DAINIPPON SUMITOMO PHARMA

Dainippon Sumitomo Pharma Co., Ltd.

Annual Report 2011

For the year ended March 31, 2011

Delivering on the Promise of Global Growth

Profile

Since its formation in 2005 with the aim of becoming "an innovative pharmaceutical company with a strong market presence", Dainippon Sumitomo Pharma Co., Ltd. (DSP) has provided innovative and useful pharmaceuticals to people in Japan and around the world.

We have set "become an internationally competitive R&D-oriented pharmaceutical company" and establishing "two solid mainstreams of our revenue, from domestic operation and from international operation" as our vision for the future of DSP. With our acquisition of Sepracor Inc. (now Sunovion Pharmaceuticals Inc.) in 2009, we established our own sales and marketing infrastructure in the U.S. In 2011, we are focusing on initiatives for creation and transformation, including substantially boosting the DSP Group's international presence through LATUDA®, a recently launched global strategic product.

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

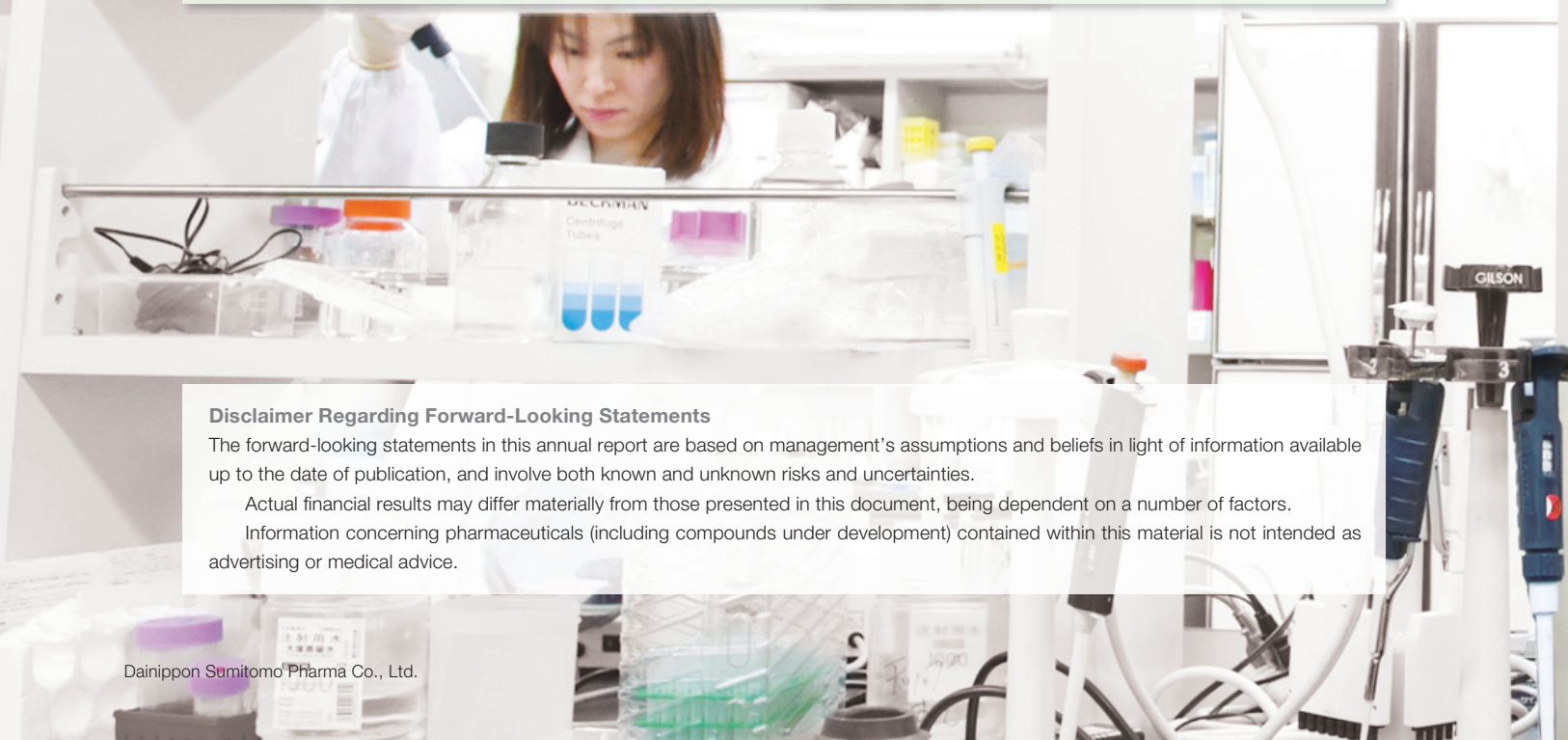
Management Mission

- To contribute to healthcare and peoples 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

Declaration of Conduct

At Dainippon Sumitomo Pharma, directors and employees alike are determined not only to comply with all laws and regulations, but also to ensure that all corporate activities are carried out in accordance with this Declaration of Conduct. The pledges below express our commitment to earning greater trust from society and becoming a truly innovative company.

