the realization of a more enriched and pleasant world to live in through proactive environmental protection and the establishment of a recycling-based society. To this end, the Company has established an Environment Committee to comprehensively advance environmental management measures throughout the Company, while also establishing specialized environmental committees in individual workplaces to promote comprehensive environmental management activities in accordance with the particular circumstances of each workplace. Moreover, the Company has clarified key environmental issues in its Medium-term Environmental Management Plan, and will work towards achieving the plan's goals while considering further continual improvements. The Company's Central Research Laboratories and four plants, including the Suzuka Plant, have obtained the ISO 14001 certification for environmental management systems. Specific measures to be pursued include improvement of the environmental management system, reducing emissions of chemical substances, energy savings, reducing greenhouse gas emissions, reducing waste and enhancing environmental education.

SOCIAL CONTRIBUTION ACTIVITIES

Since 1987, the Company has been supporting research into the prevention and treatment of epilepsy through the Japan Epilepsy Research Foundation. Furthermore, the Company promotes various regional activities, including volunteer activities organized by its individual operational sites, cleanup campaigns in the communities near operational sites and tours of the operational sites themselves.

SOCIAL & ENVIRONMENTAL REPORT ISSUED

The Company distributes a Social & Environmental Report outlining its CSR-related business activities to stakeholders inside and outside the Company. These activities are also reported on through the Company's website to promote a greater awareness of its initiatives. Moreover, the Social & Environmental Report is also distributed to all employees to deepen their understanding and raise their awareness of CSR activities.

Social & Environmental Report

Corporate History

DAINIPPON PHARMACEUTICAL

1897
✤Dainippon Pharmaceutical Co., Ltd., founded on May 14. Twenty-one prominent leaders in the pharmaceutical industry in Doshomachi, Osaka, founded Osaka Pharmaceuticals Co., Ltd.

1898
✤Pharmaceutical Plant (currently, Osaka Center) established in Ebie, Osaka.
✤Company name changed to Dainippon Pharmaceutical Co, Ltd.

1908
✤Osaka Pharmaceutical Testing Co., Ltd., acquired.

1914
✤Chemical products business started.

1950
✤Animal drug business started.

1960
✤Food additive business established.

1968
✤Suzuka Plant (currently, Suzuka Plant) established.

1970
✤Construction of Research Laboratories (currently, Central Research Laboratories) completed.

1974
✤Laboratory products business started.

1987
✤The Japan Epilepsy Research Foundation established.

1988
✤U.S. office (currently, Dainippon Sumitomo Pharma America, Inc.) opened.
✤PRORENAL® (vasodilator) introduced.

1989
✤EXCEGRAN® (antiepileptic) introduced.

1993
✤Construction of Central Distribution Center (currently, Kobe Distribution Center) completed.

1996
✤EBASTEL® (long-acting antiallergic agent) introduced.

1998
✤Beijing office opened.
✤GASMOTIN® (gastroprokinetic) introduced.

1999
✤KADIAN® (persistent cancer pain analgesic) introduced.

2002
✤QVAR™ (inhaled steroid-based antiasthmatic) introduced.

2003
✤OPSO® (solution for treating cancer pain) introduced.

SUMITOMO PHARMACEUTICALS

1984
✤Sumitomo Pharmaceuticals Co., Ltd., founded on February 6 from the Research, Development, and Manufacturing divisions of Sumitomo Chemical Company's pharmaceuticals business, as well as the Pharmaceuticals Sales division of Inahata & Company, the sole distributor of Sumitomo Chemical Company pharmaceuticals. The new company opened for business on October 1, 1984.

1985
✤Construction of Ehime Bio Plant (currently, Ehime Plant)

1987
✤SUMIFERON® (natural alpha interferon) introduced.

1989
✤DOPS® (norepinephrine-activating neural function ameliorant) introduced.

1991
✤Construction of Osaka Distribution Center (currently, Osaka Distribution Center) completed.

1993
✤AMLODIN® (therapeutic agent for hypertension and angina pectoris) introduced.

1995
✤MEROPEN® (carbapenem antibiotic) introduced.

1996
✤SEDIEL® (serotonin-agonist antianxiety drug) introduced.

1997
✤Construction of New Tokyo Distribution Center (currently, Kazo Distribution Center) completed.
✤Sumitomo Pharmaceuticals UK Limited (currently, Dainippon Sumitomo Pharma Europe Ltd.) established.
✤Beijing office opened.

1999
✤GROWJECT® (growth hormone) introduced.
✤Sumitomo Pharmaceuticals America Limited established.

2001
✤LULLAN® (antipsychotic) introduced.

2003
✤Responsibility for sales for Sumitomo Chemical Company's bulk pharmaceuticals manufacturing business transferred to Sumitomo Pharmaceuticals; Oita Plant established.

OCTOBER 1, 2005 DAINIPPON SUMITOMO PHARMA CREATED.

2006
✤Co-promotion of SEIBULE® (ameliorant for postprandial hyperglycemia due to diabetes) started.
✤Subsidiaries in the U.S. merged and the name of the subsidiary in Europe changed.
✤AmBisome® (therapeutic agent for systemic fungal infection) introduced.

Financial Section

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Six-Year Summary

Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries

	Millions of Yen						Thousands of U.S. Dollars
	2006	2005	2004	2003	2002	2001	2006
RESULTS OF OPERATIONS:							
Net sales	¥245,784	¥175,088	¥171,672	¥172,554	¥164,737	¥159,115	$2,100,718
Cost of sales	130,437	111,099	110,013	108,046	100,073	97,126	1,114,846
Selling, general and administrative expenses	86,461	52,404	51,546	51,240	46,863	45,597	738,983
Operating income	28,886	11,585	10,113	13,268	17,801	16,392	246,889
Income before income taxes and minority interests	25,687	11,686	13,836	12,718	17,863	17,619	219,547
Net income	15,377	6,924	7,968	6,364	9,596	9,376	131,427
FINANCIAL POSITION:							
Current assets	249,733	131,176	118,562	116,241	119,247	117,877	2,134,470
Net property, plant and equipment	68,336	32,611	34,473	35,374	33,637	31,487	584,069
Total assets	392,966	201,431	193,238	187,416	186,834	187,309	3,358,684
Current liabilities	80,071	49,196	45,927	60,727	48,966	55,599	684,368
Long-term debt	5,276	7,000	7,000		11,118	11,119	45,094
Shareholders' equity	287,764	134,649	129,569	116,044	115,985	109,267	2,459,521
OTHER STATISTICS:							
R&D costs	29,636	17,444	15,929	15,218	13,124	12,565	253,299
Capital expenditures	6,616	3,064	4,294	6,532	6,414	4,074	56,547
Depreciation and amortization	8,901	5,233	5,821	5,316	4,334	4,267	76,077

	Yen						U.S. Dollars
PER SHARE OF COMMON STOCK:							
Basic net income	¥ 54.57	¥ 41.76	¥ 48.05	¥ 38.02	¥ 57.06	¥ 55.75	$ 0.47
Diluted net income				36.36	54.18	52.70	
Cash dividends applicable to the year	12.00	10.00	10.00	10.00	10.00	8.50	0.10

Notes 1: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥117 to U.S.$1, the approximate rate of exchange at March 31, 2006.

2: Dainippon Pharmaceutical Co., Ltd. merged with Sumitomo Pharmaceuticals Co., Ltd. on October 1, 2005 and changed its name to Dainippon Sumitomo Pharma Co., Ltd.

3: Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and consolidated subsidiaries made reclassifications to recognize royalty income as net sales from fiscal years beginning on or after April 1, 2005. In accordance with this reclassification, the results of operations from 2001 to 2005 have been reclassified.

4: Certain reclassifications have been made in the financial position from 2001 to 2005 to conform to the classifications applied in 2006.

