DAINIPPON SUMITOMO PHARMA

Designing The Future

Annual Report 2007

For the year ended March 31, 2007

Dainippon Sumitomo Pharma Co., Ltd.

DAINIPPON SUMITOMO PHARMA

Designing the Future

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

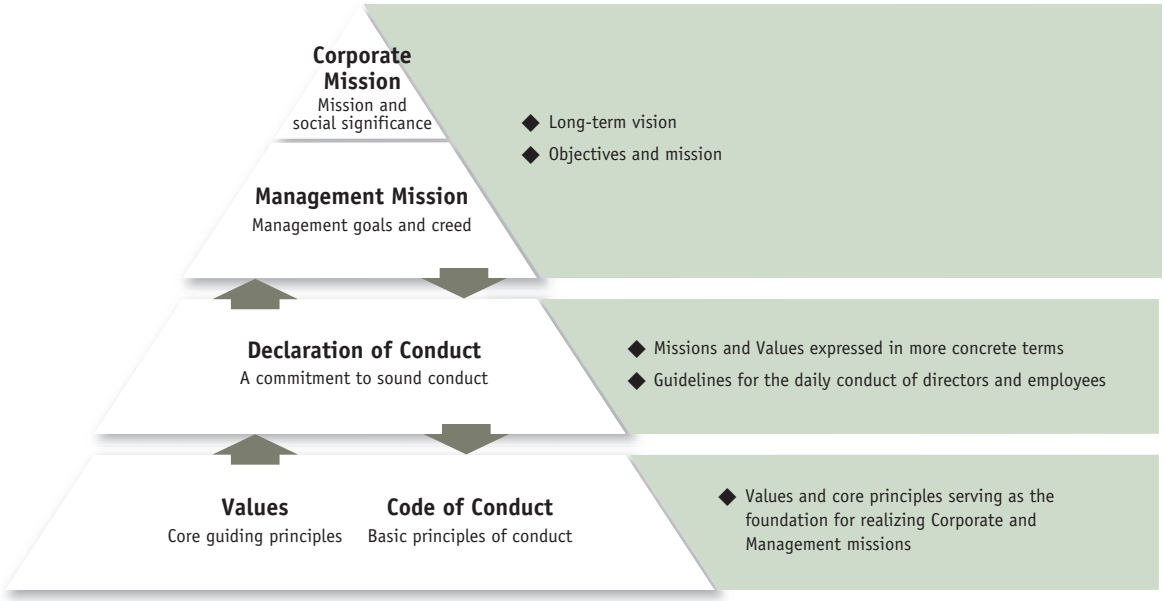
Management Mission

- 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 CHAIRMAN AND PRESIDENT

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

Dainippon Sumitomo Pharma (DSP) has completed its post-merger integration process as of the fiscal year ended March 2007, taking one year and six months since the merger. In the current fiscal year, the Company intends to maximize synergy effects brought by the merger.

We drew up the Company's Mid to Long-term Vision, envisaging what the Company should be ideally ten years later and embarked on a three-year (fiscal year 2008-2010, covering the period from April 2007 to March 2010) business plan toward realization of the Mid to Long-term Vision, which was announced officially in February 2007. We will implement strategic investment plans for our future growth during this fiscal year with emphasis on realization of "Strengthening our business foundation for the first step to become a global corporation" which is a basic policy of the three-year Mid-term Business Plan, whilst strengthening our domestic business foundation.

Financial Highlights

	Millions of Yen		Percent Change	Thousands of U.S. Dollars (Note 1)
	2007	2006	2007/2006	2007
For the Year:				
Net sales	¥261,213	¥245,784	6.3%	$2,213,669
Operating income	45,555	28,886	57.7	386,059
Net income	22,605	15,377	47.0	191,568
R&D costs	40,870	29,636	37.9	346,356
Capital expenditures	9,543	6,616	44.2	80,873
Depreciation and amortization	12,008	8,901	34.9	101,763
At Year-End:				
Total assets	382,535	392,966		
Net assets	306,012	288,633		
	Yen			U.S. Dollars (Note 1)
Per Share of Common Stock:				
Net income	¥ 56.86	¥ 54.57		$ 0.48
Cash dividends	14.00	12.00		0.12
	%			
Key Ratios:				
Return on equity (ROE)	7.6%	7.3%		
Return on assets (ROA)	5.8	5.2		

Notes: 1. Japanese yen amounts have been translated into U.S. dollar amounts solely for the convenience of readers outside Japan at the approximate exchange rate of ¥118 to U.S.$1 at March 31, 2007.

2. Effective from the fiscal year ended March 31, 2007, Dainippon Sumitomo Pharma Co., Ltd. and its consolidated subsidiaries have adopted the "Accounting Standard for Presentation of Net Assets in the Balance Sheet." Financial highlights for the fiscal year ended March 31, 2006 have been reclassified in line with the adoption of this accounting standard.

FRAMEWORKS COMPLETED TO MAXIMIZE SYNERGY EFFECTS

DSP was created in October 2005 through the merger of Dainippon Pharmaceutical Co., Ltd. and Sumitomo Pharmaceuticals Co., Ltd. Since then, DSP has moved swiftly to realize an integrated R&D organization, with streamlining of operating bases, and integration of various systems including that of personnel, and thus, completed the whole process required for post-merger integration by the fiscal year ended March 2007, whereby the Company is now ready to pursue synergy effects to full effect.

RESULTS FOR THE FISCAL YEAR ENDED MARCH 2007

The Japanese economy remained on a recovery path during the fiscal year ended March 2007, buoyed by increased capital investments and improved employment conditions as a result of robust corporate earnings. However, the business climate within the Japanese pharmaceutical industry remained harsh due to ongoing pressure to restrict medical expenditures, which prompted further intensification of competition among domestic and foreign pharmaceutical companies. Faced with such conditions, we continued to work on expansion of the Company's presence through our 1,500-strong force of medical representatives (MRs) with sales and marketing strategies focused particularly on heightening of customer satisfaction. We also pursued synergies in respect of cost by streamlining product pipeline and optimizing workforce.

Through these various efforts we were able to attain a solid growth in terms of sales and profits. Consolidated net sales for the fiscal year ended March 2007 increased 6.3% from the previous year to ¥261.2 billion. Operating income climbed 57.7% to ¥45.6 billion, and net income increased 47.0% to ¥22.6 billion. Reflecting the steady progress that we have achieved since the merger, we set annual dividend per share at ¥14.00 (including an interim dividend of ¥7.00).

POLICY FOR RETURN TO SHAREHOLDERS

Our policy is to increase corporate value while stressing always the importance of delivering an appropriate return to shareholders. Going forward, we plan to devote ourselves to delivering a level of return to shareholdj/s that is commensurate with performance while at the same time seeking to enhance our business foundation. By investing aggressively to spur future growth, we aim to realize a dividend to consolidated earnings ratio of 30% in the fiscal year ending March 2010, the final year of the Mid-term Business Plan.

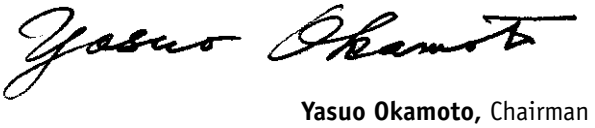
ENVISIONED CORPORATE STATUS WITHIN THE NEXT TEN YEARS FOR DSP

We have formulated long-term business visions for DSP describing what we should be ideally in 10 years' time. They are: (1) establishing a solid foundation of our domestic business; (2) expanding our international business operation; and (3) enriching our R&D product pipeline. To realize the Mid to Long-term Vision, we set three steps. As the first step, we have formulated the three-year Mid-term Business Plan starting with the fiscal year ending March 2008.

The most important objective of this first step is to create a firm operational base needed to achieve our long-term visions with a particular emphasis on "Strengthening our business foundation for the first step to become a global corporation". The second step is to enter a growth period based on the solid base built up under the first step. The third step is to put the Company on a sustained growth footing. By taking these steps one by one, we intend to attain our long-term goal.

While achieving sustainable growth through such a steady step-up approach as mentioned above, we will maximize our corporate value and meet expectations of our stakeholders.

August 2007



Yasuo Okamoto, Chairman

Kenjiro Miyatake, President

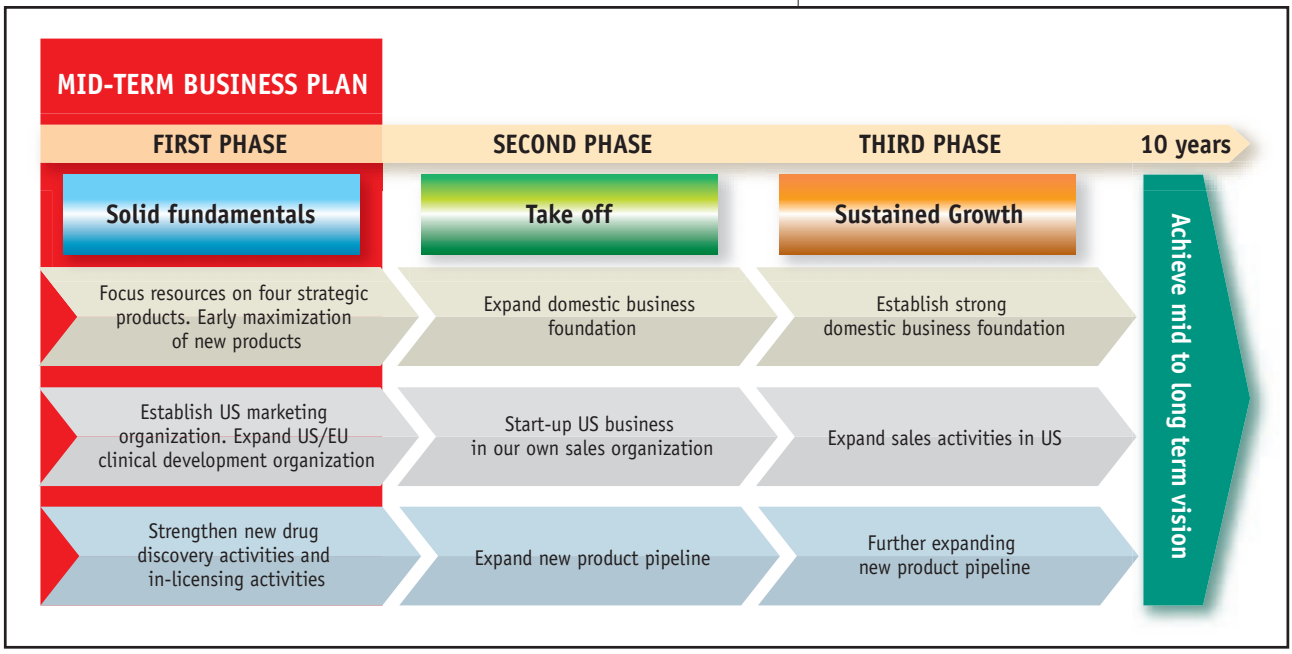
Mid-term Business Plan

ENVISIONED OUR CORPORATE STATUS WITHIN THE NEXT TEN YEARS

AN INTERVIEW WITH PRESIDENT KENJIRO MIYATAKE

DSP has formulated "the Mid-term Business Plan" starting in the fiscal year ending March 2008. While implementing aggressive strategic investment plans, the Company intends to "establish and enhance its domestic business base" and "reinforce its business structure toward global business development".

Achieving Our Long-Term Business Visions



FORMULATION OF THE MID-TERM BUSINESS PLAN

On February 27, 2007, DSP announced the Mid-term Business Plan, the first plan of this sort since the merger. I instructed that this plan should be worked out mainly by younger members who would become a pillar of DSP's future management. They will become the core of management in 10 to 15 years from now. We organized a team of 14 people to work on formulation of the plan, including 4 full-time team members and 10 representatives from respective sectors on a part-time basis. Four executive officers participated in the planning process, but only as observers. Now I am confident that we were able to produce a fair, motivated and challenging plan for DSP particularly because it was made largely by 14 young staff members. This first mid-term business plan is a critical step to achieve our 10-year business visions. We are not allowed to fail. I sincerely hope that all employees together with management will unite efforts to make sure that the plan is achieved.



Q1. WHAT IS THE POSITIONING OF THE FY2008-10 MID-TERM BUSINESS PLAN WITHIN DSP'S LONG-TERM BUSINESS VISIONS, AND WHAT DOES THE PLAN ENTAIL?

The FY2008-10 Mid-term Business Plan represents the first of the three phases that are required for us to realize DSP's long-term visions. In this first three-year plan, our main goal is to advance our business foundation. There are three core tasks. First is to concentrate resources on four strategic products and accelerate sales maximization of newly-launched products. Second is to prepare for building up our own sales and marketing network in the United States while enhancing our development capabilities in other parts of the world, too. The third core task is to upgrade our abilities to create new drugs and activate in-licensing. Through these three basic initiatives we aim to boost the corporate value toward a global company. Since the merger, we have steadily gained synergies in three areas; business, cost and culture. By the end of March 2007, we completed the whole integration process, and in line with our original plan, effective April 2007 we have embarked on the new mid-term business plan, which aims to maximize synergy effects resulting from the merger. I see the year ending March 2008 as the most important year for making these effects clearly visible to all of the stakeholders. The key theme for us is to construct a solid base of operations over the three-year plan period by achieving the goals of the plan as formulated.

Long-Term Business Visions

Envisioned our corporate status within the next ten years

- ✤ Establish a solid foundation of our domestic business
- ✤ Expand our international business operation
- ✤ Enrich our R&D product pipeline to realize future vision

Future vision within 15 years

- ✦ Becoming an internationally competitive R&D oriented pharmaceutical company
- ✦ Two solid mainstreams of our revenue, from domestic operation and from international operation

Basic Strategies

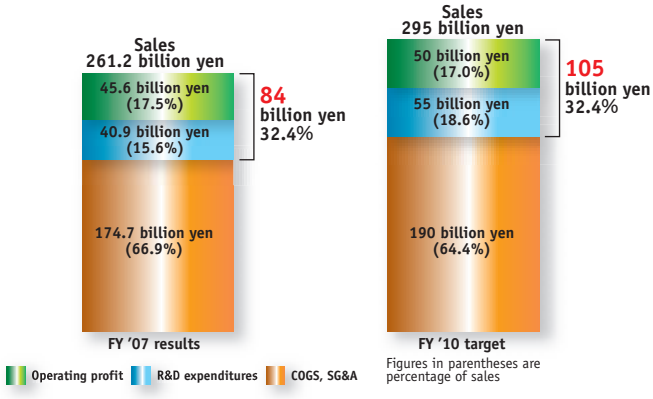
Strengthen our business foundation for the first step to become a global corporation

1. Strengthening our domestic business foundation
2. Strengthening our R&D organization for strong flow of the pipeline products
3. Preparing international operation structure
4. Strengthening strategic partnership
5. Striving for efficient management and for efficient and profitable corporate structure
6. Establishment of "DSP Management"

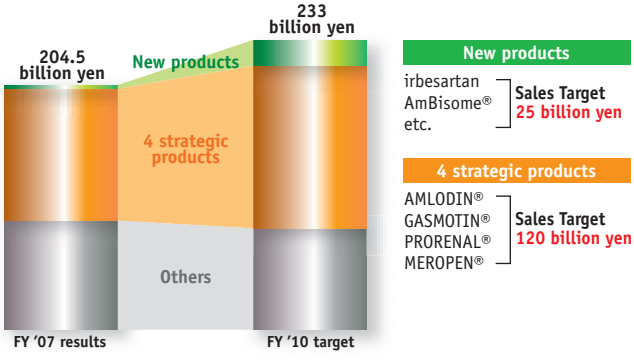
FY 2009 Business Goals

	FY '07 results	FY '10 goals
Net Sales	261.2 billion yen	295 billion yen
[pharmaceuticals]	[206.3 billion yen]	[233 billion yen]
Operating income	45.6 billion yen	50 billion yen
Net income	22.6 billion yen	30 billion yen
R&D expenditures	40.9 billion yen	55 billion yen

Profit and Cost Structure



Sales Targets in Pharmaceuticals



Note: Sales targets by category are before rebate deduction base

Strategic Investments for Future Growth

Q2. WHAT ARE KEY MESSAGES OF THE FIRST BASIC POLICY OF MID-TERM BUSINESS PLAN, THAT IS, "STRENGTHEN OUR BUSINESS FOUNDATION FOR THE FIRST STEP TO BECOME A GLOBAL CORPORATION"?