1. **Help people to have "healthy bodies, healthy lives"**
2. **Pursue trustworthy corporate activities**
3. **Positively disclose information and properly manage information**
4. **Help employees reach their full potential**
5. **Respect human rights**
6. **Positively address global environmental issues**
7. **Build harmonious relationships with society**



Contents

Highlights

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011, 2010 and 2009
(Fiscal years 2010, 2009 and 2008)

Financial Highlights

	Millions of Yen			Percent Change	Thousands of U.S. Dollars (Note 1)
Fiscal Year (FY)	2010	2009	2008	2010/2009	2010
For the Year:					
Net sales	¥379,513	¥296,262	¥264,037	28.1%	$4,572,446
Overseas sales	152,226	53,015	22,051	187.1%	1,834,048
Overseas sales as a percentage of total net sales	40.1%	17.9%	8.4%	—	—
Operating income	30,952	35,625	31,166	(13.1%)	372,916
Net income	16,796	20,958	19,988	(19.9%)	202,361
Comprehensive income (loss)	(12,066)	27,148	—	—	(145,374)
R&D costs	68,160	51,371	52,819	32.7%	821,205
Capital expenditures	8,663	6,471	10,569	33.9%	104,373
Depreciation and amortization	44,628	18,650	11,455	139.3%	537,687
EBITDA (Note 2)	77,971	56,448	41,970	38.1%	939,410
At Year-End:					
Total assets	589,868	626,743	391,295	(5.9%)	7,106,843
Net assets	323,983	343,483	324,496	(5.7%)	3,903,410

	Yen			Percent Change	U.S. Dollars (Note 1)
Per Share of Common Stock:					
Net income	¥ 42.27	¥ 52.75	¥ 50.30	(19.9%)	$0.51
Net assets	815.44	864.51	816.49	(5.7%)	9.82
Cash dividends	18.00	18.00	18.00	0.0%	0.22
Financial Indicators:					
Operating margin	8.2%	12.0%	11.8%		
ROE (Note 3)	5.0%	6.3%	6.2%		
ROA (Note 4)	2.8%	4.1%	5.1%		
Equity ratio	54.9%	54.8%	82.9%		

Notes: 1. The U.S. dollar amounts in this report represent translations of Japanese yen solely for the reader's convenience at the rate of ¥83 = U.S.$1.00, the approximate exchange rate at March 31, 2011.
2. Earnings Before Interest, Taxes, Depreciation and Amortization
3. ROE = Net income ÷ (Total net assets - Minority interests, average for the fiscal year)
4. ROA = Net income ÷ Total assets, average for the fiscal year

Note: Sepracor Inc. (now Sunovion Pharmaceuticals Inc.) became a subsidiary in fiscal 2009. Consolidated results for fiscal 2009 include the results of this company for 2.5 months (October 15 – December 31, 2009).

Business Highlights of Fiscal 2010

May 2010

Launch of METGLUCO®, a Biguanide Oral Hypoglycemic Drug

DSP launched METGLUCO®, which is the only metformin drug approved in Japan with the usual maintenance dosage of 1500mg/day.

September

Option Agreement for SB623, a Cell Therapy for Stroke Recovery

DSP entered into an option agreement with SanBio, Inc. to secure co-development and exclusive commercialization rights in the U.S. and Canada for SB623, a promising therapy for disabilities caused by stroke for which no effective therapies currently exist. It is being developed as the world's first cell therapy for the indication of stroke recovery.

October

U.S. Subsidiary Changes Name to Sunovion Pharmaceuticals Inc.

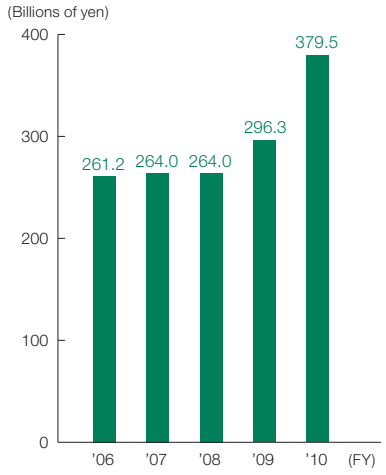
Sepracor Inc., which became a subsidiary of DSP in October 2009, merged with DSP's other U.S. subsidiary in April 2010 and changed its name in October 2010.