Management's Discussion and Analysis

BUSINESS RESULTS

◆Results of Operations

Net sales for the fiscal year ended March 31, 2006 (fiscal 2006; FY2006) were ¥245.8 billion, up a substantial 40.4% from the previous fiscal year, reflecting the greater scale of operations in the second half of the year following the merger between Dainippon Pharmaceutical Co., Ltd. and Sumitomo Pharmaceuticals Co., Ltd. Operating income climbed 149.3% year on year to ¥28.9 billion, lifted by higher sales due to merger effects and growth in the Company's major pharmaceutical products. Net income was ¥15.4 billion, representing an increase of 122.1% over the previous year. As part of other income, the Company posted gains on sales of investment securities and gains on sales of property, plant and equipment—primarily realized from the sale of the former Tokyo branch. Other expenses were also incurred, such as merger-related expenses, including costs for information system integration and consolidation of operating bases.

◆Results by Business Segment

Pharmaceuticals

Following the merger in October 2005, the Company has been leveraging its 1,500-member strong MR (medical representative) sales network and prioritizing its resource allocation to the four main products it has positioned as its strategic brands: AMLODIN®, a therapeutic agent for hypertension and angina pectoris; GASMOTIN®, a gastroprokinetic agent; PRORENAL®, a vasodilator; and MEROPEN®, a carbapenem antibiotic. During the year, EBASTEL® OD Tablet—a new orally disintegrating tablet version of the anti-allergic agent EBASTEL®—was launched. Net sales from the Pharmaceuticals business climbed 55.6% to ¥192.6 billion, and operating income jumped 200.4% to ¥27.8 billion.

Other Products

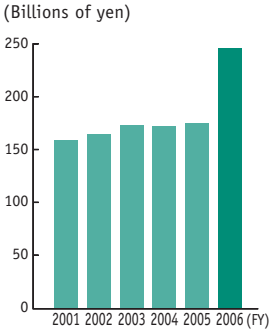
The Company and its consolidated subsidiaries' principal focus on the sale of animal health products, food additives and diagnostics in this business segment lifted net sales 3.7% to ¥53.2 billion. In contrast, operating income fell 51.6% year on year to ¥1.1 billion, mainly due to the termination of sales contracts for certain products.

Formerly, the Group's operations were categorized into three business segments based on product type: Pharmaceuticals, Animal Health Products and Other Products. However, from the year under review, the reporting structure has been revised to two business segments—Pharmaceuticals and Other Products. Reflecting this change, the former Animal Health Products segment is now included in Other Products. Similarly, diagnostic products, formerly included in Pharmaceuticals, are also now part of the Other Products segment.

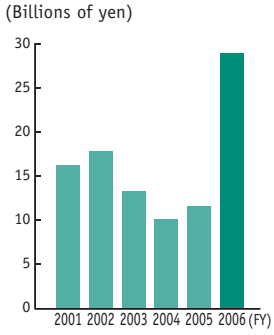
◆Comparison of Business Results Based on Simple Sums of Both Companies' Figures

To provide for a more accurate understanding of the Company's post-merger position, business results of the former Dainippon Pharmaceutical for the previous fiscal year and Dainippon Sumitomo

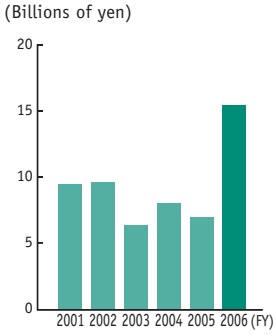
Net Sales



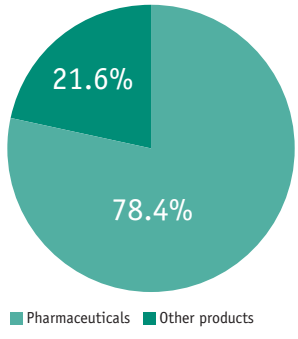
Operating Income



Net Income



Sales Composition by Business Segment (FY2006)



(Years ended March 31)

Domestic Sales of Major Pharmaceutical Products (Billions of yen)

Brand name	Therapeutic Indication	2006	2005
AMLODIN®	Therapeutic agent for hypertension and angina pectoris	¥56.8	¥52.8
GASMOTIN®	Gastroprokinetic	16.3	15.0
MEROPEN®	Carbapenem antibiotic	14.1	12.8
PRORENAL®	Vasodilator	12.6	10.0
EBASTEL®	Antiallergic	11.3	10.2
SUMIFERON®	Natural alpha interferon	6.0	6.6
GROWJECT®	Growth hormone	4.9	5.6
GLIMICRON®	Oral hypoglycemic	4.7	5.0
DOPS®	Norepinephrine-activating neural function ameliorant	4.7	5.0
TAGAMET®	H_2-receptor antagonist	4.6	5.4
QVAR™	Bronchial asthma	4.2	3.0
ALMARL®	Therapeutic agent for hypertension, angina pectoris and arrhythmia	3.7	4.0
EXCEGRAN®	Antiepileptic	3.6	3.5
SEDIEL®	Serotonin-agonist antianxiety drug	3.1	3.3
LULLAN®	Antipsychotic	3.0	2.8

Major Exported Pharmaceuticals (Billions of yen)

Generic name	Therapeutic Indication	2006	2005
Meropenem	Carbapenem antibiotic	¥12.9	¥10.6
Zonisamide	Antiepileptic	2.4	2.8
Mosapride	Gastroprokinetic	0.9	0.5

Pharma for fiscal 2006 have been simply added to the results of the former Sumitomo Pharmaceuticals for the corresponding periods. The resulting totals have been used particularly in the reporting of business performance indicators and analyses of year-on-year comparisons below.

(Billions of yen)

	2006	2005		
	Dainippon Sumitomo Pharma + First-half results of Sumitomo Pharmaceuticals	Dainippon Pharmaceutical + Sumitomo Pharmaceuticals	Change	Percent Change (%)
Net sales	¥318.2	¥317.4	¥ 0.8	0.2
Cost of sales	152.1	155.9	(3.8)	(2.5)
Selling, general and administrative expenses	121.4	121.9	(0.5)	(0.4)
Operating income	44.7	39.6	5.1	12.9
Other income (expenses)	(3.4)	(2.2)	(1.2)	55.6
Net income	25.3	22.6	2.7	11.6
R&D costs	41.8	42.7	(0.9)	(2.0)

Net Sales

On a simple pre-merger total basis, net sales for the term under review edged up ¥0.8 billion, or 0.2%, year on year, to ¥318.2 billion.

Sales initially declined due to the transfer of the former Sumitomo Pharmaceuticals' chronic allergy treatment ZYRTEC® and business realignment at both pre-merger companies that resulted in the transfer of their respective OTC drug operations. Sales were compensated by increased sales primarily from the Company's mainstay pharmaceutical products, as well as a temporary increase in industrial property revenues.

Cost of Sales

The cost of sales on a simple pre-merger total basis fell ¥3.8 billion to ¥152.1 billion. Similarly, the cost of sales ratio declined 1.3 percentage points to 47.8%. This result was mainly attributable to an increase in industrial property revenues and higher sales from the Company's mainstay pharmaceutical products, where the cost of sales ratio is relatively lower.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses on a simple pre-merger total basis declined ¥0.5 billion year on year to ¥121.4 billion. Of SG&A expenses, R&D costs were ¥41.8 billion, down ¥0.9 billion from the previous year, chiefly reflecting higher-than-normal costs for clinical trials in Japan and overseas a year earlier.

Operating Income

As a result of the foregoing, operating income on a simple pre-merger total basis was ¥44.7 billion, an increase of ¥5.1 billion over the previous fiscal year. The operating income ratio rose 1.5 percentage points to 14.0%, up from 12.5% a year ago.

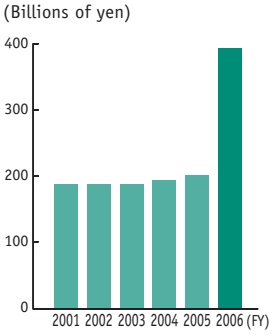
Other Income (Expenses)

Under other income on a simple pre-merger total basis, the Company posted gains on sales of investment securities, gains on sales of property, plant and equipment, primarily realized from the sale of the former Tokyo branch, and payments received from the transfer of the former Sumitomo Pharmaceuticals' ZYRTEC® operations. Under other expenses, the major item booked was merger-related expenses of ¥8.2 billion, including costs for system integration and consolidation of operating bases.