We have set out six policies to achieve this goal. Among them, the first and most important policy is to strengthen our domestic business foundation. Generating stable earnings from the domestic business will secure a profit stream that we can use to re-invest in our overseas business for future growth as well as enhancement of our product pipeline. Either our long-term business visions or the mid-term plan objectives would be unachievable without establishing a solid domestic business foundation.

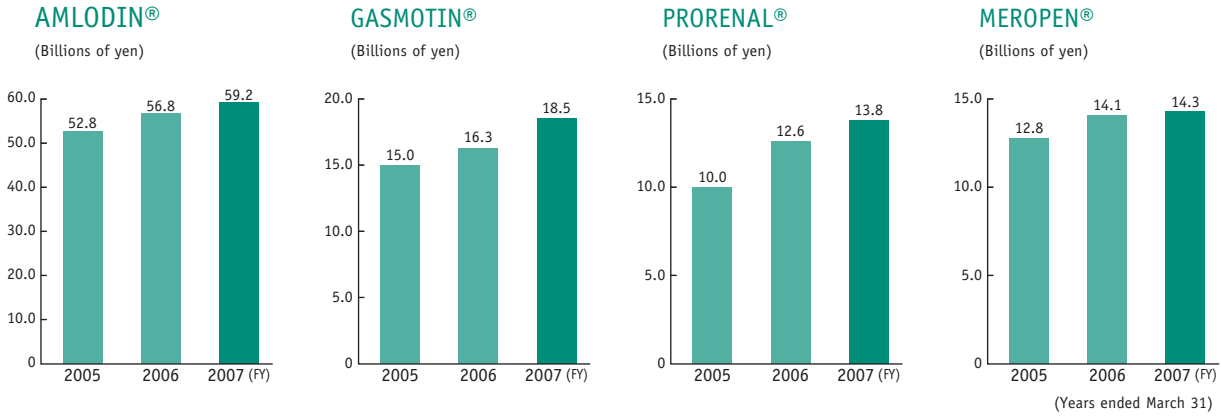
Q3. WILL YOU ELABORATE ON THESE SIX POLICIES?

The first policy is "Strengthening our domestic business foundation" mainly by expanding sales of the four strategic products that will generate a continuous and stable profit stream. The second policy is "Strengthening our R&D organization for strong flow of the pipeline products" by enhancing R&D capability that is the core of a pharmaceutical company and also by accelerating launching of new drugs on a continuous basis. Thirdly, we aim at "Preparing international operation structure" by building the platform that facilitates globalization. Our fourth policy is "Strengthening strategic partnership" by promoting alliances in R&D, marketing, production, and overseas business development. The fifth aim is "Striving for efficient management and for efficient and profitable corporate structure" which means trimming our workforce where required and seeking out cost reduction in production and distribution to realize a more robust financial structure. Finally, our sixth policy involves "the establishment of DSP management" that entails extensive and innovative structural changes toward globalization as well as creation of a corporate culture in which each employee feels highly motivated, whereby DSP's corporate value will be augmented.

Q4. HOW WILL YOU ACHIEVE THE SALES GOAL OF ¥120 BILLION FROM THE FOUR STRATEGIC PRODUCTS IN FISCAL YEAR ENDING MARCH 2010?

Our strategic products are: AMLODIN®, a treatment for hypertension and angina pectoris; GASMOTIN®, a gastroprokinetic agent; PRORENAL®, a vasodilator; and MEROPEN®, a carbapenem antibiotic. In the case of AMLODIN®, we plan to switch to an oral disintegration (OD) tablet formulation. We also expect to see an additional boost to sales when we launch the antihypertensive agent irbesartan, since its introduction will help to increase the quality and frequency of detailing to physicians who are treating patients with elevated blood pressure. With GASMOTIN®, we hope to secure an unchallenged position for the product by increasing its use in functional dyspepsia and thereby expanding sales and base of patients using the drug. PRORENAL® is a drug with a large untapped pool of potential patients. We therefore see a possibility of growing sales by boosting our promotional efforts. Finally, regarding MEROPEN®, which is marketed in more than 100 countries, this drug is already the best-selling product in Japan in the carbapenem antibiotic class. We expect synergistic business effects by selling this drug together with AmBisome®, a therapeutic agent for systemic fungal infection, which was launched in 2006. We plan to allocate our business resources to these four products in a concentrated manner.

Sales of Four Strategic Products

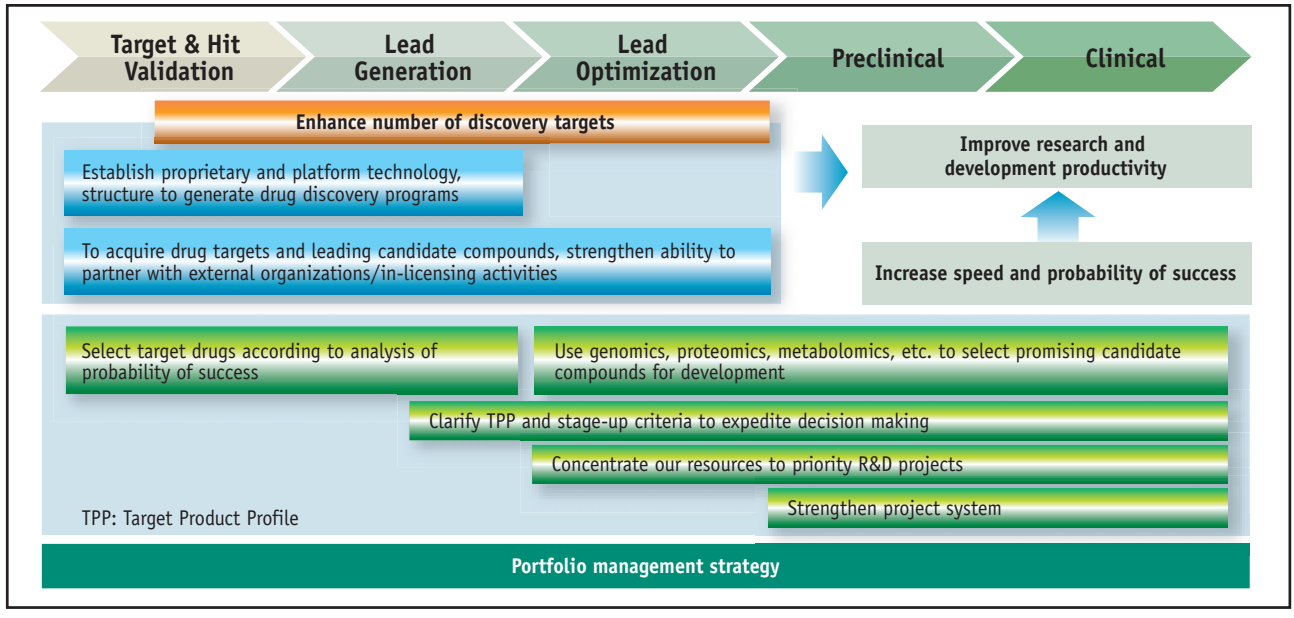


(Years ended March 31)

Q5. YOU HAVE STATED THAT ESTABLISHING A STRONGER R&D ORGANIZATION CAPABLE OF GENERATING A CONTINUOUS STREAM OF NEW DRUGS IS THE KEY TO THE COMPANY'S GROWTH. WHAT ACTIONS IS DSP GOING TO TAKE FOR THIS GOAL?

Enriching our product pipeline is critical to continuous new drug creation, and the Company has therefore prioritized this policy as one of the most important ones. For this purpose, the most important point for us is how to increase the number of discovery programs at an early stage of research. We aim to construct a system in which we actively collaborate with biotech venture firms, academic institutions and other partners to find new drugs, rather than trying to sow all of our research seeds in-house. By making the most of promising opportunities and diversifying our methods strategically instead of doing everything by ourselves as I mentioned above, we will be able to discover new drugs earlier.

Bolster drug-discovery capabilities



Another major advantage of ours in this field is that we have Sumitomo Chemical as our parent company. Jointly with Sumitomo Chemical, we operate the Genomic Science Laboratories and work on improvement of efficiency in R&D, utilizing leading-edge technologies such as genomics.

Q6. WHAT THERAPEUTIC AREAS IS DSP ALLOCATING RESOURCES TO IN DRUG DISCOVERY RESEARCH?

The major therapeutic areas that the Company is allocating resources to are diabetes and cardiovascular conditions, central nervous system (CNS) and the inflammation/allergy area. In the diabetes and cardiovascular field, we are placing emphasis both on marketing and R&D. Our plan is to build a full lineup of products for the benefit of patients in this area including ranirestat, which is under development as a therapeutic agent for diabetes complication. In the CNS area, we have one of the largest lineups of CNS drugs among all Japan's pharmaceutical firms, including blonanserin, which is waiting for approval in Japan. We also have a dedicated MR force of about 70 people concentrating on detailing these drugs. We intend to expand the size of this specialist CNS sales team in the near future.

Q7. WHAT STRUCTURAL CHANGES IS DSP MAKING WITH REGARD TO THE BASIC POLICY "PREPARING INTERNATIONAL OPERATION STRUCTURE"?

In our view, there are three essential resources required for development of overseas operations—product, finance and human resources. Realizing growth will be difficult if you lack any one of these. Our plan is to establish our overseas development base first and gradually build Japan-U.S.-Europe trilateral development structure. Our own sales and marketing set-up in the United States is programmed to be completed and start sales in the second phase of the Mid to Long-term Vision. We will continue clinical development of lurasidone, which is in the most advanced overseas development stage, mainly by our overseas base and intend to launch the drug as the first product for sale in the U.S. through our in-house network.

Q8. YOU PLAN TO DIRECT MORE THAN ¥30 BILLION TOWARD STRATEGIC INVESTMENTS OVER THE COURSE OF THE THREE-YEAR MID-TERM BUSINESS PLAN PERIOD. WHAT SORT OF INVESTMENTS ARE YOU PLANNING SPECIFICALLY?

Our major strategic investments are those in our US-based facilities, as well as reinforcement of capabilities of new drug creation and in-licensing activities.

In terms of our US operations, we are progressing with clinical trials of lurasidone and other drugs in our own pipeline. We are also focusing on creating infrastructures and hiring necessary personnel to enable us to begin operating our own sales and marketing network in the U.S. Ultimately, we anticipate retaining a local sales force of around 200–300 people.

In terms of reinforcement of new drug creation capabilities, we are aggressively working to maximize product values and increase R&D speed. As to strengthening in-licensing activities, we will endeavor to proactively in-license products across a broad range of R&D stages from research to later development.

We are committed to more than ¥30 billion investment over next three years. We may also invest more than allocated in the initial budget depending on developments during the Mid-term Business Plan period.

Q9. DO YOU HAVE ANY FINAL REMARKS REGARDING THE FY2008-10 BUSINESS PLAN?

I think that the new mid-term business plan is an ideal vehicle for creating the new DSP. Potential future senior managers of the company were involved in the creation of the plan, and in addition, representatives from respective sectors participated in its formulation and infused their thinking. I have every confidence that we can achieve the goals that we have set while the management and all the employees of our company work hard together on a daily basis without losing sight of DSP's future.

In 10 years' time, once we consolidate a firm earning base in the Japanese market, this will generate annual sales revenues from prescription pharmaceuticals of around ¥350–400 billion. By this stage we estimate that approximately one-third of total sales will come from overseas markets. Within 15 years our global operations will bring us as much revenue as that from the domestic market. This reflects our ultimate goal to become a globally competitive R&D-driven enterprise.



Research and Development

Research and Development (R&D) at DSP is performed on a collaborative basis among Drug Research Division (drug discovery research), Technology Research and Development Center (product development linking drug discovery to commercial production) and Drug Development Division (clinical development).

Central Research Laboratories

Osaka Research Center

R&D SYSTEM AND RESEARCH LABORATORIES

DSP's R&D organization is mainly concentrated at two locations: Central Research Laboratories (Suita, Osaka) and Osaka Research Center (Konohana-ku, Osaka). Drug Research Division has five research facilities: Chemistry Research Laboratories, Pharmacology Research Laboratories, Safety Research Laboratories, Pharmacokinetics Research Laboratories, and Genomic Science Laboratories. Depending on research field or function, these laboratories are located either in Central Research Laboratories or Osaka Research Center. This structure aims to facilitate efficient research by enabling researchers engaged in related fields to communicate closely with other researchers.

Technology Research and Development Center covers all the functions related to API (active pharmaceutical ingredients), product formulation and chemical analysis, as well as quality assurance for investigational drugs. The Center has all kinds of expertise required to manufacture investigational drugs in compliance with the global standards.

Clinical development activities in Japan are concentrated in the Osaka-based Central Research Laboratories and Tokyo Branch Office to maximize the efficiency of clinical development programs. International clinical development programs involve these two facilities along with Dainippon Sumitomo Pharma America,

Inc. in the United States and Dainippon Sumitomo Pharma Europe Ltd. in Europe. This trilateral framework is designed to foster close cooperation among Japan, the U.S. and Europe in clinical development.

MAJOR THERAPEUTIC AREAS OF RESEARCH

DSP is undertaking drug discovery research primarily in the therapeutic areas of diabetes/cardiovascular, central nervous system (CNS) and inflammation/allergy. Work is ongoing to strengthen in-house capabilities to discover new drugs in these fields.

In the diabetes field, DSP's drug discovery research program continues to develop candidate compounds with various mechanisms of action, including insulin secretagogues, agents to improve insulin resistance, glucose absorption inhibitors and therapies for complications of diabetes. DSP aims to forge a comprehensive and full product pipeline by continually feeding new compounds with demonstrated potential into development stage.

In the cardiovascular field, drug discovery research activities are directed at finding new antihypertensive agents, together with compounds for conditions with a metabolic syndrome such as obesity.

In the CNS area, DSP has adopted a multifaceted research approach to target better treatments for functional and organic psychiatric conditions, including schizophrenia, depression, anxiety and cognitive disorders. Demand for drugs to treat such diseases is expected to rise in the future due to prevalent features of modern society such as aging and stress.

DSP views the inflammation/allergy field as the one where it can fully exploit technical experience and know-how to leverage original concepts developed in-house. The main therapeutic targets in this field include rheumatoid arthritis—a disease where satisfaction with existing treatments remains low—as well as respiratory diseases such as asthma and other inflammatory conditions such as allergic dermatitis.

CREATION OF COMPETITIVE DRUGS AND CONTINUOUS MARKET RELEASE

DSP's objective is to construct a research system capable of discovering a continual stream of drugs with global potential. To this end, DSP is working to boost the number of early-stage research projects; to invest in and reinforce core technologies for drug discovery; and to cultivate skilled human resources for product development.