December

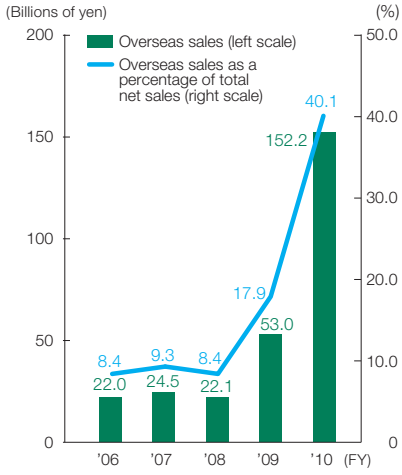
Co-Development of Cancer Vaccine WT4869 Announced

DSP and Chugai Pharmaceutical Co., Ltd. announced that they will co-develop WT4869, which targets myelodysplastic syndromes (MDS), a type of hematological cancer. The companies have also begun development of a treatment for solid cancer.

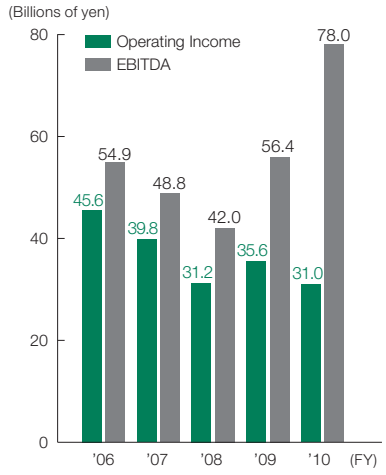
Net Sales



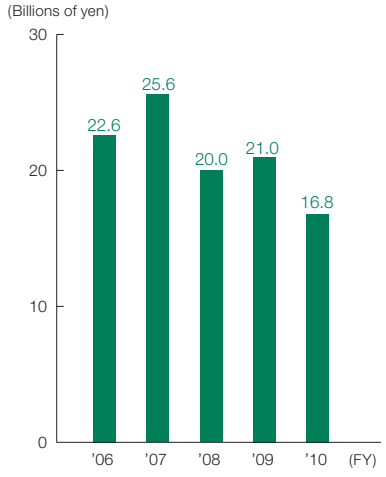
Overseas Sales / Overseas Sales as a Percentage of Total Net Sales



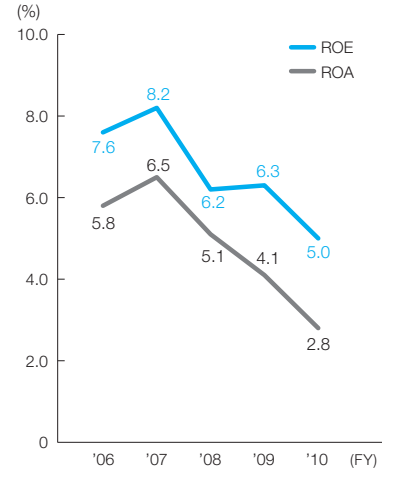
Operating Income/EBITDA



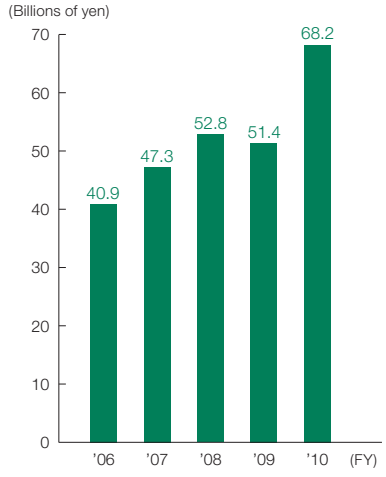
Net Income



ROE/ROA



R&D Costs



February 2011

Launch of Atypical Antipsychotic Agent LATUDA®

Sunovion began marketing LATUDA® in the U.S. for the indication of schizophrenia in adults.

March

License Agreement for Atypical Antipsychotic Agent Lurasidone in Europe

DSP entered into a license agreement with Takeda Pharmaceutical Company Limited for the joint development and exclusive commercialization of the atypical antipsychotic agent lurasidone in Europe except the United Kingdom. By partnering with Takeda, which has a sales network in leading countries in Europe, DSP aims to launch lurasidone as early as possible and maximize the product's value.

Cooperative Research Agreement with Kyoto University for Drug Discovery through Industry-Academia Cooperation

DSP and Kyoto University entered into an agreement to establish the Laboratory for Malignancy Control Research (the DSK Project) for collaborative research in the field of cancer. DSP also formed a collaborative research agreement with Kyoto University's Center for iPS Cell Research and Application to create a treatment for a rare intractable disease.