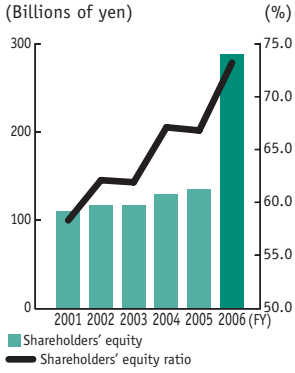
Net Income

Due to the above factors, net income in fiscal 2006 (after corporate taxes and on a simple pre-merger total basis) was ¥25.3 billion, representing a year-on-year increase of ¥2.7 billion.

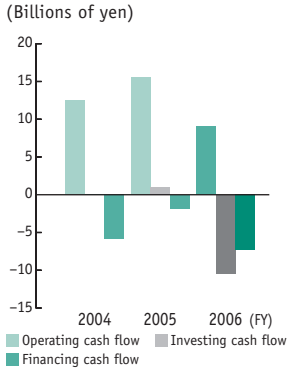
Total Assets



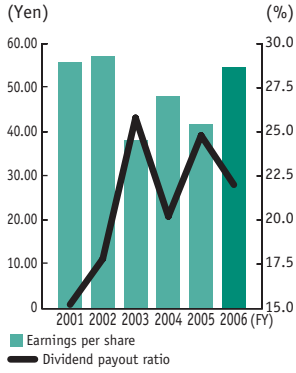
Shareholders' Equity/ Shareholders' Equity Ratio



Cash Flows



Earnings Per Share/ Dividend Payout Ratio



(Years ended March 31)

FINANCIAL POSITION

◆Overview

As a result of the merger in October 1, 2005, the former Dainippon Pharmaceutical inherited ¥184.4 billion in assets and ¥48.4 billion in liabilities from the former Sumitomo Pharmaceuticals. Accordingly, total assets, total liabilities and shareholders' equity as of March 31, 2006 all increased sharply year on year by ¥191.5 billion, ¥38.3 billion and ¥153.1 billion, respectively.

◆Post-merger Position

To promote a more accurate understanding of the Company's post-merger position, a comparison of changes in total assets, total liabilities and shareholders' equity as of March 31, 2006 with corresponding figures as of the merger date (October 1, 2005) is presented below.

(Billions of yen)

	Fiscal Year-end (March 31, 2006)	Merger Date (October 1, 2005)	Change
Total assets	**¥393.0**	¥383.3	¥ 9.7
Total liabilities	**104.3**	106.3	(2.0)
Shareholders' equity	**287.8**	276.1	11.7
Shareholders' equity ratio	**73.2%**	72.0%	

Total Assets

Total assets increased by ¥9.7 billion, mainly as the result of an increase in notes and accounts receivable related mostly to net sales growth in the second half of the year, and an increase in unrealized gains on available-for-sale securities.

Total Liabilities

Total liabilities decreased by ¥2.0 billion, largely from the repayment of borrowings, in spite of increases in notes and accounts payable due to growth in product purchasing accompanying higher net sales.

Shareholders' Equity

Shareholders' equity increased by ¥11.7 billion due mainly to growth in retained earnings and unrealized gains on available-for-sale securities.

CASH FLOWS

Cash Flows from Operating Activities

Operating activities provided net cash of ¥9.1 billion as higher income before income taxes and minority interests offset an increase in income taxes paid.

Cash Flows from Investing Activities

Investing activities used net cash of ¥10.4 billion, chiefly from an increase in time deposits exceeding three months, and purchases of property, plant and equipment.

Cash Flows from Financing Activities

Financing activities used net cash of ¥7.3 billion, mainly for the repayment of borrowings, dividends paid, and payments upon merger.

Consequently, cash and cash equivalents stood at ¥71.3 billion as of March 31, 2006, up ¥33.1 billion from the previous fiscal year-end, largely as the result of the above-mentioned activities and an increase in cash and cash equivalents accompanying the merger.

DIVIDEND POLICY

Dainippon Sumitomo Pharma regards the return of an appropriate level of profits to shareholders, together with the ongoing enhancement of corporate value, as one of its most important management policies.

As the Company focuses its efforts on solidifying its operating base and financial position, it is also dedicated to the payment of a dividend that duly reflects business performance. Accordingly, one of the Company's medium-term goals is to raise its payout ratio to 30% on a consolidated basis.

Based on the aforementioned policy, the Company paid a cash dividend per share applicable to fiscal 2006 of ¥12.00. This amount included a semiannual interim dividend of ¥5.00 per share and a year-end dividend of ¥7.00 per share—combining an ordinary dividend of ¥5.00 per share with a commemorative dividend of ¥2.00 following the merger. The payout ratio was 22.0%.

Internal reserves are primarily used for R&D investments and for capital investments aimed at improving the efficiency of management activities in Japan and overseas.

NUMBER OF EMPLOYEES

The number of the Group's employees at the fiscal year-end had risen sharply as a result of the merger with Sumitomo Pharmaceuticals Co., Ltd. In the Pharmaceuticals business, the number of employees as of March 31, 2006 was 4,504, an increase of 2,506 from a year earlier. The number of employees Group-wide climbed to 5,142, with 2,715 employees more than at the previous fiscal year-end.

OUTLOOK FOR FISCAL 2007—Comparison with simple sums of both companies' figures for fiscal 2006

As the first full year of operations following business integration, fiscal 2007 will see Dainippon Sumitomo Pharma pursue the full potential of resulting synergies. The Company will prioritize resource investment in its four main products—the therapeutic agent for hypertension and angina pectoris AMLODIN®, the gastroprokinetic agent GASMOTIN®, the vasodilator PRORENAL®, and the carbapenem antibiotic MEROPEN®. While working to realize further marketing synergies between these products, Dainippon Sumitomo Pharma will also look to optimize its portfolio by developing new products, and will rightsize its workforce. At the same time, the Company will pursue cost synergies by centralizing purchasing and procurement and through consolidation of operating bases.

For fiscal 2007, the Company is forecasting net sales of ¥260.0 billion, down 18.3% year on year, and operating income of ¥41.0 billion, or a decline of 8.2% from the previous year. Although economies of scale from the merger are expected to contribute to performance throughout the year, new drug price revisions enacted in April 2006, the termination of sales partnerships with ABBOTT JAPAN Co., Ltd. and ASKA Pharmaceutical Co., Ltd., and a decline in income from industrial property rights (from one-off licensing-out payments) are likely to put downward pressure on business results. Moreover, Dainippon Sumitomo Pharma expects to book losses associated with the consolidation of retirement and severance benefit systems that will take place during fiscal 2007. In addition, the Company expects to book additional retirement expenses due to a re-employment assistance plan. As a result, the Company is forecasting net income of ¥21.0 billion, 16.9% lower than the previous year.

These forecasts are calculated in accordance with judgments based on information currently available to management. Actual results may differ from these forecasts due to a number of risks and uncertainties.

BUSINESS RISKS

The following is a list of the most significant risks that could negatively impact the operating results and financial position of the Dainippon Sumitomo Pharma Group.

Forward-looking statements in the risks discussed below reflect the judgment of the Dainippon Sumitomo Pharma Group as of March 31, 2006.

Research and Development of New Products

The Dainippon Sumitomo Pharma Group works to develop highly original and globally viable new products. The Group strives to maintain an ample product pipeline and to bring products to market as early as possible. Nevertheless, the Group can envision scenarios in which not all products under development will progress smoothly to eventual sale, as well as instances in which it must halt the development of certain products. Depending on the nature of the product under development, such cases could have a significant and negative impact on the Group's operating results and financial position.