To increase the number of early-stage research projects, DSP has created systems that aim to encourage uptake of valuable ideas from researchers as a way of actively fostering high-quality project proposals and promoting early-stage research.

DSP is also endeavoring to form alliances with both domestic and overseas research institutions, including universities as well as biotechs that own promising technologies. Elsewhere, DSP is participating in government-led national healthcare-related projects.

In Alzheimer's disease-related research, the Karolinska Institutet and Sumitomo Pharmaceuticals Alzheimer Center (KASPAC), which is DSP's research laboratory within the Karolinska Institutet of Sweden, are seeing promising results from drug discovery research programs and exploratory research in diagnostic biomarkers for Alzheimer's disease.

Ability to leverage leading-edge core technologies in a flexible way is essential for developing a continuous stream of new drugs. DSP is applying an extensive range of genomics technologies to elucidate mode of action of compounds in development and to

conduct exploratory research in new biomarkers and drug discovery targets. These research efforts are generating promising results. In addition, by systematically incorporating drug candidate evaluation technologies such as initial pharmacokinetics and toxicity studies into the drug discovery research process, DSP believes that it is possible to achieve further reduction of research time.

DSP has established Research Human Capital Management Office especially for the research group to help create a more dynamic research organization. The office proposes plans and implements strategic human resources development with the aim of boosting competitiveness of research performances.

Technology Research and Development Center is concentrating its efforts on high priority projects, maximizing product value and taking a strategic approach to product life-cycle management.

Drug Development Division focuses on hastening development of drug candidates that meet global medical needs and aims to obtain regulatory approvals for these drug candidates as early as possible. To this end, the Division formulates and pursues drug development plans based on DSP's business strategy, allocating resources to clinical development on a priority rule among Japan, the United States and Europe.

Cross-divisional projects are recommended throughout R&D organizations, which foster cooperation among various groups and accelerate optimization of R&D portfolio.

PRODUCTS WAITING FOR REGULATORY APPROVALS AND PROMISING COMPOUNDS

Products currently under review for approval include AD-5423 (blonaserin), a treatment for schizophrenia; IRBESARTAN, a treatment for hypertension; AD-810N (zonisamide), a treatment for Parkinson's disease; and SUMIFERON®, natural interferon-alpha with a new indication for compensated cirrhosis associated with chronic hepatitis C.

Promising development compounds in the core therapeutic areas of diabetes/cardiovascular include AS-3201 (ranirestat), a treatment for diabetic neuropathy with strong market potential. DSP has granted overseas development and sales rights of AS-3201 to Eisai Co., Ltd. and is working in close cooperation with this firm to complete launches in major markets worldwide at the earliest possible juncture. Other promising compounds in clinical development in this area include SMP-508 (repaglinide), a diabetes remedy to improve postprandial hyperglycemia, which is under preparation for Phase III in Japan, and SMP-862 (metformin hydrochloride), which is currently undergoing Phase II studies in Japan. Both of these compounds are diabetes treatments that work by lowering blood sugar levels.

In CNS area, leading development compounds are SM-13496 (lurasidone), a treatment for schizophrenia, and AC-3933, a treatment for dementia. DSP is preparing to start Phase III clinical trials for lurasidone in the United States, Europe and other markets. DSP is conducting Phase II clinical trials for AC-3933 in the United States and Europe.

One of the promising development compounds in the inflammation/allergy field is SMP-114, a treatment for rheumatoid arthritis, which is under Phase II clinical trials in Europe. Other promising compounds under clinical studies include SMP-986, a treatment for overactive bladder syndrome at Phase II stage of clinical trials in the United States and Europe. Another drug is MEROPEN®, a carbapenem antibiotic, which is in Phase III clinical trials in Japan for the new indication of febrile neutropenia.

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 with Kyorin Pharmaceutical Co., Ltd.
				U.S./Canada	■	■			Licensed to Eisai Co., Ltd.
SMP-508	repaglinide	Oral	Diabetes	Japan	■	■			Licensed from Novo Nordisk A/S
SMP-862	metformin hydrochloride	Oral	Diabetes	Japan	■	■			Licensed from Merck Santé SAS
Cardiovascular									
	irbesartan	Oral	Hypertension	Japan	■	■	■	■	Sublicensed from Bristol-Myers K.K. for the Japanese market; co-development with Shionogi & Co., Ltd. for the Japanese market
PRORENAL®	limaprost alfadex	Oral	Cervical spondylosis (new indication)	Japan	■	■			Jointly developed with Ono Pharmaceutical Co., Ltd.
CNS									
AD-5423	blonanserin	Oral	Schizophrenia	Japan	■	■	■	■	Developed in-house
				U.S./Europe	■	■			
AD-810N	zonisamide	Oral	Parkinson's disease (new indication)	Japan	■	■	■	■	Developed in-house
SM-13496	lurasidone	Oral	Schizophrenia	Japan	■	■			Developed in-house
				U.S./ Europe, etc.	■	■			Developed in-house
AC-3933	radequinil	Oral	Dementia	Japan	■	■			Developed in-house
				U.S./Europe	■	■			
Inflammation/Allergy									
SMP-114	rimacalib	Oral	Rheumatoid arthritis	Japan	■	■			Developed in-house
				Europe	■	■			
SMP-028	Not determined	Oral	Bronchial asthma	U.S.	■				Developed in-house
Others									
SUMIFERON®	interferon-alfa	Injection	Compensated cirrhosis (new indication)	Japan	■	■	■	■	Compensated cirrhosis associated with chronic hepatitis C
MEROPEN®	meropenem hydrate	Injection	Febrile neutropenia (new indication)	Japan	■	■	■		Developed in-house
GASMOTIN®	mosapride citrate	Oral	Concomitant use with "Niflec" for pretreatment of the colon examined by barium enema X-ray radiography (new indication)	Japan	■	■	■		Co-development with Ajinomoto Co., Inc.
SM-11355	miriplatin hydrate	Injection	Hepatocellular carcinoma	Japan	■	■			Developed in-house
SMP-986	Not determined	Oral	Overactive bladder syndrome	Europe	■	■			Developed in-house
AG-7352	Not determined	Injection	Cancer	U.S.	■	■			Licensed to Sunesis Pharmaceuticals Inc.
CALSED®	amrubicin hydrochloride	Injection	Cancer	U.S./Europe	■	■			Licensed to Pharmion Corporation (transferred from Cabrellis Pharmaceuticals Corporation)
SMP-601	Not determined	Injection	Life-threatening infection	Switzerland	■				Licensed to Protez Pharmaceuticals Inc.

(As of July 30, 2007)

Production Facilities & Distribution Centers

Stable supply of high-quality products manufactured by the competitive production group

Suzuka Plant (Mie Prefecture)

Ibaraki Plant (Osaka Prefecture)

The Manufacturing Division comprises: the manufacturing sector; the distribution sector; the Manufacturing Management Department, which devises manufacturing strategies and manufacturing plans; and the Engineering Department, which provides both designs and plans of manufacturing facilities. These departments work together to ensure a stable supply of high-quality products under an integrated manufacturing strategy covering all steps from manufacturing through distribution. The efficient manufacturing and distribution systems we have built up have benefited from our aggressive introduction of state-of-the-art facilities capable of responding to the needs of global standards. While encouraging close collaboration between R&D and Sales & Marketing Divisions, we ensure smooth production of newly-launched products and supply of customer-oriented products by attaining a full range of quality improvements to meet requirements of both patients and medical institutions.

All of our plants have acquired ISO 14001 certification and have taken numerous eco-friendly measures such as waste minimization technique and installation of cogeneration systems*. The Company and its Manufacturing Division keep the trust and confidence of society as a good corporate citizen while providing excellent pharmaceuticals that contribute to superior medical care and a healthy way of life.

* Cogeneration system: A system utilizing a single energy source to generate multiple forms of energy such as heat and electricity.

FOUR PRODUCTION CENTERS – IN SUZUKA, IBARAKI, EHIME AND OITA

Our **Suzuka** Plant features integrated pharmaceutical manufacturing facilities that conduct a full range of operations from production of active ingredients and finished products down to packaging. The main products at Suzuka are GASMOTIN®, a gastroprokinetic agent, and EBASTEL®, a long-acting antiallergic agent. In 2009, its new solid dosage form plant will start production of 3 billion tablets and 70 metric tons of powder per annum. This facility will be equipped with stricter quality control systems than conventional ones.

The **Ibaraki** Plant covers production of solid dosage, powders, tablets, capsules, injections, ointments, creams, and liquids. This plant also manufactures products for other companies on consignment. On the premises of the Ibaraki Plant, the Technology Research Center and the Distribution Center are located, through which the Plant efficiently implements a series of operations

ranging from development of production technologies, production and quality control to storage and shipping.

The **Ehime** Plant, which manufactures biopharmaceutical products, boasts the industry's largest class cell culture facilities in terms of both the number and the size of cell-culture vessels. Since 1987, this plant has been stably producing crude intermediate solution of SUMIFERON®, a natural interferon-alpha product. It also assembles and packages finished SUMIFERON® products. In addition, the plant applies the sterile technology gained through interferon manufacturing to the production of the anti-malignant tumor antibiotic CALSED®.

The **Oita** Plant manufactures active ingredients for products such as AMLODIN®, a therapeutic agent for hypertension and angina pectoris, SEDIEL®, a serotonin-agonist anti-anxiety drug, and CALSED®. One of the plant's main products is MEROPEN®, a carbapenem antibiotic, which is used in more than 100 countries worldwide. This product is manufactured at the Oita Plant from its active ingredient to the final product in an integrated way. Its manufacturing facilities and quality control systems fully meet the stringent requirements of the European and U.S. markets.


Ehime Plant (Ehime Prefecture)


Oita Plant (Oita Prefecture)

QUALITY ASSURANCE SYSTEMS MEETING THE STRINGENT STANDARDS OF JAPAN, EUROPE AND THE U.S.

■Quality assurance system

Recognizing that our pharmaceuticals play a vital role in maintaining human health, we are dedicated to assuring the required level of quality in all our pharmaceutical productions. Pharmaceutical production and quality control in Japan are carried out strictly in accordance with Good Manufacturing Practice (GMP) standards that address manufacturing and quality control stipulated in the Pharmaceutical Affairs Law. Our production group undertakes contract manufacturing of other companies' products and manufacturing of exported pharmaceuticals, paying due attention to quality. Our quality assurance system has passed vendor inspections as well as the strict standards of regulatory authorities of Europe, the U.S., and Japan. GMP standards are likely to become increasingly strict in the future. We, therefore, intend to aggressively invest in our manufacturing facilities including those for the MEROPEN® formulation facility and our new solid dosage form facility to meet future standards. Our production sector, quality assurance sector, and other related sectors will continue to work in concert to provide pharmaceuticals of the highest quality.

STORAGE AND DELIVERY SYSTEMS

■Distribution Centers

Since April 2007, our nationwide distribution network has been based on the Kobe Distribution Center and Tokyo Distribution Center, which serve as our hubs in western and eastern Japan, respectively. This network enables us to provide storage and delivery capabilities for products received from our Suzuka Plant, Ibaraki Plant, and other plants. Through our comprehensive information systems, we operate an efficient delivery network that accurately meets the requirements of users.

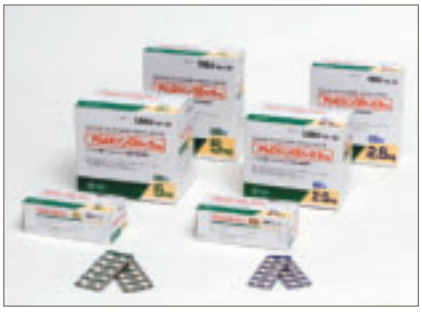
ACQUISITION OF ISO 14001 CERTIFICATION AND CONTRIBUTIONS TO THE COMMUNITY

■CSR and environment

In regard to the environment, all of the Company's four plants have already acquired ISO 14001 certification, the international standard for environmental management systems. Cogeneration systems and other facilities are installed to reduce environmental impact. In addition, the Company contributes to local communities through volunteer initiatives, including clean-up activities in areas surrounding our business locations as one of our corporate social responsibility (CSR) programs.

Marketing and Sales

Aiming at strengthening the earnings base in the Japanese market, DSP allocates sufficient resources into marketing of such therapeutic areas as cardiovascular, gastrointestinal and infectious diseases.



AMLODIN®

GASMOTIN®

CONCENTRATING SALES RESOURCES ON FOUR STRATEGIC PRODUCTS

The fiscal year ending March 2008 is critically important as the first year of the Mid-term Business Plan. In line with this plan, DSP has prioritized sales resource allocation in four strategic products: AMLODIN®, GASMOTIN®, PRORENAL® and MEROPEN®. In terms of therapeutic areas, cardiovascular, gastrointestinal and infectious diseases are the most important ones on which sales and marketing efforts are concentrated. In regard to MRs, multiple MRs are assigned to make professional visits to each one of advanced treatment hospitals. The number of MRs exclusively serving hospitals is increasing. The number of professional calls made to general practioners is expected to increase. The quality of the drug information service is encouraged to improve, whereby the efficiency of MR's professional calls will be enhanced. Other ongoing efforts include IT-based detailing (e-detailing) which is offered in parallel with real detailing. While diversifying sales promotion techniques and raising efficiency of various promotional actions and programs, we endeavor to attain the sales target of ¥232.0 billion under the first Mid-term Business Plan, to be supported by 5.5 million professional detailing visits per annum, which should be realized at an early date.

■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.

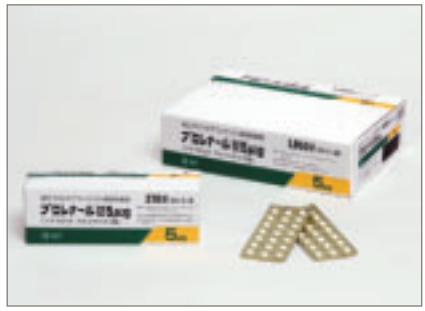
Although having been on the market for only one year, AMLODIN® OD tablets, an orally disintegrating tablet product, are now widely prescribed for their effectiveness in helping to improve medication compliance on the part of patients. Going forward, we aim to further expand sales by continuing to provide useful information based on the features of orally disintegrating tablets and extensive clinical evidence.

■GASMOTIN®

GASMOTIN®, the world's first selective serotonin 5-HT_4 receptor agonist, is an entirely novel gastroprokinetic agent that promotes gastrointestinal motility without blocking dopamine D_2 receptors, which can cause side effects affecting the central nervous or endocrine systems. GASMOTIN® was shown to be an effective treatment for functional dyspepsia 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. By using this clinical evidence and making efficient use of e-detailing methods to actively raise recognition and awareness of functional dyspepsia, DSP aims to make GASMOTIN® one of the first-line treatments for those patients suffering from functional gastrointestinal disorders.

■PRORENAL®

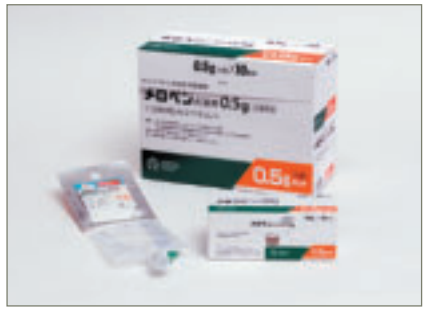
PRORENAL® is a prostaglandin E1 derivative agent. In 2001, PRORENAL® was approved as a treatment for lumbar spinal canal stenosis. Commonly associated with aging, lumbar spinal canal stenosis is the target of an ongoing national government project in response to the aging of Japanese society. PRORENAL® is currently the only orally administered drug that can help to enhance patients' quality of life. Through activities aimed at increasing public recognition of this condition and other measures, the Company aims to drive further expansion in the market and increase sales.



