

First Half Financial Results for FY2006

(Apr. 1, 2006 to Sep. 30, 2006)

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First Half Financial Results



Financial Highlights for 1st Half

(Comparison to Initially Announced Interim Earnings Forecast)

1. Expanded sales based on the 4 main products has allowed sales to move forward as projected.
2. Due to increased gross profit margin and reduced expenses primarily in sales costs, operating income is 17% greater and recurring income is 15% greater than interim projections.
3. Losses associated with reformed retirement benefits are also lower than initially projected, and interim net income is 26% greater than interim projections.

(Comparison to simple totals of the same period in previous year)

4. NHI drug price revision, dissolving partnerships and decrease in industrial property revenues result in less income/lower profits.

(Financial Position)

5. Because of distribution agreement dissolution etc., capital-to-asset ratio becomes over 80%.

1st Half Financial Results

	Billions of Yen				Comparison to interim forecast	
	1st Half FY2005	1st Half FY2006 (A)	Change		Interim forecast announced as of May 11 (B)	Variance (A – B)
			Value	Percentage		
Net sales	84.7	126.9	42.2	49.8%	127.0	- 0.1
Operating income	9.0	20.5	11.5	127.7%	17.5	3.0
Recurring income	8.5	19.6	11.1	130.8%	17.0	2.6
Net income	4.0	9.5	5.5	137.1%	7.5	2.0

The numerical value of Sumitomo Pharmaceuticals Co., Ltd. before the merger date (October 1, 2005) is not included in the above.
All values are rounded.

Financial Position

Billions of Yen

	As of March 31 , 2006	As of September 30 , 2006	Change
ASSETS	393.0	364.9	- 28.1
Current assets	249.7	219.3	- 30.4
Fixed assets	143.2	145.6	2.4
LIABILITIES	104.3	69.8	- 34.5
Current liabilities	80.1	50.9	- 29.2
Long-term liabilities	24.3	19.0	- 5.3
NET ASSETS (※)	288.6	295.1	6.4

(Shareholders' equity ratio)

73.2%

80.6%

(Note) Past year's results have been restated to conform to the 1st half year for FY2006

(**ASSETS**)

- Decrease in notes and accounts receivable ···· —33.4 billion Yen

(**LIABILITIES**)

- Decrease in notes and accounts payable ······ —23.2 billion Yen

Cash Flows

Billions of Yen

I	Cash flows from operating activities	+ 22.6
	▪ Income before income taxes and minority interests	+ 16.0
	▪ Decrease in notes and accounts receivable	+ 33.4
	▪ Decrease in notes and accounts payable	- 23.2
	▪ Income taxes paid	- 7.0
II	Cash flows from investing activities	- 10.9
	▪ Net increase in time deposits	- 5.0
	▪ Purchases of property, plant and equipment	- 4.4
III	Cash flows from financing activities	- 4.6
	▪ Net decrease in borrowings	- 1.7
	▪ Dividends paid	- 2.8

Cash and cash equivalents at end of period ······ 78.4 billion Yen

First Half Financial Results

Comparison to Simple Totals

1st Half Financial Results

Billions of Yen

	1 st Half FY2005	1 st Half FY2006	Change	
			Value	Percentage
Net sales	157.2	126.9	- 30.2	- 19.2%
Operating income	24.8	20.5	- 4.3	- 17.4%
Recurring income	23.4	19.6	- 3.9	- 16.6%
Net income	13.9	9.5	- 4.4	- 31.8%

All values are rounded.

Increase and decrease factors of Net sales

Billions of Yen

	1 st Half FY2005	1 st Half FY2006	Change	
			Value	Percentage
Net sales	157.2	126.9	- 30.2	- 19.2%
Pharmaceuticals	131.2	100.3	- 30.9	- 23.5%

Negatives

- Dissolving partnerships (Abbott Japan Co.,Ltd. etc.)
- Decrease in industrial property revenues
- NHI drug price revision

Positives

- Growth of sales in our 4 main products and other priority products

Domestic Sales of Our 4 Main Products

Billions of Yen

	1 st Half FY2005	1 st Half FY2006	Change	
			Value	Percentage
AMLODIN [®]	28.1	28.7	0.6	2.1%
GASMOTIN [®]	8.0	8.9	0.9	11.0%
PRORENAL [®]	6.1	6.8	0.7	11.6%
MEROPEN [®]	7.0	7.0	0.1	1.0%
Total	49.2	51.4	2.2	4.5%

1st Half Operating income

Billions of Yen

	1 st Half FY2005		1 st Half FY2006		change
		% of net sales		% of net sales	
Net sales	157.2	—	126.9	—	— 30.2
Cost of Sales	71.3	45.3%	48.1	37.9%	— 23.2
Gross profit	85.9	54.7%	78.9	62.1%	— 7.0
SG&A expenses	61.1	38.9%	58.4	46.0%	— 2.7
R&D costs	20.0	12.7%	20.7	16.3%	0.7
Operating income	24.8	15.8%	20.5	16.1%	— 4.3

Cost of Sales includes reserve for (reversal of) sales returns.