Problems Concerning Adverse Events

The Dainippon Sumitomo Pharma Group conducts adequate safety testing of its pharmaceuticals at the development stages, with products receiving approval only after rigorous screening by Japan's Ministry of Health, Labour and Welfare and other regulatory authorities. These efforts notwithstanding, previously unreported adverse events are sometimes discovered only after a drug has already been marketed. Consequently, the appearance of unexpected adverse events once a product has been sold could have a significant and negative impact on the Group's operating results and financial position.

Healthcare System Reforms in Japan

The precipitous decline in Japan's birthrate, coupled with a rapid rise in the country's elderly demographic, are the prime factors causing the financial state of Japan's healthcare insurance system to deteriorate. In this climate, measures continue to emerge aimed at curbing healthcare costs, as does debate on how best to reform the country's healthcare system. The direction that these healthcare system reforms take, including mandated drug price revisions, could ultimately have a significant and negative impact on the Group's operating results and financial position.

Intellectual Property

The Dainippon Sumitomo Pharma Group utilizes a variety of intellectual properties during the course of its R&D activities. These properties include those owned by the Group, as well as properties that the Group lawfully uses with the authorized permission of the property's owner. Nevertheless, the Group cannot say unequivocally that there is no possibility that this use will not infringe a third party's intellectual property rights. Consequently, legal disputes pertaining to intellectual property rights could have a significant and negative impact on the Group's operating results and financial position.

Termination of Partnerships

The Dainippon Sumitomo Pharma Group enters a variety of partnerships with other companies for the sale of purchased goods, establishment of joint ventures, co-promotion, licensing in and out of products under development, as well as collaborative research and other purposes. The termination, for whatever reason, of such partnerships could have a significant and negative impact on the Group's operating results and financial position.

The Dainippon Sumitomo Pharma Group also faces risks other than those listed above.

Consolidated Balance Sheets

Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries
March 31, 2006 and 2005

ASSETS	Millions of Yen 2006	2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT ASSETS:			
Cash and time deposits (Note 4.a)	**¥ 60,327**	¥ 35,190	**$ 515,616**
Marketable securities (Notes 4.a and 6)	**13,995**	4,511	**119,615**
Receivables:			
Trade notes	**7,657**	4,574	**65,445**
Trade accounts	**107,108**	63,219	**915,453**
Due from parent company, unconsolidated subsidiaries and affiliates (Note 12)	**236**	45	**2,017**
Allowance for doubtful receivables	**(109)**	(78)	**(932)**
Total	**114,892**	67,760	**981,983**
Inventories (Note 5)	**44,117**	16,217	**377,068**
Deferred tax assets (Note 8)	**11,126**	5,081	**95,094**
Other current assets (Note 12)	**5,276**	2,417	**45,094**
Total current assets	**249,733**	131,176	**2,134,470**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**9,989**	4,500	**85,376**
Buildings and structures	**76,831**	39,658	**656,675**
Machinery and equipment	**88,098**	38,695	**752,974**
Construction in progress	**1,615**	81	**13,804**
Total	**176,533**	82,934	**1,508,829**
Accumulated depreciation	**(108,197)**	(50,323)	**(924,760)**
Net property, plant and equipment	**68,336**	32,611	**584,069**
INVESTMENTS AND OTHER ASSETS:			
Investment in unconsolidated subsidiaries and affiliates	**2,343**	816	**20,026**
Investment securities (Note 6)	**47,499**	28,772	**405,974**
Intangible assets	**5,952**	2,977	**50,872**
Deferred tax assets (Note 8)	**374**	54	**3,196**
Other assets	**18,729**	5,025	**160,077**
Total investments and other assets	**74,897**	37,644	**640,145**
TOTAL	**¥ 392,966**	¥ 201,431	**$3,358,684**

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of Yen 2006	2005	Thousands of U.S. Dollars (Note 1) 2006
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	**¥ 2,470**	¥ 970	**$ 21,111**
Current portion of long-term debt (Note 7)	**13**		**111**
Payables:			
Trade notes	**169**	3,696	**1,445**
Trade accounts	**51,776**	32,898	**442,530**
Due to parent company, unconsolidated subsidiaries and affiliates (Note 12)	**3,766**	96	**32,188**
Total	**55,711**	36,690	**476,163**
Income taxes payable	**8,410**	4,019	**71,880**
Accrued expenses	**9,294**	5,723	**79,436**
Other current liabilities (Note 9)	**4,173**	1,794	**35,667**
Total current liabilities	**80,071**	49,196	**684,368**
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	**5,276**	7,000	**45,094**
Liability for retirement benefits (Note 9)	**14,176**	6,382	**121,163**
Deferred tax liabilities (Note 8)		1,313	
Other liabilities (Notes 7 and 9)	**4,810**	2,107	**41,111**
Total long-term liabilities	**24,262**	16,802	**207,368**
MINORITY INTERESTS	**869**	784	**7,427**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 15):			
SHAREHOLDERS' EQUITY (Notes 10 and 16):			
Common stock: authorized—1,500,000,000 shares in 2006 and 600,000,000 shares in 2005; issued, 397,900,154 shares in 2006 and 168,184,154 shares in 2005	**22,400**	13,444	**191,453**
Capital surplus	**15,860**	15,860	**135,556**
Retained earnings	**232,486**	100,821	**1,987,060**
Unrealized gains on available-for-sale securities, net of tax	**17,348**	8,032	**148,273**
Total	**288,094**	138,157	**2,462,342**
Treasury stock, at cost 291,071 shares in 2006 and 3,159,324 shares in 2005	**(330)**	(3,508)	**(2,821)**
Total shareholders' equity	**287,764**	134,649	**2,459,521**
TOTAL	**¥ 392,966**	¥ 201,431	**$3,358,684**

Consolidated Statements of Income

Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
NET SALES (Notes 11 and 12)	¥ 245,784	¥ 175,088	$2,100,718
COST OF SALES (Notes 11 and 12)	130,437	111,099	1,114,846
Gross Profit	115,347	63,989	985,872
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	86,461	52,404	738,983
Operating Income	28,886	11,585	246,889
OTHER INCOME (EXPENSES):			
Interest and dividend income	518	603	4,427
Interest expense	(91)	(62)	(778)
Gains on sales of investment securities (Note 6)	1,853	2,673	15,838
Gains on sales of property, plant and equipment	1,789	239	15,290
Gains on transfer of the substitutional portion of the government pension program (Note 9)	782		6,684
Expense related to merger	(5,795)	(488)	(49,530)
Loss on business restructuring	(176)	(831)	(1,504)
Loss on discontinued development of new compound		(582)	
Loss on disposal of inventories		(536)	
Other—net	(2,079)	(915)	(17,769)
Other income (expenses)—net	(3,199)	101	(27,342)
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	25,687	11,686	219,547
INCOME TAXES (Note 8):			
Current	10,380	6,162	88,718
Deferred	(141)	(1,489)	(1,205)
Total income taxes	10,239	4,673	87,513
MINORITY INTERESTS IN NET INCOME	71	89	607
NET INCOME	¥ 15,377	¥ 6,924	$ 131,427

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Basic net income	¥ 54.57	¥ 41.76	$ 0.47
Cash dividends applicable to the year	12.00	10.00	0.10

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Thousands of Shares		Millions of Yen				
	Issued Number of Shares of Common Stock	Number of Treasury Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2004	168,184	(3,004)	¥ 13,444	¥ 15,860	¥ 95,579	¥ 8,048	¥ (3,362)
Net income					6,924		
Cash dividends, ¥10.00 per share					(1,652)		
Bonuses to directors and corporate auditors					(29)		
Loss on sales of treasury stock					(1)		
Increase in treasury stock		(155)					(146)
Net decrease of unrealized gain on available-for-sale securities						(16)	
BALANCE, MARCH 31, 2005	168,184	(3,159)	13,444	15,860	100,821	8,032	(3,508)
Net income					15,377		
Increase related to merger (Note 3)	229,716	3,000	8,956		122,748	2,569	3,334
Cash dividends, ¥10.00 per share					(1,650)		
Bonuses to directors and corporate auditors					(29)		
Loss on allotment of treasury stock due to merger (Note 3)					(1,618)		
Gain on sales of treasury stock					1		
Increase in treasury stock		(132)					(156)
Payment upon merger (Note 3)					(2,886)		
Decrease related to exclusion of consolidated subsidiaries (Note 2.a)					(278)		
Net increase of unrealized gain on available-for-sale securities						6,747	
BALANCE, MARCH 31, 2006	**397,900**	**(291)**	**¥ 22,400**	**¥ 15,860**	**¥ 232,486**	**¥ 17,348**	**¥ (330)**