PRORENAL®

■MEROPEN®

MEROPEN® is a carbapenem antibiotic that has outstanding antibiotic activities against infections caused by Gram-positive, Gram-negative and anaerobic bacteria, especially Gram-negative bacteria including Haemophilus influenza and Pseudomonas aeruginosa. MEROPEN® is a prescription of first choice for severe infections around the world as a medication with very little nephrotoxicity, enabling it to be 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 step up activities in the hospital market with the aim of maximizing this drug's standing as the standard treatment for severe infections.



MEROPEN®

■EBASTEL®

EBASTEL®, a long-acting antiallergic agent, is positioned as a key product alongside the Company's four strategic products. With a single daily dose, EBASTEL® exhibits potent antihistamine action and long-acting efficacy with respect to pruritus dermatitis, as well as hay fever and other forms of allergic rhinitis. In July 2005, the Company launched EBASTEL® OD (orally disintegrating) tablets, which can be taken without water. The sales volume of OD tablets has been increasing year by year, reflecting strong support for their outstanding convenience in terms of being easier to take. EBASTEL® OD tablets, which help to improve medication compliance, will continue to play a central role in efforts to capture a greater share of the antiallergy drug market going forward.

■SEIBULE®

DSP has been co-promoting this product with Sanwa Kagaku Kenkyusho Co., Ltd. (SKK) since its launch in January 2006. SEIBULE® is taken immediately prior to meals by diabetic patients to ameliorate postprandial hyperglycemia by delaying the digestion and absorption of sugars. After extended prescribing became possible with the drug in January 2007, DSP has been focusing with SKK on promoting greater first use by medical institutions of SEIBULE® and on boosting numbers of prescriptions. Efforts continue to explain the unique benefits of SEIBULE® to physicians while trying to expand the numbers of prescribing doctors and medical facilities that handle it.

In the diabetes field, DSP also markets the oral hypoglycemic drugs GLIMICRON® (sulfonylurea type) and MELBIN® (biguanide type). Going forward, DSP aims to build a stronger franchise in the diabetes area.

■AmBisome®

AmBisome®, a therapeutic agent for systemic fungal infection, is a liposomal formulation of amphotericin B that enables full efficacy while helping to reduce side effects. Already sold in 45 countries outside Japan, AmBisome® has generated strong demand in the clinical setting. It is the first therapeutic agent for systemic fungal infection to obtain approval in Japan as an empirical therapy for presumed fungal infection in febrile neutropenic patients. It is expected to make a significant contribution to the treatment of systemic fungal infections.

A MARKETING & SALES SYSTEM DESIGNED TO RAISE CUSTOMER SATISFACTION

DSP has established a new domestic framework that divides Japan into 7 regions while creating a structure of 28 branches and 206 groups. This system will enable each divisional bloc to reflect the characteristics of the various regional markets more precisely. The new system also aims to increase customer satisfaction by enabling speedier responses to customer requests and more dynamic sales activities based on faster decision-making. This involves delegating more authority from the Executive Director of Sales & Marketing down to the Senior Directors of the 7 regions.

At the level of marketing groups, DSP has 54 hospital-focused marketing groups, with approximately 500 MRs assigned to such groups, to invest in focused therapeutic areas. DSP is also continuing to strengthen its presence in the CNS field with the aim of becoming one of the leading companies in Japan in this sector. The number of specialist MRs assigned to the CNS field is set to rise to around 70.

EXPANSION OF DETAILING FUNCTIONS USING IT

In order to increase the degree of customer satisfaction (CS), it is essential to educate and train MRs who directly provide information and detailing services to customers. CS is the best indicator of trust and value placed on a company by customers. Improving communication with medical professionals at all levels is also important.

Going forward, DSP plans to promote the use of various "e-communication" methods to enable efficient and effective communication with the medical community. These initiatives include e-detailing and related promotional activities; interactive online communications available to medical professionals that have registered for such services on DSP's website; and the use of call centers to strengthen the provision of information to medical professionals.

In other related moves, DSP is working to reinforce back-up efforts that support the sales activities of MRs. Examples include an in-house sales force automation (SFA) system, e-learning initiatives to facilitate off-the-job studying by MRs, and the use of integrated databases to provide improved support for sales force training.

CULTIVATING A HIGH-QUALITY SPECIALIST MR FORCE

DSP aims to boost its presence in the marketplace by cultivating a highly motivated sales force capable of thinking strategically. Achieving such a goal depends on the development of a working environment that is dynamic, motivating and challenging.

A parallel aim is to develop MRs capable of providing high-quality professional services so that DSP can benefit from higher customer satisfaction. The Company is focused on fostering a corporate culture that helps salespeople to grow through self-education alongside training within a team environment.

DSP regards the cultivation of the industry's top-level specialist MRs as a matter of pressing importance. Efforts are focused on enhancing the specialist knowledge of MRs in the field of cardiovascular disease; one of the Company's targeted therapeutic areas. The overall aim is to enhance the reputation of DSP as a company that is strong in scholarly activities.

Other Products

In addition to ethical pharmaceuticals, the Company carries out operations in animal health products, food and food additives, speciality products and RADARCIRC®. Through these operations, the Company is supporting people's living in many different ways.

ANIMAL HEALTH PRODUCTS

In the business of animal health products, the Company sells veterinary medicines for companion animals, mainly dogs and cats, farm animals such as cattle and swine and cultured fish. It deals in pet food, too. The Company focuses particularly on the companion animal market where it has a broad line of products, including therapeutic and preventive drugs such as the antibacterial preparation VICTAS® containing orbifloxacin as its active ingredient, which was discovered and developed in-house. The lineup includes canine and feline therapeutic nutritional formulas under the PRESCRIPTION DIET® brand and wellness formulas under the SCIENCE DIET® (PRO) brand, both of which are the products of Hill's Pet Nutrition, Inc. Another product is LifeChip, identification IC microchips for companion animals and horses. In addition, the Company's subsidiary Marupi Lifetech Co., Ltd. supports veterinary medical care for smaller animals by providing clinical lab tests and diagnostic services specializing in companion animals.

The Company sells URSO® and BIMURON® for farm animals and inactivated iridovirus vaccine for aquaculture. These products are expected to contribute to food safety and reliability.

■Food and food additives

The Company supplies food ingredients based on natural materials that are indispensable for production of high-quality and safe food products.

In polysaccharide business, the Company provides a diverse array of polysaccharide products tailored to customer needs, such as GLYLOID® (tamarind gum), the first product of this kind successfully produced on an industrial scale, and ECHO GUM® (xanthan gum) which the Company introduced for the first time into the Japanese market.

In seasoning business, the Company leverages its extraction and processing technologies to create an authentic and tasty bouillon soup from livestock ingredients.

The Company is also pursuing development of superior food ingredients with various applications from all over the world. Currently, DSP is engaged in development of a new sweetener suitable for beverages.

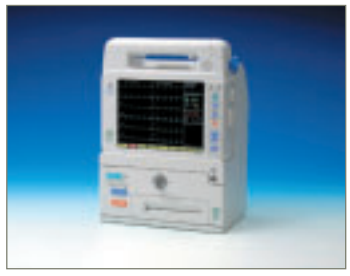
■Speciality products

The Company has been committed to the speciality business for more than 90 years. The business domain mainly consists of the following three operations: chemicals for personal care such as natural polysaccharides, their derivatives and pharmaceutical additives; chemicals for electronic materials; and tannic acid derivatives. Leveraging its advantage as a pharmaceutical company, DSP is working to develop business as a chemical supplier.

Efforts are under way to develop products that satisfy users' needs through strategic alliances with its partner companies.

■RADARCIRC®

Launched in December 2005, RADARCIRC® is a multifunctional electrocardiograph with analysis capabilities which are applied technologies used in FLUCLET®, the Company's proprietary analysis software for electrocardiographic waveforms. Unlike existing electrocardiographs, RADARCIRC® enables medical professionals to perform high-precision electrographic analysis even under poor conditions where electrocardiographs are susceptible to sudden impacts, vibrations and body movements. RADARCIRC® is, among other things, waterproof, impact resistant, lightweight (2.6 kilograms), and has a battery life of three hours.



With these features, RADARCIRC® is capable of taking highly precise electrocardiographic measurements under previously impossible circumstances. RADARCIRC® is currently used by medical institutions in such fields as emergency medical care, pediatrics and cardiovascular internal medicine. Japan's Ministry of Defense and emergency transport personnel for both ambulances and emergency medical helicopters are also starting to find RADARCIRC® a very effective tool for their operations.

Corporate Governance

DSP recognizes that strengthening corporate governance is a key managerial issue to ensure sustained augmentation of corporate value, which is one of the missions entrusted to management by shareholders and other stakeholders.

DSP has a corporate auditor system. With the introduction of an executive officer system, the Company separates management oversight from operational execution in a way that promotes delegation of authority while clarifying operational responsibility, thereby realizing a faster and more transparent decision-making process.

Holding a 50.46% share of voting rights, Sumitomo Chemical Co., Ltd. is the parent company of DSP. However, DSP is not subject to any restraints in its business operations. The management of DSP is independent from the parent company since no directors of Sumitomo Chemical sit on the Board of Directors. DSP keeps some members seconded from the parent company based on DSP's own judgment, but believes it has no influence on the Company's business operations. Respect for autonomy is affirmed by the parent company and DSP's independence is maintained.

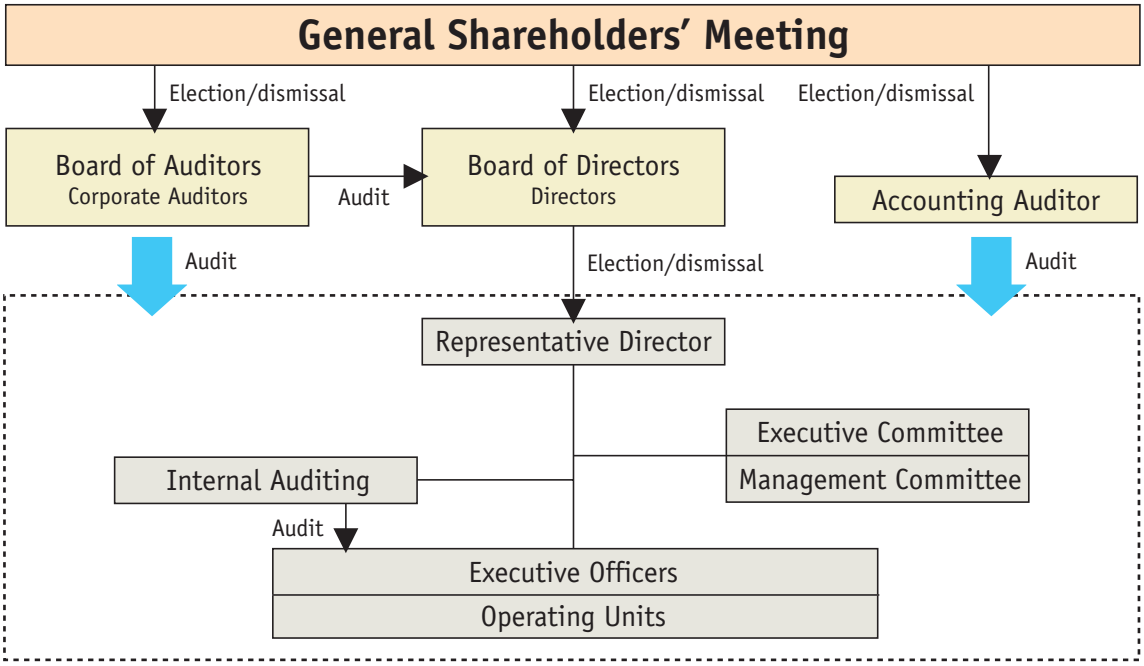
The Board of Directors meets at least once a month. The Chairman of DSP presides over the board meetings, which are attended by all the directors and all the auditors.

DSP has a Management Committee, which is a consultative body to assist the President of DSP in his decision making and is composed of several executive officers. As a rule, it convenes at least twice a month to deliberate on important business matters, guided by the basic policies made 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, DSP has instituted the Executive Committee, which consists of all the executive officers and convenes at least once a month.

A meeting of the Board of Auditors is held at least once a month as a rule, attended by all the Corporate Auditors, to discuss and decide important audit-related matters including a preview of the agenda items for board meetings. Corporate Auditors attend key business meetings including those of the Board of Auditors, the Board of Directors and the Management Committee. This enables the Corporate Auditors to take a proactive internal auditing stance, focusing in particular on legal and regulatory compliance aspects of business operations.

As to internal control, the Board of Directors established, at the meeting held on May 11, 2006, a basic policy to guide the construction of internal control systems, which is called "systems to secure integrity of business operations," under which the Company's internal control system is worked out and enhanced.

Corporate Governance Structure



Board of Directors and Executive Officers

From left: Junichi Mizuno, Yuichi Yokoyama, Ph.D., Keiichi Ono, Ph.D., Masayo Tada, Yasuo Okamoto, Kenjiro Miyatake, Fujio Okamoto, Tetsuya Oida, Ph.D., Kazumi Okamura, Hiroshi Noguchi, Ph.D.

Representative Director, Chairman
Yasuo Okamoto

Representative Director, President
Kenjiro Miyatake

Member, Board of Directors, Executive 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
Junichi Mizuno
Hiroshi Noguchi, Ph.D.

Corporate Auditors (Full-time)
Fuminori Hashimoto
Tadayoshi Nishimura

Corporate Auditors (Part-time)
Michihiro Ishii
Takayuki Usui
Toshiyuki Aoki

Executive Officers
Shinsaku Mishio, Ph.D.
Yutaka Takeuchi, Ph.D.
Hiroshi Shimizu
Yasuji Furutani, Ph.D.
Masao Noto
Nobuo Takeda
Satoshi Ijuuin
Yukio Kitahara
Yosuke Fukuhara
Masaharu Kanaoka

(As of June 28, 2007)

Corporate Social Responsibility (CSR)

As a full-fledged member of society, DSP is committed to contributing to society through its various business activities, thereby fulfilling its Corporate Social Responsibility (CSR).

ENVIRONMENT & CSR PROMOTION DEPARTMENT

CSR covers a broad range of activities centered on compliance as well as environmental and social contributions. In the past, various departments in the Company were independently responsible for their individual CSR actions. However, with the aim of coordinating these actions more effectively on a company-wide basis, DSP organized the Environment & CSR Promotion Department in June 2006.

PROMOTION OF COMPLIANCE

Compliance is one of the central issues for all the Company's business operations. The Compliance Committee meets regularly to examine company-wide practice and performance pertaining to compliance. To campaign internally, the Company has begun training programs effective the fiscal year ended March 2007, inviting employees as well as management of DSP and of its group companies. The programs are intended to raise attendees awareness in addition to giving them basic knowledge on this subject in the hope that DSP maintains its standing as a compliance-minded, trustworthy company. Another action the Company took in this field was the establishment of the Declaration of Conduct, which encourages all the members of DSP to be correct in their daily conducts and decision making.