(Cost of Sales)

- The cost to sales ratio was lower due to distribution agreement dissolution, etc.

(SG&A expenses)

- Reduced labor costs
- Reduced promotional costs, etc.

Non-operating Income & Expenses and Extraordinary Income & Expenses

Billions of Yen

	1st Half FY2005	1st Half FY2006	Change
Operating income	24.8	20.5	- 4.3
Non-operating income and expenses	- 1.3	- 0.9	0.4
Finance income and expenses including dividend income	0.4	0.4	0.1
Contribution	- 1.0	- 0.7	0.2
Others	- 0.7	-0.6	0.1
Recurring income	23.4	19.6	- 3.9
Extraordinary income and expenses	- 0.8	- 3.5	- 2.7
Gains on transfer of the substitutional portion of the government pension program	0.8	—	- 0.8
Gains on transfer of business	4.5	—	- 4.5
Additional retirement expenses for employees	- 0.6	- 2.9	- 2.3
Loss on reform of retirement benefits plan	—	- 0.6	- 0.6
Expense related to merger	- 4.5	—	4.5
Losses on business restructuring	- 1.0	—	1.0
Income taxes and minority interests	- 8.7	- 6.5	2.2
Net income	13.9	9.5	- 4.4

Financial Forecast for FY2006



Financial Forecast for FY2006

Billions of Yen

	FY2005	FY2006		Change
	Results for Year ended 3/31/06 (simple totals)	Forecast for year ending 3/31/2007 (5/11)	Forecast for year ending 3/31/2007 (10/27)	
Net sales	318.2	260.0	260.0	-58.2
Operating income	44.7	41.0	42.0	-2.7
Recurring income	42.2	40.0	40.5	-1.7
Net income	25.3	21.0	22.0	-3.3

R&D costs	41.8	42.0	42.0	+0.2
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Increase and decrease factors of Net sales

Billions of Yen

	Results for Year ended 3/31/06 (simple totals)	Forecast for year ending 3/31/2007	Change	
			Value	Percentage
Net sales	318.2	260.0	-58.2	-18.3%

<Negatives>

- Dissolving partnerships, business transfers (Abbott Japan Co.,Ltd, ASKA Pharmaceutical Co.,Ltd, Lopemin®, Zyrtec®, OTC, etc.): Over ¥60 billion in sales lost
- Decrease in industrial property revenues .
- NHI drug price revision

<Positives>

- Growth of sales in our 4 main products and other priority items (including new products)

Cost of Sales and Selling, General and Administrative Expenses

Billions of Yen

	Year ended 3/31/2006	% of net sales	Forecast for year ending 3/31/2007	% of net sales	Change
Net sales	318.2	—	260.0	—	−58.2
Cost of Sales	152.1	47.8%	100.0	38.5%	−52.1
Gross profit	166.1	52.2%	160.0	61.5%	−6.1
SG&A expenses	121.4	38.2%	118.0	45.4%	−3.4
R&D costs	41.8	13.1%	42.0	16.2%	+0.2
Operating income	44.7	14.0%	42.0	16.2%	−2.7

<note>

1. Limited impact resulting from dissolved partnerships and business transfers. Despite efforts to expand the sales of profitable lines, including our 4 main products, so as to cover the sales decrease due to the above “negatives,” gross profit will nonetheless decline as a direct result of the decrease in industrial property revenues and NHI drug price revision.
2. SG&A expenses decrease resulting from the pursuit of synergies.
3. Cost of Sales includes reserve for (reversal of) sales returns.

Topics of domestic sales



Sales of DSP's 4 Main Products

Billions of Yen

	Year ended 3/31/05 results	Year ended 3/31/06 results	Year ending 3/31/07 forecast
AMLODIN [®]	52.8	56.8	58.0
GASMOTIN [®]	15.0	16.3	19.0
PRORENAL [®]	10.0	12.6	14.5
MEROPEN [®]	12.8	14.1	14.5
Total	90.7	99.9	106.0

➔ **To reach over
¥110 billion in
FY2007**

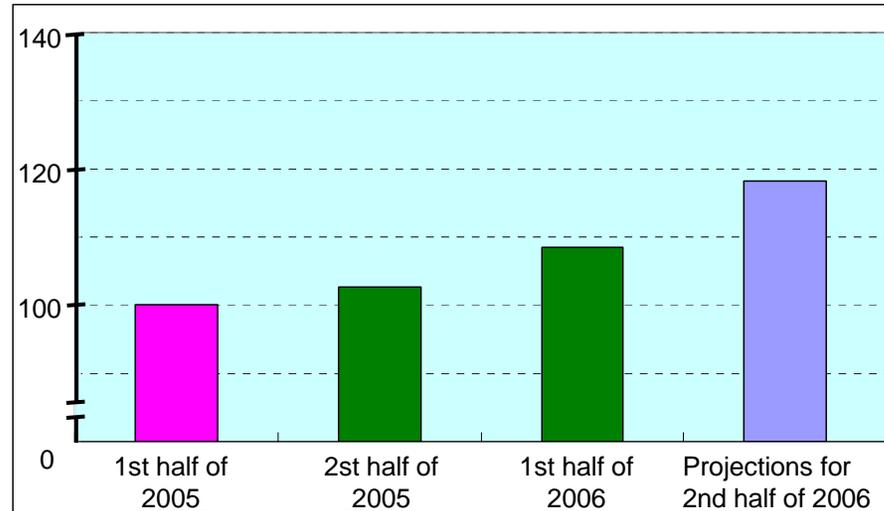
Domestic sales.