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2005	$ 114,906	$ 135,556	$ 861,718	$ 68,649	$(29,983)
Net income			131,427		
Increase related to merger (Note 3)	76,547		1,049,128	21,957	28,496
Cash dividends, U.S.$0.09 per share			(14,102)		
Bonuses to directors and corporate auditors			(248)		
Loss on allotment of treasury stock due to merger (Note 3)			(13,829)		
Gain on sales of treasury stock			9		
Increase in treasury stock					(1,334)
Payment upon merger (Note 3)			(24,667)		
Decrease related to exclusion of consolidated subsidiaries (Note 2.a)			(2,376)		
Net increase of unrealized gain on available-for-sale securities				57,667	
BALANCE, MARCH 31, 2006	**$191,453**	**$135,556**	**$1,987,060**	**$148,273**	**$ (2,821)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 25,687	¥ 11,686	$ 219,547
Adjustments for:			
Depreciation and amortization	8,901	5,233	76,077
Provision for liability for retirement benefits, less payments	(1,152)	(174)	(9,846)
Interest and dividend income	(518)	(603)	(4,427)
Interest expense	91	62	778
Gains on sales of investment securities	(1,853)	(2,673)	(15,838)
Gains on sales of property, plant and equipment	(1,789)	(239)	(15,291)
Gains on transfer of the substitutional portion of the government pension program (Note 9)	(782)		(6,684)
Changes in assets and liabilities:			
Increase in receivables	(3,089)	(3,065)	(26,402)
Decrease (increase) in inventories	(3,349)	5,591	(28,624)
Increase (decrease) in payables	(4,293)	2,365	(36,692)
Other—net	3,525	1,863	30,128
Sub-total	21,379	20,046	182,726
Interest and dividend received	529	605	4,522
Interest paid	(67)	(62)	(573)
Income taxes paid	(12,756)	(5,066)	(109,025)
Net cash provided by operating activities	9,085	15,523	77,650
INVESTING ACTIVITIES:			
Increase in time deposits	(8,013)	(2,019)	(68,487)
Proceeds from sales of property, plant and equipment	2,387	1,133	20,402
Purchases of property, plant and equipment	(4,573)	(3,639)	(39,086)
Proceeds from sales of investment securities	2,887	3,241	24,675
Proceeds from sales of marketable securities	1,000	3,676	8,547
Purchases of investment securities	(1,573)	(674)	(13,445)
Other—net	(2,562)	(736)	(21,897)
Net cash provided by (used in) investing activities	(10,447)	982	(89,291)
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans	(670)		(5,726)
Repayment of long-term debt	(1,918)		(16,393)
Increase in treasury stock	(155)	(148)	(1,325)
Dividends paid	(1,650)	(1,651)	(14,103)
Dividends paid to minority shareholders	(7)	(7)	(60)
Payment upon merger (Note 3)	(2,886)		(24,667)
Net cash used in financing activities	(7,286)	(1,806)	(62,274)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,648)	14,699	(73,915)
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO MERGER	42,235		360,983
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE IN NUMBER OF CONSOLIDATED SUBSIDIARIES (Note 2.a)	(450)		(3,846)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	38,182	23,483	326,342
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4.a)	¥ 71,319	¥ 38,182	$ 609,564

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and Consolidated Subsidiaries
Years Ended March 31, 2006 and 2005

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥117 to U.S.$1, the approximate rate of exchange at March 31, 2006. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The Company and consolidated subsidiaries (together, the "Group") made reclassification to recognize royalty income as net sales from fiscal year beginning on or after April 1, 2005. In accordance with this reclassification, the consolidated financial statements of 2005 have been made reclassifications. In addition, certain reclassifications have been made in the 2005 consolidated financial statements to conform to the classifications applied in 2006. These reclassifications had no effect on previously reported net income or retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and its 1 significant subsidiary.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

During the year ended March 31, 2006, the Company excluded three subsidiaries from consolidation because of lowering of materiality for consolidated financial statements related to the merger with Sumitomo Pharmaceuticals Co., Ltd. at October 1, 2005. See Note 3.

Investments in the unconsolidated subsidiaries and all affiliates are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The differences between the costs of the Company's investments in consolidated subsidiaries and its equities in the net assets at the respective dates of acquisition, are amortized over 5 years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature within three months of the date of acquisition.

c. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and ii) available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. If a decline in fair value below cost of investment securities is material and other than temporary, carrying values of investment securities are reduced to net realizable value by a charge to income.

d. Inventories

Inventories are stated at cost, determined by the average method.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of buildings is computed by the straight-line method over the estimated useful lives of the assets. Depreciation of machinery and equipment is computed by the declining-balance method over the estimated useful lives of the assets. Ranges of useful lives used in the computation of depreciation are as follows:

Buildings	3–60 years
Machinery and equipment	2–17 years

f. Intangible Assets

Intangible assets are stated at cost less accumulated amortization, which is computed by the straight-line method.

g. Impairment of Fixed Assets

In August 2002, the Business Accounting Council issued the Statement of Opinion, "Accounting for Impairment of Fixed Assets," and in October 2003 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 6, "Guidance for Accounting Standard for Impairment of Fixed Assets." These accounting standards are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The Group adopted these accounting standards for the year ended March 31, 2006. As a result of adoption of these accounting standards, a loss on impairment of property, plant and equipment in the amount of ¥91 million ($778 thousand) was recognized and operating income increased ¥1 million ($9 thousand) and income before income taxes and minority interests decreased ¥90 million ($769 thousand) for the year ended March 31, 2006 as compared with correspondings under the previous method.

h. Liability for Retirement Benefits

Upon retirement or termination of employment, employees are normally entitled to lump-sum and/or annuity payments based on current rate of pay and length of service.

The Group has a lump-sum plan, a defined benefit pension plan and a defined contribution plan for employees: a non-contributory and a contributory funded defined benefit pension plans. The liability for retirement benefit is provided based on projected benefit obligations and plan assets at the balance sheet date.

The liability for retirement benefits for directors and corporate auditors was recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at balance sheet date at March 31, 2005. The liability for retirement benefits includes retirement benefits for those directors and corporate auditors at March 31, 2005 of ¥549 million. The Company abolished the plan of retirement benefits for directors and corporate auditors at June 29, 2005. These benefits related to the term registered will be paid at the time of their retirement. The liabilities of ¥249 million ($2,128 thousand) for retirement benefits for directors and corporate auditors at abolition date are presented as other current liabilities for the year ended March 31, 2006.

i. Research and Development Costs

Research and development costs are charged to income as incurred. Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2006 and 2005 were ¥29,636 million ($253,299 thousand) and ¥17,444 million, respectively.

j. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements.

k. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

l. Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders' approval.

m. Foreign Currency Items

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

n. Per Share Information

Net income per share is computed by dividing net income available to common shareholders, by using the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

The number of shares used in the calculation of net income per share was 280,991 thousand and 165,113 thousand for the year ended March 31, 2006 and 2005, respectively.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

o. New Accounting Pronouncements

Business Combination

In October 2003, the Business Accounting Council issued the Statement of Opinion, "Accounting for Business Combination," and in December 2005 the Accounting Standards Board of Japan (ASBJ) issued ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combination and Business Separation." These new pronouncements are effective for fiscal years beginning on or after April 1, 2006.

The new accounting Standards requires business combinations to be accounted for primarily by the purchase method and permits certain limited business combinations to be accounted for by the pooling-of-interest method. The Company accounted for the merger with Sumitomo Pharmaceuticals Co., Ltd. by the pooling-of-interest method. See Note 3.