ENVIRONMENTAL PROTECTION MEASURES

DSP, a company dedicated to protecting health and life, recognizes the environmental problems the Earth now faces and vows to contribute to the betterment of the environment through various corporate activities. The Company has established the Environment Committee to comprehensively advance environment protection measures throughout the Company, also organizing environment committees in individual workplaces to accurately take care of local matters. The Company's Central Research Laboratories, Osaka Research Center and four plants, including Suzuka Plant, have acquired ISO 14001 certifications for environmental management. Some examples of measures include reducing chemical discharge, saving energy, cutting greenhouse gas emissions, minimizing waste and educating employees under the Company's Environment Management Plan.

SOCIAL CONTRIBUTION

DSP members are encouraged to recognize that they are community members and to give something back to communities. Guided by this thinking, the Company initiated an internal fund-raising drive in the fiscal year ended March 2007, and the money raised was donated to Japan Hearing Dogs for Deaf People, a social welfare corporation, in support of their activities. One more example is research support for prevention and treatment of epilepsy through the Japan Epilepsy Research Foundation. We have voluntary clean-up programs in communities near operational sites and sometimes invite community people from local communities to tours at our operational sites.

CSR REPORT

DSP has renamed its CSR-related report (formerly the Social & Environmental Report) as the "CSR Report" as of fiscal year ended March 2007, with the intention of placing more emphasis on CSR. This report covers the Company's CSR activities, both results and plans, and is distributed to stakeholders inside and outside the Company. It is also posted on the Company's website to promote a greater awareness of its initiatives.

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 (previously, Osaka Plant; currently, Osaka Center) established in Ebie, Osaka.
◇The company acquired the semi-governmental Dainippon Pharmaceutical Company in Tokyo and changed the name of the company to Dainippon Pharmaceutical Co., Ltd.

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

1914 ◇Chemical products business started.

1927 ◇EPHEDRINE "NAGAI"® (bronchodilator and antitussive) launched.

1950 ◇Animal drug business started.

1956 ◇OTC drug business started.

1960 ◇Food additive business established.

1968 ◇Suzuka Plant (Suzuka City, Mie Prefecture) established.

1970 ◇Construction of Research Laboratories (Suita City, Osaka Prefecture) completed.

1974 ◇Laboratory products business started.

1979 ◇DOLCOL® (antibacterial chemotherapy drug) launched.

1987 ◇The Japan Epilepsy Research Foundation established.

1988 ◇U.S. office (currently, Dainippon Sumitomo Pharmaceutical America, Inc.) opened.
◇PRORENAL® (vasodilator) launched.

1989 ◇EXCEGRAN® (antiepileptic) launched.

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

1996 ◇EBASTEL® (long-acting antiallergic) launched.

1997 ◇One hundredth anniversary of founding commemorated.

1998 ◇London and Beijing offices opened.
◇GASMOTIN® (gastroprokinetic) launched.

1999 ◇KADIAN® (persistent cancer pain analgesic) launched.

2002 ◇QVAR™ (inhaled steroid-based antiasthmatic) launched.

2003 ◇Osaka Plant closed (merged with Suzuka Plant)
◇OPSO® (solution for treating cancer pain) launched.

2005 ◇OTC drug business transferred.
◇EBASTEL® OD TABLET (long-acting antiallergic) launched.

Sumitomo Pharmaceuticals

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

1984 ◇INTEBAN® CREAM (topical analgesic and anti-inflammatory drug) launched.

1985 ◇Construction of Ehime Bio Plant (currently, Ehime Plant) completed.
◇ALMARL® (therapeutic agent for hypertension, angina pectoris, and arrhythmia) launched.

1987 ◇SUMIFERON® (natural alpha interferon) launched.

1989 ◇DOPS® (norepinephrine-activating neural function ameliorant) launched.

1990 ◇DIDRONEL® (bone metabolism enhancer) launched.

1993 ◇AMLODIN® (therapeutic agent for hypertension and angina pectoris) launched.

1995 ◇MEROPEN® (carbapenem antibiotic) launched.

1996 ◇SEDIEL® (serotonin-agonist anti-anxiety drug) launched.

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

1999 ◇GROWJECT® (rDNA human growth hormone) launched.
◇Animal drug business transferred.
◇Sumitomo Pharmaceuticals America Limited established.

2000 ◇Marketing of HIBITANE® (disinfectant) started.

2001 ◇LULLAN® (antipsychotic) launched.
◇Marketing of TAGAMET® (H_2-receptor antagonist) started.
◇Sumitomo Seiyaku Biomedical Co., Ltd. (present DS Pharma Biomedical Co., Ltd.) opened for business.

2003 ◇Production of bulk pharmaceuticals transferred from Sumitomo Chemical
◇Oita Plant established.

2004 ◇Twentieth anniversary of the foundation of the company commemorated.

2005 ◇OTC drug business transferred.

October 1, 2005 Dainippon Sumitomo Pharma created.

2006 ◇Co-promotion of SEIBULE® (Ameliorating agent for postprandial hyperglycemia due to diabetes) started.
◇AmBisome® (therapeutic agent for systemic fungal infection) launched.
◇AMLODIN® OD TABLET (therapeutic agent for hypertension and angina pectoris) launched.

2007 ◇REPLAGAL® (therapeutic agent for Anderson-Fabry disease) launched.
◇The laboratory products business was transferred to DS Pharma Biomedical Co., Ltd.
◇The mid-term business plan (for the period from fiscal 2007 to fiscal 2009) started.

Financial Section

Contents

Six-Year Summary

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries

	Millions of yen						Thousands of U.S. dollars
	2007	2006	2005	2004	2003	2002	2007
RESULTS OF OPERATIONS:							
Net sales	¥261,213	¥245,784	¥175,088	¥171,672	¥172,554	¥164,737	$2,213,669
Cost of sales	99,346	130,437	111,099	110,013	108,046	100,073	841,915
Selling, general and administrative expenses	116,312	86,461	52,404	51,546	51,240	46,863	985,695
Operating income	45,555	28,886	11,585	10,113	13,268	17,801	386,059
Income before income taxes and minority interests	38,415	25,687	11,686	13,836	12,718	17,863	325,551
Net income	22,605	15,377	6,924	7,968	6,364	9,596	191,568
FINANCIAL POSITION:							
Current assets	234,313	249,733	131,176	118,562	116,241	119,247	1,985,703
Net property, plant and equipment	65,241	68,336	32,611	34,473	35,374	33,637	552,890
Total assets	382,535	392,966	201,431	193,238	187,416	186,834	3,241,822
Current liabilities	56,039	80,071	49,196	45,927	60,727	48,966	474,907
Long-term debt	4,600	5,276	7,000	7,000		11,118	38,983
Net assets	306,012	288,633	135,433	130,268	116,661	116,566	2,593,322
OTHER STATISTICS:							
R&D costs	40,870	29,636	17,444	15,929	15,218	13,124	346,356
Capital expenditures	9,543	6,616	3,064	4,294	6,532	6,414	80,873
Depreciation and amortization	12,008	8,901	5,233	5,821	5,316	4,334	101,763

	Yen						U.S. dollars
PER SHARE OF COMMON STOCK:							
Basic net income	¥ 56.86	¥ 54.57	¥ 41.76	¥ 48.05	¥ 38.02	¥ 57.06	$ 0.48
Diluted net income					36.36	54.18	
Cash dividends applicable to the year	14.00	12.00	10.00	10.00	10.00	10.00	0.12

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 ¥118 to U.S.$1.00, the approximate rate of exchange at March 31, 2007.

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 its consolidated subsidiaries adopted the new accounting standards for presentation of net assets in the balance sheet from 2007. In accordance with the adoption of the new accounting standards, net assets in the financial position from 2002 to 2006 have been reclassified.

Management's Discussion and Analysis

BUSINESS RESULTS

◆Results of Operations

Net sales for the fiscal year ended March 31, 2007 (fiscal 2007; FY2007) were ¥261.2 billion, up 6.3% from the previous fiscal year. This increase reflected the full-year contribution from a greater scale of operations following the merger with Sumitomo Pharmaceuticals Co., Ltd. Another contributing factor was the growth in sales for the Company's major pharmaceutical products. These positive factors outweighed the negative impact that the NHI price revisions enacted in April 2006 and the termination of sales partnerships with ABBOTT JAPAN Co., Ltd. and other companies had on sales. On the profit front, higher sales due to the effects of the merger and growth in the Company's major pharmaceutical products, as well as an improving cost of sales ratio, helped to lift earnings. Operating income increased by 57.7% year on year to ¥45.6 billion, and net income was ¥22.6 billion, 47.0% higher than in the previous fiscal year.

◆Results by Business Segment

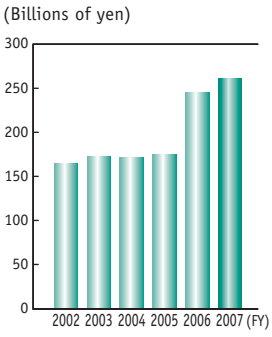
Pharmaceuticals

The Company views customer satisfaction as fundamental to its marketing strategy. Accordingly, the Company has been leveraging its 1,500-member strong MR (medical representative) sales network and prioritizing resource investment in its four main products that are positioned as strategic brands: the therapeutic agent for hypertension and angina pectoris AMLODIN®; the gastroprokinetic agent GASMOTIN®; the vasodilator PRORENAL®; and the carbapenem antibiotic MEROPEN®. At the same time, the Company has been focusing on the long-acting anti-allergic agent EBASTEL® and SEIBULE®, an ameliorant for postprandial hyperglycemia caused by diabetes that is sold by Sanwa Kagaku Kenkyusho Co., Ltd. and co-promoted by the Company. Turning to new products, the Company launched AmBisome®, a therapeutic agent for systemic fungal infection, and AMLODIN® OD Tablet, a new orally disintegrating tablet version of AMLODIN®, with the aim of strengthening its product lineup. As a result, net sales from the Pharmaceuticals business rose 7.1% year on year to ¥206.3 billion and operating income jumped by 60.0% to ¥44.4 billion.

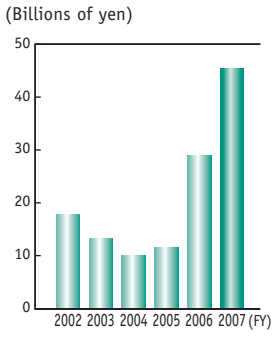
Other Products

The Company and its consolidated subsidiaries also sell animal health products, feeds and feed additives, food additives, industrial chemicals, diagnostics, research reagents and materials, and other products. In this business segment, net sales rose 3.3% year on year to ¥55.0 billion and operating income increased 1.4% to ¥1.2 billion. Incidentally, the Company comprehensively transferred the diagnostics and research reagents and materials business to wholly owned subsidiary DS Pharma Biomedical Co., Ltd. through demerger on April 1, 2007 in order to focus and make more efficient use of resources and to expand sales and enhance profitability.

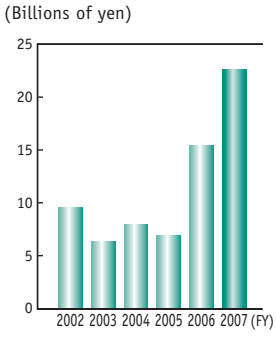
Net Sales



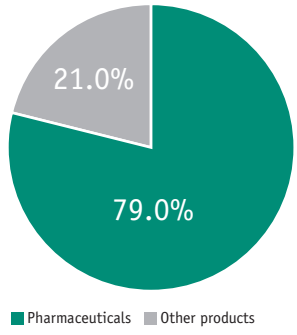
Operating Income



Net Income



Sales Composition by Business Segment (FY2007)



(Years ended March 31)

Domestic Sales of Major Pharmaceutical Products (Billions of yen)

Brand name	Therapeutic Indication	2007	2006
AMLODIN®	Therapeutic agent for hypertension and angina pectoris	¥59.2	¥56.8
GASMOTIN®	Gastroprokinetic	18.5	16.3
MEROPEN®	Carbapenem antibiotic	14.3	14.1
PRORENAL®	Vasodilator	13.8	12.6
EBASTEL®	Antiallergic	11.4	11.3
SUMIFERON®	Natural alpha interferon	6.4	6.0
QVAR™	Bronchial asthma	4.8	4.2
GROWJECT®	Growth hormone	4.8	4.9
DOPS®	Norepinephrine-activating neural function ameliorant	4.5	4.7
GLIMICRON®	Oral hypoglycemic	4.4	4.7
TAGAMET®	H_2-receptor antagonist	3.9	4.6
EXCEGRAN®	Antiepileptic	3.6	3.6
ALMARL®	Therapeutic agent for hypertension, angina pectoris and arrhythmia	3.5	3.7
LULLAN®	Antipsychotic	3.1	3.0
SEDIEL®	Serotonin-agonist antianxiety drug	3.0	3.1

Major Exported Pharmaceuticals (Billions of yen)

Generic name	Therapeutic Indication	2007	2006
Meropenem	Carbapenem antibiotic	¥16.1	¥12.9
Mosapride	Gastroprokinetic	1.4	0.9
Zonisamide	Antiepileptic	0.8	2.4

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

For a more accurate understanding of the Company's post-merger position, business results of the former Sumitomo Pharmaceuticals for the period from April to September 2005 have been simply added to the results of Dainippon Sumitomo Pharma for the previous fiscal year. The resulting totals have been used particularly in the reporting of business performance indicators and in the analysis of year-on-year comparisons below.

(Billions of yen)

	2007	2006		
	Dainippon Sumitomo Pharma	Dainippon Sumitomo Pharma + First-half results of Sumitomo Pharmaceuticals	Change	Percent Change (%)
Net Sales	¥261.2	¥318.2	¥(57.0)	(17.9)
Cost of Sales	99.3	152.1	(52.8)	(34.7)
Selling, general and administrative expenses	116.3	121.4	(5.1)	(4.2)
Operating income	45.6	44.7	0.9	2.0
Other income (expenses)	(7.1)	(3.4)	(3.7)	(113.1)
Net income	22.6	25.3	(2.7)	(10.5)
R&D costs	40.9	41.8	(0.9)	(2.3)

Net Sales

In fiscal 2007, net sales decreased by 17.9% year on year to ¥261.2 billion. This decrease in sales was attributed to several factors. First, there was a drop in sales due to the termination of sales partnerships and business transfers. The termination of sales of products of ABBOTT JAPAN Co., Ltd. and ASKA Pharmaceutical Co., Ltd. had a total negative impact of around ¥60.0 billion on net sales. Second, royalty income from industrial property declined by ¥4.6 billion, mainly because there was a temporary increase in the previous year's royalty income. Adding the impact of a drop in sales prices accompanying NHI price revisions to these two factors, there was a total negative impact over ¥75.0 billion on net sales.

Despite this, the overall year-on-year decrease in net sales was held to ¥57.0 billion primarily by increasing sales volume focusing on growth in sales of the Company's strategic pharmaceutical products AMLODIN®, GASMOTIN®, PRORENAL® and MEROPEN®.

Cost of Sales

In fiscal 2007, the cost of sales was ¥99.3 billion, down ¥52.8 billion from the previous fiscal year in line with the decrease of ¥57.0 billion in net sales. The cost of sales ratio improved 9.8 percentage points to 38.0%. This significantly improved ratio reflected a change in product mix caused chiefly by reduced sales of products purchased from ABBOTT JAPAN Co., Ltd. and other companies and higher sales of the Company's main pharmaceutical products. The positive effects of these development outweighed the negative influences on the cost of sales ratio of other factors such as NHI price revisions and the decrease in royalty income.