GASMOTIN[®]

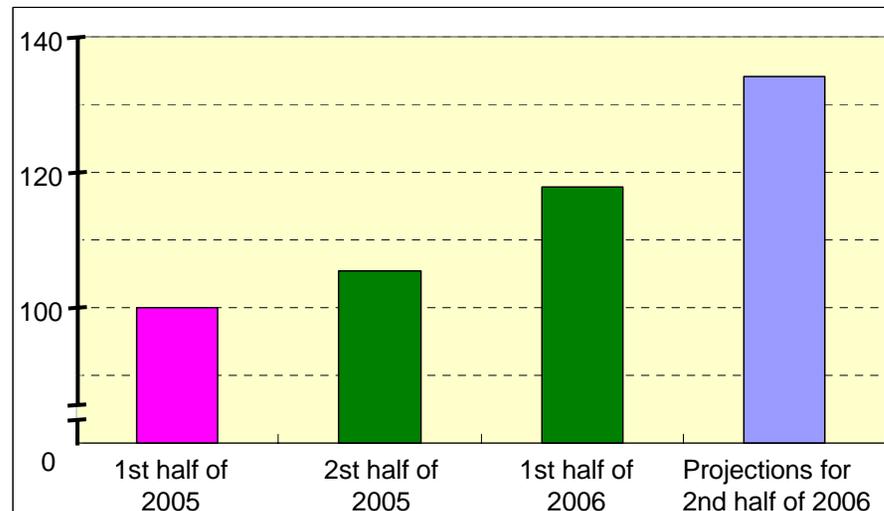
- Proactive research conference/lecture presentations of JMMS (over 100 held/first half of this year)
- 18% increase in sales volume (compared to this period last year)
- 8.5% increase in number of shipments (compared to this period last year)

GASMOTIN[®] Profile (adoption, quantities)

Adopted profile



Quantity profile



(shown with indicators for first half of 2005)

AmBisome®

- Main facilities and medical department of activities

Advanced treatment hospital

Hematology Medicine

Respiratory Medicine etc

- Main target disorders

Febrile neutropenia

Aspergillosis

Current Activity on 4 Main Products

- **AMLODIN[®]**
 - Switching from current tablet and developing novel use in order to improve compliance of patients who find Amlodin OD tablets difficult to swallow.
 - After new product introduced, OD tablets account for over 10% of sales.
- **PRORENAL[®]**
 - Greater awareness of diagnosis/treatment using “lumbar canal stenosis (LCS) diagnosis support tools.”
 - Continue to enhance awareness of LCS disease in subsequent primary care in second half as well.
- **MEROPEN[®]**
 - Focus more in hospitals having more patients with severe infections by enhancing and improving hospital specialty MR.

Development Pipeline



Development Pipeline

NDA Submitted	Phase III	Phase II		Phase I
Schizophrenia AD-5423 (blonanserin)	Hypertension irbesartan	Diabetic neuropathy AS-3201 (ranirestat)	Diabetes SMP-508 (repaglinide)	Dementia AC-3933
(Parkinson's disease) Zonisamide	(Compensated cirrhosis) Sumiferon	Hepatocellular carcinoma SM-11355 (miriplatin)	Diabetes SMP-862 (metformin)	
(i.v. administration) Ephedrine "Nagai"	(Febrile neutropenia) Meropen	Schizophrenia SM-13496 (lurasidone)	Anxiety/Depression AC-5216	
	Diabetic neuropathy (US & Canada) AS-3201 (ranirestat)	Rheumatoid arthritis SMP-114	(Cervical spondylosis) Prorenal	
		Schizophrenia (EU & US) AD-5423 (blonanserin)	Dementia (US) AC-3933	Bronchial asthma (US) SMP-028
		Rheumatoid arthritis (EU) SMP-114	Overactive bladder (EU & US) SMP-986	

 Developed in Japan (New Chemical Entity)
  Developed in Japan (New Indication etc.)
  Developed overseas by DSP

* Modified brand names are shown in white.

Summary of SMP-986

Target Disease	Symptoms such as pollakiuria, nocturnal pollakiuria, urinary incontinence and urinary urgency, found in overactive bladder syndrome
Mode of Action	Inhibition of abnormal signal deriving from the bladder in addition to anticholinergic effect on the overactive bladder
Formulation	Tablet
In-house/in-license	In-house development
Development Stage	(EU/US) Phase II (Japan) Under preparation for Phase I

Disclaimer Regarding Forward-looking Statements

The statements made in this presentation material are forward-looking statements based on management's assumptions and beliefs in light of information available up to the day of announcement, 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.

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