3. MERGER WITH SUMITOMO PHARMACEUTICALS CO., LTD. ("SUMITOMO")

Pursuant to resolutions made by general shareholders' meetings of the Company held on June 29, 2005 and Sumitomo held on June 22, 2005 to approve the merger agreement, the Company merged with Sumitomo effective October 1, 2005 and changed its name to Dainippon Sumitomo Pharma Co., Ltd. and at the same time, the company became a subsidiary of Sumitomo Chemical Co., Ltd.

The following summarizes the descriptions of the merger.

1. The Company issued 232,716,000 shares of common stock and allotted them to shareholders of Sumitomo registered in the shareholders register as of the day prior to the effective date of merger at the rate of 1,290 shares of the Company in exchange for one share of common stock of Sumitomo. Among the shares that were allotted to the shareholders of Sumitomo, 3,000,000 shares were from the Company's treasury stock.
2. At December 9, 2005, the Company paid ¥16,000 ($137) per share as a cash payment upon the merger, in lieu of the semiannual interim dividends for the fiscal year ended March 31, 2006 to the shareholders of Sumitomo, who were registered in the shareholders register as of the day prior to the effective date of merger.
3. Following the merger, common stock, legal reserve and voluntary reserve of the Company increased by ¥8,956 million ($76,547 thousand), ¥2,255 million ($19,274 thousand) and ¥118,874 million ($1,016,017 thousand), respectively. As a result, common stock, legal reserve and voluntary reserve of the Company amounted to ¥22,400 million ($191,453 thousand), ¥5,288 million ($45,197 thousand) and ¥218,735 million ($1,869,530 thousand), respectively. None of capital surplus increased related to the merger.
4. The assets acquired and liabilities assumed from Sumitomo were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total assets	¥ 184,394	$ 1,576,017
Current assets	120,152	1,026,940
Net property, plant and equipment	38,444	328,581
Investments and other assets	25,798	220,496
Total liabilities	¥ 48,406	$ 413,726
Current liabilities	36,188	309,299
Long-term liabilities	12,218	104,427

4. SUPPLEMENTARY CASH FLOW INFORMATION

a. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2006 and 2005 for purposes of the consolidated statements of cash flows consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	**2006**
Cash and time deposits	**¥ 60,327**	¥ 35,190	**$ 515,616**
Time deposits with maturity over three months	**(2,000)**	(19)	**(17,094)**
Marketable securities with a maturity of three months or less when purchased	**12,992**	3,011	**111,042**
Cash and cash equivalents	**¥ 71,319**	¥ 38,182	**$ 609,564**

b. Significant Non-cash Transaction

Related to the merger with Sumitomo Pharmaceuticals Co., Ltd. effective October 1, 2005, the Company acquired the assets and assumed liabilities from Sumitomo Pharmaceuticals Co., Ltd. See Note 3.

5. INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Finished goods	¥ 14,984	¥ 9,323	$ 128,068
Semi-finished goods and work in process	21,400	3,823	182,906
Raw materials and supplies	7,733	3,071	66,094
Total	¥ 44,117	¥ 16,217	$ 377,068

6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Current:			
Corporate bonds	¥ 1,003	¥ 1,500	$ 8,573
Commercial paper and other	12,992	3,011	111,042
Total	¥ 13,995	¥ 4,511	$ 119,615
Non-current:			
Equity securities	¥ 45,425	¥ 26,279	$ 388,248
Government and corporate bonds	995	640	8,504
Trust fund investments and other	1,079	1,853	9,222
Total	¥ 47,499	¥ 28,772	$ 405,974

The carrying amounts and aggregate fair values of marketable and investments securities at March 31, 2006 and 2005 were as follows:

	Millions of Yen			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥15,157	¥29,301		¥44,458
Other securities	76	3		79
Held-to-maturity	1,998		¥(50)	1,948

	Millions of Yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥12,119	¥13,684	¥ (98)	¥25,705
Other securities	862	41	(50)	853
Held-to-maturity	2,140	1	(319)	1,822

	Thousands of U.S. Dollars			
	2006			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$129,547	$250,436		$379,983
Other securities	649	26		675
Held-to-maturity	17,077		$(427)	16,650

Available-for-sale securities and held-to-maturity securities with no available fair value as of March 31, 2006 and 2005 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Available-for-sale:			
Equity securities	¥ 1,967	¥ 1,574	$ 16,812
Money management funds (MMF) and other		11	
Held-to-maturity:			
Commercial paper	12,992	3,000	111,042
Total	¥ 14,959	¥ 4,585	$ 127,854

Proceeds from sales of available-for-sale securities were ¥2,887 million ($24,675 thousand) and ¥6,417 million for the years ended March 31, 2006 and 2005, respectively. On those sales, gross realized gains and losses computed on a moving-average cost basis were ¥1,942 million ($16,598 thousand) and ¥41 million ($350 thousand), respectively, for the year ended March 31, 2006, and ¥2,720 million and ¥40 million, respectively, for the year ended March 31, 2005. Gross realized gains of ¥1,853 million ($15,838 thousand), respectively, for the years ended March 31, 2006 and 2005 resulted from sales of equity securities of ABBOTT JAPAN Co., Ltd.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Due in one year or less	¥ 13,995	¥ 4,500	$ 119,615
Due after one year through five years	995	1,086	8,505
Due after five years through ten years		154	
Total	¥ 14,990	¥ 5,740	$ 128,120

At March 31, 2006, investment securities of ¥22 million ($188 thousand) were pledged as collateral for accounts payable of ¥141 million ($1,205 thousand). At March 31, 2005, investment securities of ¥15 million were pledged as collateral for accounts payable of ¥64 million.

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

Short-term bank loans consist of unsecured loans from banks bearing interest of 0.57% to 0.79% at March 31, 2006 and 2005, respectively. Other liabilities as of March 31, 2006 and 2005 include deposits received from customers in the amount of ¥3,727 million ($31,855 thousand) and ¥734 million, respectively, bearing interest of 0.03% and 1.88%, respectively.

Long-term debt at March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Unsecured loans from banks and financial institutions due 2008	¥ 5,100	¥ 7,000	$ 43,590
Unsecured loans for employees' housing	189		1,615
Total	5,289	7,000	45,205
Less current portion	13		111
Long-term debt, less current portion	¥ 5,276	¥ 7,000	$ 45,094

The aggregate annual maturities of long-term debt were as follows:

Year ending March 31	Millions of Yen	Thousands of U.S. Dollars
2007	¥ 13	$ 111
2008	13	111
2009	5,113	43,701
2010	13	111
2011 and thereafter	137	1,171
Total	¥ 5,289	$ 45,205

8. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the year ended March 31, 2006 and 2005.

Significant components of deferred tax assets and liabilities as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Deferred tax assets:			
Liability for retirement benefits	¥ 5,406	¥ 2,318	$ 46,205
Accrued enterprise taxes	692	362	5,915
Accrued bonuses to employees	3,273	1,669	27,974
Accrued other expenses	293	429	2,504
Loss on devaluation of investment securities	1,138	910	9,727
Research and development costs	3,180	667	27,179
Inventories	2,054	548	17,556
Other	8,304	2,754	70,974
Total deferred tax assets	24,340	9,657	208,034
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(11,923)	(5,517)	(101,906)
Deferred gain on sales of fixed assets	(802)	(239)	(6,855)
Other	(115)	(79)	(983)
Total deferred tax liabilities	(12,840)	(5,835)	(109,744)
Net deferred tax assets	¥ 11,500	¥ 3,822	$ 98,290

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2006 and 2005 was as follows:

	2006	2005
Normal effective statutory tax rate	**40.6%**	40.6%
Increase (decrease) in taxes due to:		
Expenses not deductible for tax purposes	**6.0**	7.6
Non-taxable dividend income	**(0.5)**	(1.2)
Tax credits for research and development costs	**(6.6)**	(8.1)
Other	**0.4**	1.1
Actual effective tax rate	**39.9%**	40.0%