Selling, General and Administrative Expenses

In fiscal 2007, selling general and administrative expenses (SG&A expenses) decreased by ¥5.1 billion year on year to ¥116.3 billion. This was mainly attributed to the decrease of personnel costs, sales promotion expenses, and freight charges due to a drop in product distribution accompanying the termination of sales partnerships with ABBOTT JAPAN Co., Ltd. and other companies. R&D costs were ¥40.9 billion, representing 15.6% of net sales.

Operating Income

As a result of the foregoing, operating income increased ¥0.9 billion to ¥45.6 billion in fiscal 2007. This increase reflects the emergence of the cost synergies that the Company has sought to realize since the merger.

Other Income (Expenses)

In fiscal 2007, the Company posted other expenses far exceeding other income. The primary expenses were additional retirement expenses due to a re-employment assistance plan: expenses related to litigation concerning termination of license agreement on a new quinolone compound: loss on revision of the retirement benefit plans related to the integration of personnel systems: and a loss on impairment of property, plant and equipment with respect to unused equipment in the Suzuka Plant and the Ibaraki Plant.

Net Income

Due to the above factors, net income after income taxes in fiscal 2007 was ¥22.6 billion, down ¥2.7 billion from the previous year.

FINANCIAL POSITION

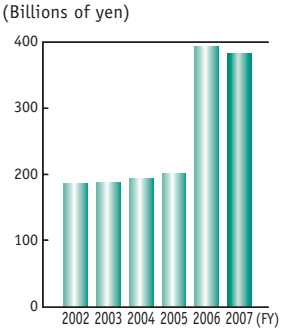
(Billions of yen)

	2007 (March 31, 2007)	2006 (March 31, 2006)	Change
Total assets	¥382.5	¥392.9	¥(10.4)
Total liabilities	76.5	104.3	(27.8)
Net assets	306.0	288.6	17.4
Equity ratio	79.8%	73.2%	

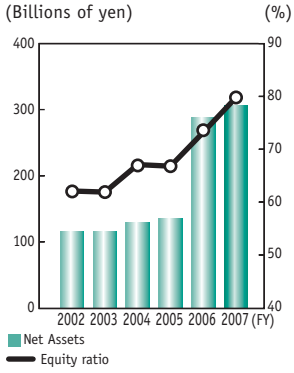
Total Assets

Total assets were ¥382.5 billion as of March 31, 2007, a decrease of ¥10.4 billion from the previous fiscal year. This decrease was mainly attributed to a large drop in current assets, reflecting a

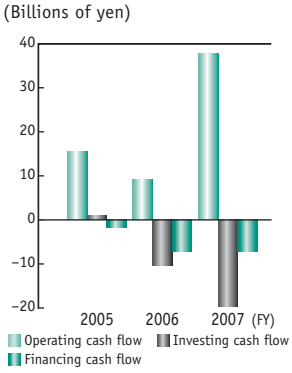
Total Assets



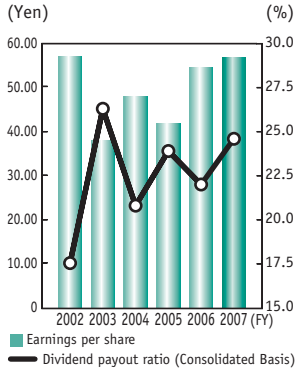
Net Assets/Equity Ratio



Cash Flows



Earnings Per Share/ Dividend Payout Ratio (Consolidated Basis)



(Years ended March 31)

decrease of ¥25.2 billion in trade notes and accounts receivable mainly as a result of the termination of sales partnerships with ABBOTT JAPAN Co., Ltd. and other companies and a shorter collection period for sales.

Total Liabilities

As of March 31, 2007, total liabilities decreased ¥27.8 billion from the previous fiscal year. As well as assets, the main reason was a decline of ¥24.6 billion in trade notes and accounts payable because of the termination of sales partnerships with ABBOTT JAPAN Co., Ltd. and other companies.

Net Assets

Net assets as of March 31, 2007 increased ¥17.4 billion from the previous fiscal year to ¥306.0 billion mainly due to growth in retained earnings.

CASH FLOWS

Cash Flows From Operating Activities

Operating activities in fiscal 2007 provided net cash of ¥37.9 billion as cash inflows comprising higher income before income taxes and minority interests and a decrease in receivables outweighed cash outflows such as the decrease in payables and income taxes paid.

Cash Flows From Investing Activities

Investing activities in fiscal 2007 used net cash of ¥19.7 billion, chiefly for an increase in time deposits with maturity over three months, purchases of property, plant and equipment, and purchases of investment securities.

Cash Flows From Financing Activities

Financing activities in fiscal 2007 used net cash of ¥7.8 billion, mainly for the repayment of bank loans and dividends paid.

Consequently, cash and cash equivalents stood at ¥81.7 billion as of March 31, 2007, up ¥10.4 billion from the previous fiscal year-end.

Major Cash Flow Indicators

	2002	2003	2004	2005	2006	2007
Equity ratio (%)	62.1	61.9	67.1	66.8	73.2	**79.8**
Equity ratio on fair value basis (%)	112.0	76.4	75.4	85.1	132.1	**130.8**
Ratio of interest-bearing debt to cash flows (%)	74.7	84.2	44.2	42.1	52.4	**18.1**
Interest coverage ratio	67.8	74.8	152.5	331.4	328.8	**960.4**

DIVIDEND POLICY

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

The Company's basic policy is to pay dividends from retained earnings twice a year, first as interim dividends and second as year-end dividends. The Board of Directors and the general meeting of shareholders determine the interim and year-end dividends, respectively.

As the Company focuses its efforts on solidifying its operating base and financial position, it is also dedicated to the payment of dividends that duly reflects business performance. Accordingly, one of the goals of the Company's mid-term business plan ending fiscal 2009 is to raise the dividend payout ratio to 30% on a consolidated basis.

Based on the aforementioned policy, the Company paid cash dividends per share applicable to fiscal 2007 of ¥14.00 per share, including a interim dividend and a year-end dividend of ¥7.00 per share, respectively. The dividend payout ratio was 24.6% on a consolidated basis.

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 decreased by 229 employees to 4,913. By business segment, in the Pharmaceuticals business, the number of employees as of March 31, 2007 was 4,396. In the Other Products business, the number of employees was 280. In corporate divisions including administration department staff, the number of employees was 237.

OUTLOOK FOR FISCAL 2008

Fiscal 2008 is the first year of the mid-term business plan ending fiscal 2009 announced in February 2007. We will actively press ahead with initiatives to strengthen our earnings base and make strategic investments for future growth to achieve the plan's goals. In the sales of fiscal 2008, the Company will continue to prioritize resource investment in its four strategic products, which are also strong earnings contributors: the therapeutic agent for hypertension and angina pectoris AMLODIN®; the gastroprokinetic agent GASMOTIN®; the vasodilator PRORENAL®; and the carbapenem antibiotic MEROPEN®. In doing so, the Company aims to steadily increase in sales.

Looking at costs, the Company plans to make substantial R&D investments, focusing on the overseas in-house development of SM-13496 (lurasidone) and other projects, with the view to driving future growth. At the same time, the Company will actively implement various initiatives to maximize sales. These will include initiatives to increase the Company's market visibility through TV commercials and other means, as well as measures to enhance e-Detail system and a website for medical professionals in support of sales. As a result, the Company and its consolidated subsidiaries are projecting an increase in SG&A expenses, R&D costs and sales promotion and advertising expenses in fiscal 2008.

For fiscal 2008, the Company is forecasting net sales of ¥273.0 billion, up 4.5% year on year, and operating income of ¥46.0 billion, up 1.0%. Net income is projected at ¥26.0 billion, an increase of 15.0% from the previous year.

Turning to key financial indicators, the Company and its consolidated subsidiaries are projecting an operating margin of 16.8%, ROE of 8.3%, and net income per share of ¥65.41. These forecasts are based on the judgements of management, calculated in accordance with information currently available. Actual results may differ from these forecasts due to a number of risks and uncertainties.

BUSINESS RISKS

Below is a discussion 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, 2007.

Research and Development of New Products

The Dainippon Sumitomo Pharma Group works to research and develop highly original and globally viable products. The Group strives to maintain an extensive 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 rigorous safety testing of its pharmaceuticals at different stages of development, 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 and the rapid rise in the country's elderly population 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 any healthcare system reforms take, including mandated NHI 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 wide range of intellectual property during the course of its R&D activities, including property owned by the Group, as well as properties that the Group lawfully uses with the authorization of the property's owner. Nevertheless, the Group cannot say unequivocally that there is no possibility that some 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 into a variety of partnerships with other companies for the sale of purchased goods, the establishment of joint ventures, co-promotion, and the licensing in and out of products under development, as well as for 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.

Prerequisites for Primary Business Activities

The Dainippon Sumitomo Pharma Group's core business is the ethical pharmaceuticals products business. Accordingly, the Group requires licenses and other certifications to engage in R&D and the sale and manufacture of drugs pursuant to Japan's Pharmaceutical Affairs Law and other laws and regulations related to pharmaceuticals. The Company has obtained licenses and other certifications, including Type 1 and Type 2 Pharmaceuticals Manufacturing and Sales Business licenses (both valid for five years). These licenses and other certifications will cease to be valid unless they are renewed periodically as stipulated by applicable laws and regulations. These laws and regulations also stipulate that these licenses and certifications may be revoked or that the Company may be ordered to suspend part of or all of its operations for a fixed period of time or be subject to other measures in the event that the Company violates these laws and regulations. The Group currently has no knowledge of any facts that would warrant the revocation of its licenses or other certifications. However, an order to revoke the Company's licenses or other certifications could have a significant and negative impact on the Group's operating results and financial position.

Transactions With the Parent Company

The Company and its parent company, Sumitomo Chemical Co., Ltd., have concluded agreements for the leasing of land for the Osaka Research Laboratories, Ehime Plant and Oita Plant, as well as for the purchase of raw materials used in the production of active pharmaceutical ingredients at these business sites and other locations. These agreements involve prices that are determined on a reasonable basis based on discussions between the two parties with reference to general market prices. Barring a request by either party, these agreements are automatically renewed every year. The Company also accepts loan employees from the parent company. The number of such employees is projected to decrease with the effect of permanent transfers to the Company and other factors. The Company's policy is to continue these transactions and other ties with the parent company. However, a change in these agreements, including the transaction terms specified therein, 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 discussed above.

Consolidated Balance Sheets

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2007**	2006	**2007**
CURRENT ASSETS:			
Cash and time deposits (Note 4.a)	**¥ 55,766**	¥ 60,327	**$ 472,593**
Marketable securities (Notes 4.a and 6)	**27,963**	13,995	**236,975**
Receivables:			
Trade notes	**5,196**	7,657	**44,034**
Trade accounts	**84,528**	107,108	**716,339**
Due from parent company, unconsolidated subsidiaries and affiliates (Note 12)	**179**	236	**1,517**
Allowance for doubtful receivables	**(226)**	(109)	**(1,916)**
Total	**89,677**	114,892	**759,974**
Inventories (Note 5)	**44,954**	44,117	**380,966**
Deferred tax assets (Note 8)	**10,443**	11,126	**88,500**
Other current assets (Note 12)	**5,510**	5,276	**46,695**
Total current assets	**234,313**	249,733	**1,985,703**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**9,976**	9,989	**84,542**
Buildings and structures	**78,687**	76,831	**666,839**
Machinery and equipment	**88,441**	88,098	**749,500**
Construction in progress	**1,945**	1,615	**16,483**
Total	**179,049**	176,533	**1,517,364**
Accumulated depreciation	**(113,808)**	(108,197)	**(964,474)**
Net property, plant and equipment	**65,241**	68,336	**552,890**
INVESTMENTS AND OTHER ASSETS:			
Investment in unconsolidated subsidiaries and affiliates	**2,741**	2,343	**23,229**
Investment securities (Note 6)	**50,605**	47,499	**428,856**
Intangible assets	**6,703**	5,952	**56,805**
Deferred tax assets (Note 8)	**4**	374	**34**
Other assets	**22,928**	18,729	**194,305**
Total investments and other assets	**82,981**	74,897	**703,229**
TOTAL	**¥ 382,535**	¥ 392,966	**$3,241,822**

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2007	2006	Thousands of U.S. dollars (Note 1) 2007
CURRENT LIABILITIES:			
Short-term bank loans (Note 7)	**¥ 1,100**	¥ 2,470	**$ 9,322**
Current portion of long-term debt (Note 7)		13	
Payables:			
Trade notes	**188**	169	**1,593**
Trade accounts	**27,973**	51,776	**237,059**
Due to parent company, unconsolidated subsidiaries and affiliates (Note 12)	**2,982**	3,766	**25,271**
Total	**31,143**	55,711	**263,923**
Income taxes payable	**8,221**	8,410	**69,670**
Accrued expenses	**9,296**	9,294	**78,780**
Reserve for expenses related to litigation (Note 16)	**1,010**		**8,559**
Other current liabilities (Note 9)	**5,269**	4,173	**44,653**
Total current liabilities	**56,039**	80,071	**474,907**
LONG-TERM LIABILITIES:			
Long-term debt (Note 7)	**4,600**	5,276	**38,983**
Liability for retirement benefits (Note 9)	**8,221**	14,176	**69,670**
Deferred tax liabilities (Note 8)	**2,093**		**17,737**
Other liabilities (Notes 7 and 9)	**5,570**	4,810	**47,203**
Total long-term liabilities	**20,484**	24,262	**173,593**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 13 and 15)**:**			
NET ASSETS (Notes 10 and 16)**:**			
Shareholders' equity			
Common stock: authorized—1,500,000,000 shares in 2007 and 2006; issued—397,900,154 shares in 2007 and 2006	**22,400**	22,400	**189,831**
Capital surplus	**15,861**	15,860	**134,415**
Retained earnings	**249,482**	232,486	**2,114,254**
Treasury stock, at cost 398,980 shares in 2007 and 291,071 shares in 2006	**(480)**	(330)	**(4,068)**
Total	**287,263**	270,416	**2,434,432**
Valuation, translation adjustments and others			
Unrealized gains on available-for-sale securities, net of tax	**17,828**	17,348	**151,085**
Total	**17,828**	17,348	**151,085**
Minority interests	**921**	869	**7,805**
Total net assets	**306,012**	288,633	**2,593,322**
TOTAL	**¥382,535**	¥ 392,966	**$3,241,822**

Consolidated Statements of Income

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
NET SALES (Notes 11 and 12)	**¥ 261,213**	¥ 245,784	**$2,213,669**
COST OF SALES (Notes 11 and 12)	**99,346**	130,437	**841,915**
Gross profit	**161,867**	115,347	**1,371,754**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 12)	**116,312**	86,461	**985,695**
Operating income	**45,555**	28,886	**386,059**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**987**	518	**8,365**
Interest expense	**(108)**	(91)	**(915)**
Gain on sales of investment securities (Note 6)		1,853	
Gain on sales of property, plant and equipment		1,789	
Gain on transfer of the substitutional portion of the government pension program (Note 9)		782	
Additional retirement expense (Note 9)	**(2,939)**		**(24,907)**
Expense related to litigation (Note 16)	**(1,010)**		**(8,559)**
Loss on revision of the retirement benefit plans (Note 9)	**(611)**		**(5,178)**
Loss on impairment of property, plant and equipment (Note 2.g)	**(206)**	(91)	**(1,746)**
Expense related to merger		(5,795)	
Loss on business restructuring		(176)	
Other—net	**(3,253)**	(1,988)	**(27,568)**
Other income (expenses)—net	**(7,140)**	(3,199)	**(60,508)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**38,415**	25,687	**325,551**
INCOME TAXES (Note 8):			
Current	**12,046**	10,380	**102,085**
Deferred	**3,706**	(141)	**31,407**
Total income taxes	**15,752**	10,239	**133,492**
MINORITY INTERESTS IN NET INCOME	**58**	71	**491**
NET INCOME	**¥ 22,605**	¥ 15,377	**$ 191,568**