9. RETIREMENT AND SEVERANCE BENEFITS

The liability (asset) for employees' retirement benefits at March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Projected benefit obligation	**¥ 81,041**	¥ 38,562	**$ 692,658**
Fair value of plan assets	**(87,257)**	(32,626)	**(745,786)**
Unrecognized prior service benefit	**3,228**	3,518	**27,590**
Unrecognized actuarial gain/loss	**15,052**	(4,343)	**128,650**
Prepaid pension cost	**2,052**	722	**17,538**
Liability for employees' retirement benefit	**¥ 14,116**	¥ 5,833	**$ 120,650**

Consolidated subsidiaries have adopted the simplified calculation method for projected benefit obligation allowed for small business entities in Japan. The components of net periodic retirement benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Service cost	**¥ 2,446**	¥ 1,851	**$ 20,906**
Interest cost	**1,271**	963	**10,863**
Expected return on plan assets	**(876)**	(519)	**(7,487)**
Amortization of prior service cost	**(290)**	(290)	**(2,478)**
Recognized actuarial gain/loss	**346**	761	**2,957**
Net periodic benefit costs	**¥ 2,897**	¥ 2,766	**$ 24,761**
Gains on transfer of the substitutional portion of the government pension program	**(782)**		**(6,684)**
Contribution payment to a defined contribution pension	**186**	179	**1,590**
Total	**¥ 2,301**	¥ 2,945	**$ 19,667**

The Company had two types of pension plans for employees: a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labour and Welfare on September 25, 2003 and recognized a gain on exemption from the future pension obligation of the governmental program in the amount of ¥2,273 million for the year ended March 31, 2004. The Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labour and Welfare on December 1, 2004.

The Company transferred the substitutional portion of the pension obligations of ¥12,825 million ($109,615 thousand) and related assets to the government on August 9, 2005 and recognized a gain of ¥782 million ($6,684 thousand) on difference between the amount of substitutional portion of the pension obligations expected at the time of approval for exemption from the future obligation and the amount of transferred these obligations the year ended March 31, 2006.

Also, according to the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company implemented a defined contribution pension plan on April 2, 2004 by which a portion of the lump-sum payment plan was terminated. The Company applied accounting treatment specified in the guidance issued by the Accounting Standards Board of Japan. The plan assets of ¥1,782 million will be transferred over a period of 8 years beginning in 2004.

At March 31, 2006, the plan assets not yet transferred for the company totaling ¥1,312 million ($11,214 thousand) were presented as other current liabilities and other liabilities.

Assumptions used for the years ended March 31, 2006 and 2005 were set forth as follows:

	2006	2005
Method of attributing benefits to periods of service	straight-line basis	straight-line basis
Discount rate	2.0%	2.5%
Expected rate of return on plan assets	2.0%	2.5%
Amortization period for prior service cost	15 years	15 years
Recognition period for actuarial loss	15 years	15 years

10. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equal 25% of common stock. The total amount of additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders' meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥226,031 million ($1,931,889 thousand) as of March 31, 2006 based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

On May 1, 2006, a new corporate law (the "Corporate Law") became effective, which reformed and replaced the Code with various revisions that would, for the most part, be applicable to events or transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006. The significant changes in the Corporate Law that affect financial and accounting matters are summarized below:

Under the Corporate Law, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria such as: (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except

for dividends in kind) if the company has prescribed so in its articles of incorporation. The Corporate Law permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. Under the Code, certain limitations were imposed on the amount of capital surplus and retained earnings available for dividends. The Corporate Law also provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

On December 9, 2005, the Accounting Standards Board of Japan (ASBJ) published a new accounting standard for presentation of shareholders' equity. Under this accounting standard, certain items which were previously presented as liabilities are now presented as components of shareholders' equity. Such items include stock acquisition rights, minority interest, and any deferred gain or loss on derivatives accounted for under hedge accounting. This standard is effective for fiscal years ending on or after May 1, 2006.

11. TRANSACTIONS WITH PARENT COMPANY, UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Transactions of the Group with the parent Company, Sumitomo Chemical Co., Ltd., non-consolidated subsidiaries and affiliates for the years ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Sales	¥ 607	¥ 117	$ 5,188
Purchases	6,191	2,514	52,915

12. RELATED PARTY TRANSACTIONS

Transactions of the Group with the Parent Company, Sumitomo Chemical Co., Ltd., for the year ended March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2006	2006
Sales of products	¥ 8	$ 68
Purchases of products	1,421	12,145
Payment of other expenses	682	5,829
Sales of other assets	5	43

The balances due to or from the Parent Company, Sumitomo Chemical Co., Ltd., at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2006	2006
Trade receivables accounts	¥ 2	$ 17
Other current assets	4	34
Trade payable accounts	1,082	9,248

13. LEASES

The Group leases certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2006 and 2005 were ¥4,978 million ($42,547 thousand) and ¥2,468 million, respectively, including ¥1,118 million ($9,556 thousand) and ¥680 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Machinery and equipment:			
Acquisition cost	¥ 4,527	¥ 2,677	$ 38,692
Accumulated depreciation	(1,873)	(1,431)	(16,008)
Net leased property	¥ 2,654	¥ 1,246	$ 22,684

	Millions of Yen		Thousands of U.S. Dollars
	2006	2005	2006
Obligations under finance leases:			
Due within one year	¥ 1,049	¥ 545	$ 8,966
Due after one year	1,605	701	13,718
Total	¥ 2,654	¥ 1,246	$ 22,684

Depreciation expenses, which are not reflected in the accompanying statements of income, computed by the straight-line method were ¥1,118 million ($9,556 thousand) and ¥680 million for the years ended March 31, 2006 and 2005, respectively.

14. SEGMENT INFORMATION

The Group operates in two business segments—Pharmaceuticals and Other products. The business segment information of the Group for the years ended March 31, 2006 and 2005 was as follows:

	Millions of Yen				
	2006				
	Pharma-ceuticals	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income					
Sales to customers	¥192,602	¥53,182	¥ 245,784		¥245,784
Intersegment sales/transfers		529	529	¥ (529)	
Total	192,602	53,711	246,313	(529)	245,784
Operating expenses	164,852	52,575	217,427	¥ (529)	216,898
Operating income	¥ 27,750	¥ 1,136	¥ 28,886		¥ 28,886
II. Identifiable assets, depreciation and capital expenditures					
Identifiable assets	¥245,599	¥24,140	¥269,739	¥123,227	¥392,966
Depreciation	8,256	331	8,587		8,587
Capital expenditures	6,352	264	6,616		6,616

	Thousands of U.S. Dollars				
	2006				
	Pharma-ceuticals	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income					
Sales to customers	$1,646,171	$454,547	$2,100,718		$2,100,718
Intersegment sales/transfers		4,521	4,521	$ (4,521)	
Total	1,646,171	459,068	2,105,239	(4,521)	2,100,718
Operating expenses	1,408,991	449,359	1,858,350	$ (4,521)	1,853,829
Operating income	$ 237,180	$ 9,709	$ 246,889		$ 246,889
II. Identifiable assets, depreciation and capital expenditures					
Identifiable assets	$2,099,137	$206,325	$2,305,462	$1,053,222	$3,358,684
Depreciation	70,564	2,829	73,393		73,393
Capital expenditures	54,291	2,256	56,547		56,547

	Millions of Yen				
	2005				
	Pharma-ceuticals	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income					
Sales to customers	¥123,817	¥51,271	¥175,088		¥175,088
Intersegment sales/transfers		1,099	1,099	¥(1,099)	
Total	123,817	52,370	176,187	(1,099)	¥175,088
Operating expenses	114,581	50,021	164,602	¥(1,099)	163,503
Operating income	¥ 9,236	¥ 2,349	¥ 11,585		¥ 11,585
II. Identifiable assets, depreciation and capital expenditures					
Identifiable assets	¥114,886	¥21,693	¥136,579	¥64,852	¥201,431
Depreciation	4,737	393	5,130		5,130
Capital expenditures	2,828	236	3,064		3,064

Each business segment comprises the following:

Business Segment	Major Product
Pharmaceuticals	Cardiovascular system drugs
	Antibacterial and antibiotic agents
	Central nervous system and antiallergic drugs
	Nutrients, hormones and vitamins
Other Products	Animal health products
	Feeds and feed additives
	Food additives
	Diagnostics
	Other products (industrial chemicals, research reagents and instruments, etc.)