	Yen		U.S. dollars
PER SHARE OF COMMON STOCK:			
Basic net income	**¥ 56.86**	¥ 54.57	**$ 0.48**
Cash dividends applicable to the year	**14.00**	12.00	**0.12**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Net Assets

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Thousands of shares		Millions of yen								
			Shareholders' equity					Valuation, translation adjustments and others			
	Issued number of shares of common stock	Number of treasury stocks	Common stock	Capital surplus	Retaind earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securiteies	Total valuation, translation adjustments and others	Minority interests	Total net assets
BALANCE, APRIL 1, 2005	168,184	(3,159)	¥ 13,444	¥ 15,860	¥ 100,821	¥(3,508)	¥ 126,617	¥ 8,032	¥ 8,032	¥ 784	¥ 135,433
Cash dividends, ¥10.00 per share					(1,650)		(1,650)				(1,650)
Payment upon merger (Note 3)					(2,886)		(2,886)				(2,886)
Bonuses to directors and corporate auditors					(29)		(29)				(29)
Net income					15,377		15,377				15,377
Increase related to merger (Note 3)	229,716		8,956		122,748		131,704				131,704
Purchases of treasury stock		(148)				(174)	(174)				(174)
Sales of treasury stock		16			1	18	19				19
Allotment of treasury stock due to merger (Note 3)		3,000			(1,618)	3,334	1,716				1,716
Decrease related to exclusion of consolidated subsidiaries					(278)		(278)				(278)
Net changes during the year								9,316	9,316	85	9,401
BALANCE, MARCH 31, 2006	397,900	(291)	22,400	15,860	232,486	(330)	270,416	17,348	17,348	869	288,633
Cash dividends, ¥14.00 per share					(5,566)		(5,566)				(5,566)
Bonuses to directors					(43)		(43)				(43)
Net income					22,605		22,605				22,605
Purchases of treasury stock		(112)				(154)	(154)				(154)
Sales of treasury stock		4		1		4	5				5
Net changes during the year								480	480	52	532
BALANCE, MARCH 31, 2007	**397,900**	**(399)**	**¥22,400**	**¥15,861**	**¥249,482**	**¥ (480)**	**¥287,263**	**¥17,828**	**¥17,828**	**¥921**	**¥ 306,012**

	Thousands of U.S. dollars (Note 1)								
	Shareholders' equity					Valuation, translation adjustments and others			
	Common stock	Capital surplus	Retaind earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securiteies	Total valuation, translation adjustments and others	Minority interests	Total net assets
BALANCE, MARCH 31, 2006	$ 189,831	$ 134,407	$ 1,970,220	$ (2,797)	$ 2,291,661	$ 147,017	$ 147,017	$ 7,364	$2,446,042
Cash dividends, U.S.$0.12 per share			(47,170)		(47,170)				(47,170)
Bonuses to directors			(364)		(364)				(364)
Net income			191,568		191,568				191,568
Purchases of treasury stock				(1,305)	(1,305)				(1,305)
Sales of treasury stock		8		34	42				42
Net changes during the year						4,068	4,068	441	4,509
BALANCE, MARCH 31, 2007	**$189,831**	**$134,415**	**$2,114,254**	**$ (4,068)**	**$2,434,432**	**$151,085**	**$151,085**	**$ 7,805**	**$2,593,322**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2007	2006	2007
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 38,415	¥ 25,687	$ 325,551
Adjustments for:			
Depreciation and amortization	12,008	8,901	101,763
Provision for liability for retirement benefits, less payments	(3,909)	(1,152)	(33,127)
Interest and dividend income	(987)	(518)	(8,364)
Interest expense	108	91	915
Loss on revision of retirement benefit plans (Note 9)	611		5,178
Loss on impairment of property, plant and equipment (Note 2.g)	206	91	1,746
Gain on sales of investment securities		(1,853)	
Gain on sales of property, plant and equipment		(1,789)	
Gain on transfer of the substitutional portion of the government pension program (Note 9)		(782)	
Changes in assets and liabilities:			
Decrease (increase) in receivables	25,098	(3,089)	212,695
Increase in inventories	(838)	(3,349)	(7,102)
Decrease in payables	(24,567)	(4,293)	(208,195)
Other—net	3,047	3,434	25,822
Subtotal	49,192	21,379	416,882
Interest and dividend received	968	529	8,203
Interest paid	(52)	(67)	(441)
Income taxes paid	(12,236)	(12,756)	(103,695)
Net cash provided by operating activities	37,872	9,085	320,949
INVESTING ACTIVITIES:			
Net increase in time deposits	(5,000)	(8,000)	(42,373)
Proceeds from sales of property, plant and equipment	85	2,387	720
Purchases of property, plant and equipment	(7,411)	(4,573)	(62,805)
Parchases of intangible assets	(2,347)	(1,025)	(19,890)
Net decrease (increase) in marketable securities	(16)	1,000	(135)
Proceeds from sales of investment securities	1,000	2,887	8,475
Purchases of investment securities	(5,259)	(1,573)	(44,568)
Other—net	(739)	(1,550)	(6,263)
Net cash used in investing activities	(19,687)	(10,447)	(166,839)
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans	(1,370)	(670)	(11,610)
Repayment of long-term debt	(689)	(1,918)	(5,839)
Increase in treasury stock	(149)	(155)	(1,263)
Dividends paid	(5,566)	(1,650)	(47,170)
Dividends paid to minority shareholders	(7)	(7)	(59)
Payment upon merger (Note 3)		(2,886)	
Net cash used in financing activities	(7,781)	(7,286)	(65,941)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,404	(8,648)	88,169
INCREASE IN CASH AND CASH EQUIVALENTS DUE TO MERGER		42,235	
DECREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM CHANGE IN NUMBER OF CONSOLIDATED SUBSIDIARIES (Note 2.a)		(450)	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	71,319	38,182	604,399
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 4.a)	¥ 81,723	¥ 71,319	$ 692,568

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2007 and 2006

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 from 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. (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 ¥118 to U.S.$1.00, the approximate rate of exchange at March 31, 2007. These 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 its consolidated subsidiaries (together, the "Group") were adopted the new accounting standards for presentation of net assets in the balance sheet and statement of changes in net assets from the fiscal year ended March 31, 2007. In accordance with the adoption of the new accounting standards, the presentation of accompanying consolidated financial statements for 2006, including the presentation of statements of changes in net assets, have been reclassified. In addition, certain reclassifications have been made in the 2006 consolidated financial statements to conform to the classifications applied in 2007. These reclassifications had no effect on the 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 one 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.

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 the 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 not exposed to any significant risk of change 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 net assets. Non-marketable available-for-sale securities are stated at cost, determined by the moving-average method. If the fair value of investment securities declines to below cost and the decline is material and other than temporary, carrying value of the investment securities is 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 and structures	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. Long-Lived Assets

Long-lived assets presented as property, plant, equipment and intangible assets on the consolidated balance sheets are carried at cost, less depreciation, and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the result from the continued use and eventual disposition of the asset or the net selling price at disposition. The impairment loss of property, plant and equipment that the Group recognized and charged to income for the year ended March 31, 2007 and 2006 was ¥206 million ($1,746 thousand) and ¥91 million, respectively.

h. Liability for Retirement Benefits

Upon retirement or termination of employment, employees are normally entitled to lump-sum and/or annuity payments based on their rate of payment at the time of retirement or termination and length of service.

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

The liability for retirement benefits for directors and corporate auditors in the consolidated subsidiaries are recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at the balance sheet date. The liability for retirement benefits includes retirement benefits for directors and corporate auditors in the consolidated subsidiaries.

Otherwise, the Company terminated its retirement benefit plan for directors and corporate auditors on June 29, 2005. The benefits granted prior to the termination date are included in current liabilities.

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, 2007 and 2006 were ¥40,870 million ($346,356 thousand) and ¥29,636 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. 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 prevailing at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the income statement.

m. Per Share Information

Net income per share is computed by dividing net income available to common shareholders by 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 397,555 thousand and 280,991 thousand for the year ended March 31, 2007 and 2006, 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.

n. Accounting Standard for Presentation of Net Assets in the Balance Sheet

In December 2005, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 5, "Accounting Standard for Presentation of Net Assets in the Balance Sheet" and ASBJ guidance No. 8, "The Implementation Guidance for the Accounting Standard for Presentation of Net Assets in the Balance Sheet." These new accounting standards are effective for the fiscal years ended on or after May 1, 2006.

The group adopted these new accounting standards for the year ended March 31, 2007, and the consolidated balance sheet as of March 31, 2007, which was prepared in accordance with the new accounting standards, comprises three sections: assets, liabilities and net assets sections.

In addition, the consolidated balance sheet as of March 31, 2006 have been prepared with reclassifications to conform with the presentation and disclosures of the consolidated financial statements for the year ended March 31, 2007.

The adoption of the new accounting standards had no impact on the consolidated statement of income for the year ended March 31, 2007. Also, the amount of shareholders' equity under the previous presentation of the consolidated balance sheet as of March 31, 2007 and 2006 would have been ¥305,091 million ($2,585,517 thousand) and ¥287,764 million, respectively.

o. Accounting Standard for Statement of Changes in Net Assets

In December 2005, the Accounting Standards Board of Japan (ASBJ) issued ASBJ Statement No. 6, "Accounting Standard for Statement of Changes in Net Assets" and ASBJ guidance NO. 9, "The Implementation Guidance for the Accounting Standard for Statement of Changes in Net Assets." These accounting standards are effective for the fiscal year ended on or after May 1, 2006.

The group adopted these accounting standards for the year ended March 31, 2007 and prepared the accompanying consolidated statement of changes in net assets for the year ended March 31, 2007.

In addition, the consolidated statements of shareholders' equity for the year ended March 31, 2006 have been reclassified to conform with the presentation and disclosures of the consolidated financial statements for the year ended March 31, 2007.

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 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, ¥2,255 million and ¥118,874 million, respectively. As a result, common stock, legal reserve and voluntary reserve of the Company amounted to ¥22,400 million, ¥5,288 million and ¥218,735 million, 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
Total assets	¥ 184,394
Current assets	120,152
Net property, plant and equipment	38,444
Investments and other assets	25,798
Total liabilities	¥ 48,406
Current liabilities	36,188
Long-term liabilities	12,218

4. SUPPLEMENTARY CASH FLOW INFORMATION

a. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2007 and 2006 for purposes of the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Cash and time deposits	**¥ 55,766**	¥ 60,327	**$ 472,593**
Time deposits with maturity over three months		(2,000)	
Marketable securities with a maturity of three months or less when purchased	**25,957**	12,992	**219,975**
Cash and cash equivalents	**¥ 81,723**	¥ 71,319	**$ 692,568**

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, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished goods	¥ 15,978	¥ 14,984	$ 135,407
Semi-finished goods and work in process	20,254	21,400	171,644
Raw materials and supplies	8,722	7,733	73,915
Total	¥ 44,954	¥ 44,117	$ 380,966

6. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Current:			
Corporate bonds	¥ 2,006	¥ 1,003	$ 17,000
Commercial paper and other	25,957	12,992	219,975
Total	¥ 27,963	¥ 13,995	$ 236,975
Non current:			
Equity securities	¥ 45,538	¥ 45,425	$ 385,915
Government and corporate bonds	3,994	995	33,848
Other	1,073	1,079	9,093
Total	¥ 50,605	¥ 47,499	$ 428,856

The carrying amounts and aggregate fair values of marketable and investments securities at March 31, 2007 and 2006 were as follows:

	Millions of yen			
	2007			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥15,422	¥29,374	¥(121)	¥44,675
Held-to-maturity	6,000		(20)	5,980

	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

	Thousands of U.S. dollars			
	2007			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	$130,695	$248,932	$(1,025)	$378,602
Held-to-maturity	50,848		(170)	50,678

Available-for-sale securities and held-to-maturity securities with no available fair value as of March 31, 2007 and 2006 were as follows:

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Available-for-sale:			
Equity securities	¥ 1,863	¥ 1,967	$ 15,788
Other	73		618
Held-to-maturity:			
Commercial paper	25,957	12,992	219,975
Total	¥ 27,893	¥ 14,959	$ 236,381

Proceeds from sales of available-for-sale securities were ¥14 million ($119 thousand) and ¥2,887 million for the years ended March 31, 2007 and 2006, respectively. On those sales, gross realized gains and losses computed on a moving-average cost basis were ¥9 million ($76 thousand) and ¥1 million ($8 thousand), respectively, for the year ended March 31, 2007, and ¥1,942 million and ¥41 million, respectively, for the year ended March 31, 2006. Gross realized gains of ¥1,853 million for the years ended March 31, 2006 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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due in one year or less	¥ 27,963	¥ 13,995	$ 236,975
Due after one year through five years	3,994	995	33,848
Due after five years through ten years			
Total	¥ 31,957	¥ 14,990	$ 270,823

At March 31, 2007, investment securities of ¥14 million ($119 thousand) were pledged as collateral for accounts payable of ¥34 million ($288 thousand). At March 31, 2006, investment securities of ¥22 million were pledged as collateral for accounts payable of ¥141 million.

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

Short-term bank loans consisted of unsecured loans from banks bearing interest of 0.57% to 1.30% at March 31, 2007 and 2006, respectively. Other liabilities as of March 31, 2007 and 2006 include deposits received from customers in the amount of ¥3,397 million ($28,788 thousand) and ¥3,727 million, respectively, bearing interest of 0.03% and 2.13%, respectively.

Long-term debt at March 31, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Unsecured loans from banks and financial institutions, due 2008	¥ 4,600	¥ 5,100	$ 38,983
Unsecured loans for employees' housing		189	
Total	4,600	5,289	38,983
Less current portion		13	
Long-term debt, less current portion	¥ 4,600	¥ 5,276	$ 38,983

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

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2008		
2009	¥ 4,600	$ 38,983
2010		
2011		
2012 and thereafter		
Total	¥ 4,600	$ 38,983

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 years ended March 31, 2007 and 2006.

Significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Liability for retirement benefits	¥ 3,776	¥ 5,406	$ 32,000
Accrued enterprise taxes	743	692	6,297
Accrued bonuses to employees	3,267	3,273	27,686
Accrued other expenses	199	293	1,686
Loss on devaluation of investment securities	1,173	1,138	9,941
Research and development costs	2,473	3,180	20,958
Inventories	1,869	2,054	15,839
Other	8,281	8,304	70,178
Gross deferred tax assets	21,781	24,340	184,585
Valuation allowance	(1,230)		(10,424)
Total deferred tax assets	20,551	24,340	174,161
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	(11,364)	(11,923)	(96,305)
Deferred gain on sales of fixed assets	(756)	(802)	(6,407)
Other	(77)	(115)	(652)
Total deferred tax liabilities	(12,197)	(12,840)	(103,364)
Net deferred tax assets	¥ 8,354	¥ 11,500	$ 70,797

A reconciliation between the normal statutory tax rates and the effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2007 and 2006 was as follows:

	2007	2006
Normal statutory tax rate	**40.6%**	40.6%
Increase (decrease) in taxes due to:		
Expenses not deductible for tax purposes	**5.0**	6.0
Non taxable dividend income	**(0.3)**	(0.5)
Tax credits for research and development costs	**(5.5)**	(6.6)
Other	**1.2**	0.4
Effective tax rate	**41.0%**	39.9%

9. RETIREMENT AND SEVERANCE BENEFITS

The liability (asset) for employees' retirement benefits at March 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	**¥ 78,593**	¥ 81,041	**$ 666,042**
Fair value of plan assets	**(85,039)**	(87,257)	**(720,669)**
Unrecognized prior service benefit	**2,130**	3,228	**18,051**
Unrecognized actuarial gain	**10,901**	15,052	**92,381**
Prepaid pension cost	**1,584**	2,052	**13,424**
Liability for employees' retirement benefit	**¥ 8,169**	¥ 14,116	**$ 69,229**

The consolidated subsidiaries have adopted a 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
	2007	2006	2007
Service cost	**¥ 3,317**	¥ 2,446	**$ 28,110**
Interest cost	**1,587**	1,271	**13,449**
Expected return on plan assets	**(1,431)**	(876)	**(12,127)**
Amortization of prior service cost	**(262)**	(290)	**(2,220)**
Recognized actuarial gain/loss	**(2,061)**	346	**(17,466)**
Net periodic benefit costs	**¥ 1,150**	¥ 2,897	**$ 9,746**
Gains on transfer of the substitutional portion of the government pension program		(782)	
Loss on transfer to a defined contribution pension plan and other	**611**		**5,178**
Contribution payment to a defined contribution pension	**332**	186	**2,813**
Total	**¥ 2,093**	¥ 2,301	**$ 17,737**

In addition to the above costs, additional retirement expenses related to the application of a re-employment assistance plan, in the amount of ¥2,939 million ($24,907 thousand) was charged to income for the year ended March 31, 2007.

The Company has a lump-sum payment plan and two types of pension plans for employees: a non contributory defined benefit pension plan and a defined contribution pension plan. Up to December 1, 2004, the Company had two types of defined 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 the 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 approval to transfer the substitutional portion of the past pension obligations to the government and obtained approval from the Ministry of Health, Labour and Welfare on December 1, 2004. The Company transferred the subsutitutional portion of the pension obligations of ¥12,825 million and the related assets to the government on August 9, 2005 and recognized a gain of ¥782 million on the difference between the amount of the subsutitutional portion of the pension obligations expected at the time of the approval of the exemption and the amount of these obligations transferred in 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 plan assets of ¥1,782 million will be transferred over a period of 8 years beginning in 2004.

In addition, the Company integrated a lump-sum payment plan and a defined benefit pension plan assumed from Sumitomo Pharmaceuticals Co., Ltd. related to merger. The Company terminated employees' payment parts of the defined benefit pension plan mentioned above and returned the funds to the employees in September 29, 2006. Also, the Company implemented a defined contribution pension plan on October 2, 2006 in which a portion of the lump-sum payment plan mentioned above was terminated.

The Company applied accounting treatment specified in the guidance issued by the Accounting Standards Board of Japan (ASBJ). The plan assets of ¥2,182 million ($18,492 thousand) will be transferred over a period of 6 years beginning in 2006. At March 31, 2007, the plan assets not yet transferred, totaling ¥2,753 million ($23,331 thousand), were presented as other current liabilities and other liabilities.

The liability for retirement benefits for directors and corporate auditors in the consolidated subsidiaries as of March 31, 2007 and 2006 were ¥52 million ($441 thousand) and ¥60 million, respectively.

Assumptions used for the years ended March 31, 2007 and 2006 were set forth as follows:

	2007	2006
Method of attributing benefits to periods of service	straight-line basis	straight-line basis
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Amortization period for prior service cost	15 years	15 years
Recognition period for actuarial loss	15 years	15 years

10. SHAREHOLDERS' EQUITY

The Japanese Corporate Law ("the Law") became effective on May 1, 2006, replacing the Japanese Commercial Code ("the Code"). The Law is generally applicable to events and transactions which occur on or after May 1, 2006 and for the fiscal years ending on or after May 1, 2006.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one-half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in-capital and legal reserve must be set aside as additional paid-in-capital or legal reserve. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Code, legal reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends. Under the Law, all additional paid-in-capital and all legal reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the non consolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 28, 2007, the shareholders approved cash dividends amounting to ¥2,783 ($23,585 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2007. These appropriations are recognized in the period in which they are approved by the shareholders.

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, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Sales	¥ 1,792	¥ 607	$ 15,186
Purchases	8,890	6,191	75,339

12. RELATED PARTY TRANSACTIONS

Transactions of the Group with the parent company, Sumitomo Chemical Co., Ltd., for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Sales of products	¥ 13	¥ 8	$ 110
Purchases of products	4,040	1,421	34,237
Payment of other expenses	1,432	682	12,136
Sales of other assets	94	5	797

The balances due to or from the parent company, Sumitomo Chemical Co., Ltd., at March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Trade receivables accounts	¥ 84	¥ 2	$ 712
Other current assets	1	4	8
Trade payable accounts	1,144	1,082	9,695

13. LEASES

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

Total rental expenses for the years ended March 31, 2007 and 2006 were ¥7,106 million ($60,220 thousand) and ¥5,102 million, respectively, including ¥1,388 million ($11,763 thousand) and ¥1,118 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense for 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, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Machinery and equipment:			
Acquisition cost	¥ 4,842	¥ 4,527	$ 41,034
Accumulated depreciation	(2,388)	(1,873)	(20,237)
Net leased property	¥ 2,454	¥ 2,654	$ 20,797

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Obligations under finance leases:			
Due within one year	¥ 1,003	¥ 1,049	$ 8,500
Due after one year	1,451	1,605	12,297
Total	¥ 2,454	¥ 2,654	$ 20,797

Depreciation expenses, which are not reflected in the accompanying statements of income, computed by the straight-line method were ¥1,388 million ($11,763 thousand) and ¥1,118 million for the years ended March 31, 2007 and 2006, respectively.

14. SEGMENT INFORMATION

The Group operates in two business segments—Pharmaceuticals and Other products. The business segment information for the Group for the years ended March 31, 2007 and 2006 was as follows:

	Millions of yen				
	2007				
	Pharmaceuticals	Other products	Total	Eliminations/ corporate	Consolidated
I. Sales and operating income					
Sales to customers	¥206,260	¥54,953	¥261,213		¥261,213
Intersegment sales and transfers					
Total	206,260	54,953	261,213		261,213
Operating expenses	161,857	53,801	215,658		215,658
Operating income	¥ 44,403	¥ 1,152	¥ 45,555		¥ 45,555
II. Identifiable assets, depreciation, impairment loss and capital expenditures					
Identifiable assets	¥218,792	¥24,629	¥243,421	¥139,114	¥382,535
Depreciation	10,965	359	11,324		11,324
Impairment loss	206		206		206
Capital expenditures	9,237	306	9,543		9,543

	Thousands of U.S. dollars				
	2007				
	Pharma-ceuticals	Other products	Total	Eliminations/ corporate	Consolidated
I. Sales and operating income					
Sales to customers	**$1,747,966**	**$465,703**	**$2,213,669**		**$2,213,669**
Intersegment sales and transfers					
Total	**1,747,966**	**465,703**	**2,213,669**		**2,213,669**
Operating expenses	**1,371,669**	**455,941**	**1,827,610**		**1,827,610**
Operating income	**$ 376,297**	**$ 9,762**	**$ 386,059**		**$ 386,059**
II. Identifiable assets, depreciation, impairment loss and capital expenditures					
Identifiable assets	**$1,854,170**	**$208,720**	**$2,062,890**	**$1,178,932**	**$3,241,822**
Depreciation	**92,924**	**3,042**	**95,966**		**95,966**
Impairment loss	**1,746**		**1,746**		**1,746**
Capital expenditures	**78,280**	**2,593**	**80,873**		**80,873**

	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 and 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

Each business segment comprises the following:

Business Segment	Major Product
Pharmaceuticals	Cardiovascular system drugs
	Antibacterial and antibiotic agents
	Central nervous system and antiallergic drugs
	Gastrointestinal drugs
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, 2007 and 2006 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, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantees of indebtedness	¥ 1,058	$ 8,966
Loans guaranteed	180	1,525

16. LITIGATION

The Company is currently involved in litigation with Wakunaga Pharmaceutical Co., Ltd. ("Wakunaga") with respect to the termination of license agreement on a new quinolone compound.

In June 1998, the Company concluded an exclusive license agreement with Wakunaga under which the Company acquired an exclusive license for the development, manufacture and sale of the new quinolone compound. Based on this agreement, the Company began developing the new quinolone compound into an antibiotic. In May 2002, the Company decided to discontinue the development of this compound and, thereafter, terminated the exclusive license agreement.

In response, Wakunaga filed a lawsuit against the Company with the Osaka District Court on July 22, 2004 to claim damages of ¥5,000 million ($42,373 thousand), alleging that the Company wrongfully terminated the said license agreement. On March 16, 2007, the Osaka District Court held that some of Wakunaga's claims were meritorious and it ordered the Company to pay ¥890 million ($7,542 thousand) in damages.

Because the Company claims that the termination at issue was a legitimate exercise of the rights held by the Company pursuant to the relevant provisions of the exclusive license agreement, the Company filed an appeal with the Osaka High Court on March 30, 2007 against the judgement of the Osaka District Court.

However, the Company recognized estimated liability related to this litigation in the amount of ¥1,010 million ($8,559 thousand) as a subconscious liability and charged to income for the year ended March 31, 2007. The subconscious liability for this litigation was presented as reserve for expenses related to litigation in the consolidated balance sheets as of March 31, 2007.

17. SUBSEQUENT EVENTS

On June 28, 2007, the shareholders of the Company approved payment of a year-end cash dividend to shareholders of record at March 31, 2007 of ¥7.00 ($0.06) per share or a total of ¥2,783 million ($23,585 thousand).

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheet of Dainippon Sumitomo Pharma Co., Ltd. and its consolidated subsidiary as of March 31, 2007, and the related consolidated statements of income, changes in net assets and cash flows for the year then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits. The consolidated finanical statements of Dainippon Sumitomo Pharma Co., Ltd. and consolidated subsidiaries as of March 31, 2006 and for the year then ended, were audited by other auditors whose report dated June 29, 2006, expressed an unqualified opinion on those statements with an explanatory paragraph. The explanatory paragraph described the adoption of the new accounting standard for impairment of fixed assets discussed in Note 2.g. to those statements.

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 its consolidated subsidiary as of March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

Osaka,Japan
June 28, 2007

Corporate Profile (As of March 31, 2007)

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:
4,913 (consolidated), 4,834 (non-consolidated)

Total Number of Shares Issued:
397,900,154

Total Number of Shareholders:
16,048

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

Securities Code:
4506

Independent Public Accountants:
KPMG AZSA & Co.

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.

Newspaper 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), 2 Distribution Center (Saitama, Hyogo)

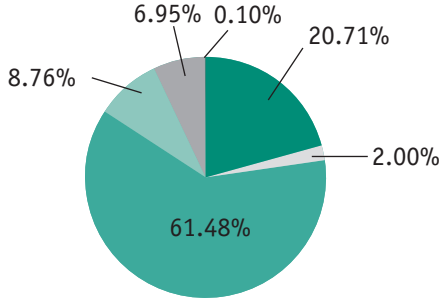
Consolidated Subsidiary:
Gokyo Trading Co., Ltd.

Principal Shareholders

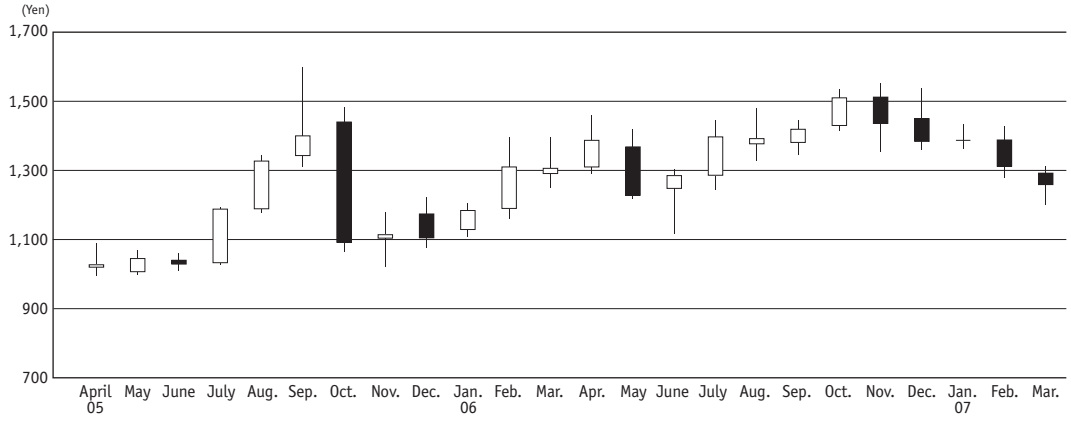
Name	Number of Shares Held (Thousand Shares)	Percentage of Issued Shares
Sumitomo Chemical Co., Ltd.	199,434	50.12%
Inabata & Co., Ltd.	33,282	8.36%
The Master Trust Bank of Japan, Ltd. (trust accounts)	14,312	3.60%
Nippon Life Insurance Company	10,530	2.65%
Japan Trustee Services Bank, Ltd. (trust accounts)	9,931	2.50%
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%
Bank of New York GCM Client Accounts E ISG	4,192	1.05%
The Dai-ichi Mutual Life Insurance Company	3,248	0.82%

Composition of Shareholders

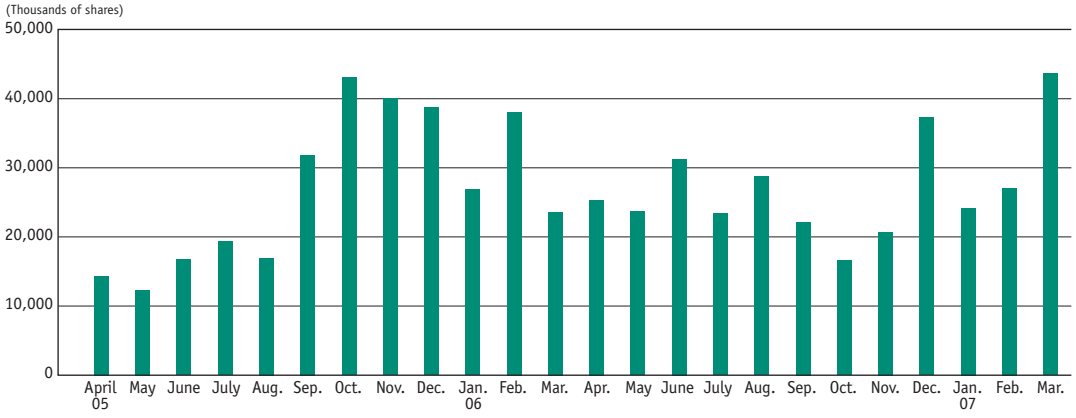
Financial Institutions	20.71%
Securities Companies	2.00%
Other Corporations	61.48%
Foreign-based Corporations and Others	8.76%
Individuals and Others	6.95%
Treasury Stock	0.10%



Stock Price



Turnover



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