Geographical segment information and overseas sales information are not disclosed, because none of the Company's consolidated subsidiaries is located outside Japan, and the overseas sales of the Group for the years ended March 31, 2006 and 2005 were less than 10% of consolidated net sales.

15. CONTINGENT LIABILITIES

Contingent liabilities for guarantees of indebtedness of an affiliate, and employees' housing loans guaranteed at March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of indebtedness	¥ 1,280	$ 10,940
Loans guaranteed	12	103

16. SUBSEQUENT EVENTS

The outline of an appropriation of profit

On June 29, 2006, the shareholders of the Company approved payment of a year-end cash dividend to shareholders of record at March 31, 2006 of ¥7.00 ($0.06) per share or a total of ¥2,783 million ($23,786 thousand), and bonuses to directors of ¥40 million ($342 thousand).

Re-employment assistance plan

The Company offered a re-employment assistance plan to employees (aged 45 years or over at the date of June 30, 2006, except employees working in manufacturing facilities) from April 3, 2006 to April 14, 2006 and 124 employees applied and decided to retire from the Company at June 30, 2006. As a result of the application of this plan, the Company will recognize the amount of ¥2,939 million ($25,120 thousand) as additional retirement expenses for the year ending March 31, 2007.

Independent Auditors' Report

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To the Board of Directors of Dainippon Sumitomo Pharma Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Dainippon Sumitomo Pharma Co., Ltd. (formerly Dainippon Pharmaceutical Co., Ltd.) and consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dainippon Sumitomo Pharma Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 2, effective April 1, 2005, the consolidated financial statements have been prepared in accordance with the new accounting standard for impairment of fixed assets.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2006

Member of
Deloitte Touche Tohmatsu

Corporate Profile (As of March 31, 2006)

Name:
Dainippon Sumitomo Pharma Co., Ltd.

Establishment:
May 14, 1897

Date of Merger:
October 1, 2005

Headquarters:
6-8 Doshomachi 2-chome, Chuo-ku, Osaka 541-0045, Japan
TEL: +81-6-6203-5321
FAX: +81-6-6202-6028

Capital:
¥22.4 billion

Employees:
5,142 (consolidated), 5,061 (non-consolidated)

Total Number of Shares Issued:
397,900,154

Total Number of Shareholders:
15,944

Stock Exchange Listings:
First Sections of Tokyo, Osaka and Nagoya

Securities Code:
4506

Independent Public Accountants:
Deloitte Touche Tohmatsu (Independent public accountants changed to KPMG AZSA & Co. on June 29, 2006)

Fiscal Year-end:
March 31

Ordinary General Meeting of Shareholders:
June

Administrator of Shareholders' Register:
The Sumitomo Trust & Banking Co., Ltd.

Lead Manager:
(Main) Daiwa Securities SMBC Co. Ltd.
(Sub) Nikko Cordial Securities Inc.

Main Bank:
Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd.

Method of Public Notice:
Nihon Keizai Shimbun

Key Facilities:
Headquarters (Osaka), Tokyo Office (Tokyo), Osaka Center (Osaka), 22 Branches, 4 Plants (Mie, Osaka, Ehime, Oita), 2 Research Laboratories (Osaka)

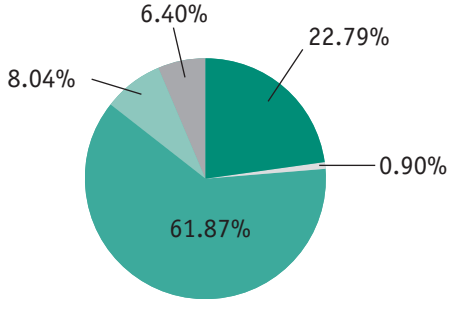
Consolidated Subsidiary:
Gokyo Trading Co., Ltd.

Principal Shareholders

Name	Number of Shares Held (Thousand Shares)	Percentage of Issued Shares
Sumitomo Chemical Co., Ltd.	199,434	50.12%
Inabata & Co., Ltd.	33,282	8.36%
The Master Trust Bank of Japan, Ltd. (trust accounts)	18,765	4.72%
Japan Trustee Services Bank, Ltd. (trust accounts)	10,710	2.69%
Nippon Life Insurance Company	10,530	2.65%
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%
Nissay Dowa General Insurance Co., Ltd.	4,928	1.24%
Mitsubishi UFJ Trust and Banking Corporation (trust accounts)	4,249	1.07%
The Dai-ichi Mutual Life Insurance Company	3,248	0.82%

Composition of Shareholders

Financial Institutions	22.79%
Securities Companies	0.90%
Other Corporations	61.87%
Foreign-based Corporations and Others	8.04%
Individuals and Others	6.40%



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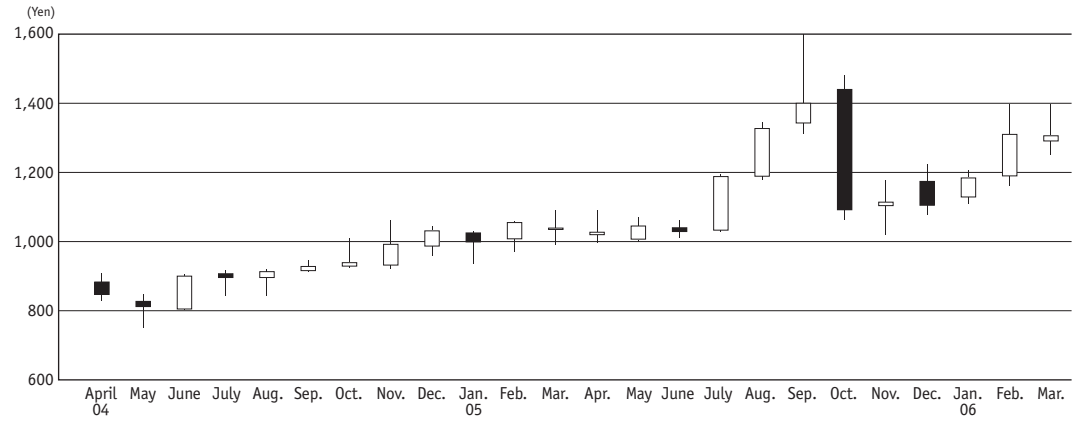
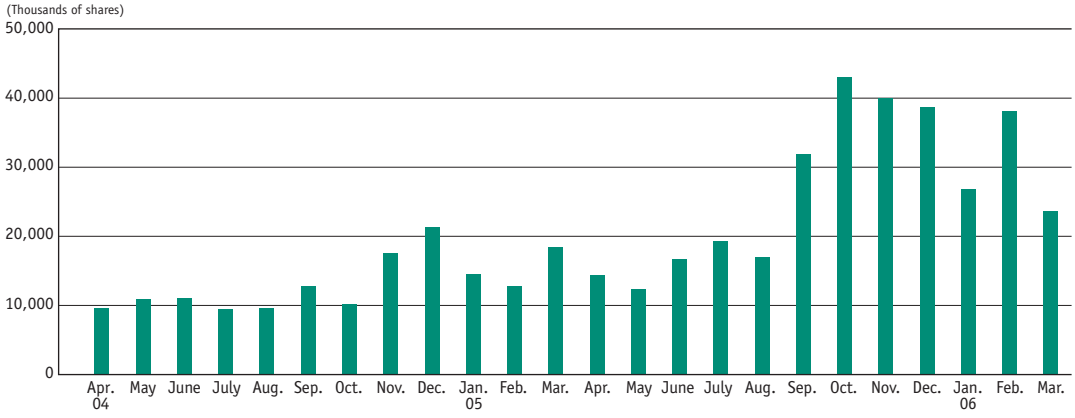


Turnover



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