In-Licensing Agreements to Expand the Pipeline

Cephem Antibiotic Ceftaroline Fosamil
Exclusive license agreement with Takeda Pharmaceutical Company Limited for development, manufacturing and commercialization in Japan

Liver Disease Treatment INT-747
Exclusive licensing agreement with Intercept Pharmaceutical, Inc. for development, manufacturing and commercialization in Japan and China

Anti-Cancer Drug BBI608
Exclusive option agreement with Boston Biomedical, Inc. for development and commercialization in Japan

Interview with the President

Fiscal 2010 was a year of significant advances toward globalization. We will continue further creation and transformation.

In fiscal 2010, DSP made significant advances toward its goal of “become an internationally competitive R&D-oriented pharmaceutical company”.

We started the global rollout of LATUDA®, which we have positioned as a top-priority project, with its launch in the U.S. and the decision to form a development and commercialization alliance for the product in Europe.

We will continue further creation and transformation to achieve our goals.

Masayo Tada
Representative Director,
President and Chief Executive Officer

Q.1

Fiscal 2010 was the first year of the second Mid-term Business Plan (2nd MTBP). Please talk about the Company's performance and key initiatives for the year.

We made considerable progress in strengthening our business fundamentals and expanding overseas business. In terms of performance, we absorbed the impact of National Health Insurance (NHI) drug price revisions in Japan and achieved results that exceeded our expectations at the start of the year.

First, I want to express my deepest condolences for the victims of the Great East Japan Earthquake of March 11, 2011. While DSP saw minor damage at one of our distribution bases, the direct effect on our company was not at a level that significantly affected our business results. We provided monetary donations to the victims and free medicine to the disaster-stricken region, and our employees who are qualified pharmacists carried out volunteer activities. We also think that energizing the economy through our core business as a pharmaceutical manufacturer will help to speed the region's recovery, and all our employees are putting their full efforts into business activities.

Fiscal 2010 was an important year for the DSP Group as the first year of the 2nd MTBP, which is defined by the slogan "Creation and transformation toward a new stage of globalization". We carried out proactive business activities to achieve our Mid- to Long-term Vision: establish a solid foundation for our domestic business; expand our international business operation; and enrich our R&D product pipeline to our future vision.

We made significant progress during the year in expanding overseas business and strengthening our business foundation. In addition to accomplishing our primary goal of obtaining regulatory approval for and launching LATUDA® (generic name: lurasidone hydrochloride) in the U.S., we acquired compounds to enrich our pipeline. Our initiatives to establish low-cost operations were also productive.

In terms of performance, besides the actions I just described, Sunovion Pharmaceuticals Inc. (formerly Sepracor Inc.; hereafter, "Sunovion"), which we acquired in 2009, contributed to results for the full year. Net sales rose 28.1% over the previous fiscal year to ¥379.5 billion, operating income decreased 13.1% to ¥31.0 billion and net income decreased 19.9% to ¥16.8 billion. The decline in income was due to factors such as amortization of patent rights and goodwill, but DSP and Sunovion turned in solid financial results overall. That performance, coupled with special factors including revenue from a licensee (upfront payment) at the end of the period that was recorded in net sales, resulted in a decrease in income that was much smaller than we had originally expected.

With these results, I'm happy to say that we got off to a smooth start in the first year of the 2nd MTBP.

Second Mid-term Business Plan: Numeric Targets and Progress

	Fiscal 2010 (Actual)	Fiscal 2012 (Reference)*	Fiscal 2014 (Target)*
Net sales	¥379.5 billion	¥380.0 billion	**¥420.0 billion**
Pharmaceuticals (incl. in above)	¥334.6 billion	¥340.0 billion	**¥375.0 billion**
Operating income	¥31.0 billion	¥30.0 billion	**¥70.0 billion**
EBITDA	¥78.0 billion	¥70.0 billion	**¥90.0 billion**

* The assumed exchange rate for fiscal 2012 and fiscal 2014 is ¥90 = US$1.
The split-off of the animal health products business into a subsidiary reduced net sales by ¥20.0 billion compared with the time of announcement of the 2nd MTBP (February 2010), but had no effect on income.

Q.2

One of the basic strategies of the 2nd MTBP is to "expand overseas operation and maximize earnings". What progress has DSP made toward this objective?

Our globalization initiatives made steady progress, highlighted by the U.S. launch of global strategic product LATUDA® and an alliance for development and commercialization of the product in the European market.

The DSP Group has built its own marketing infrastructure in the U.S. for the launch of LATUDA®, the top-priority project in our new era of globalization, and strengthened global development capabilities.

Our acquisition of Sunovion in 2009 gave us a commercial platform in the U.S. We have been making various preparations to support rapid market penetration and quickly maximize sales of LATUDA®, which is off to a good start following its launch in February 2011. In the European market, we entered into a development and commercialization agreement for the product in March 2011 with Takeda Pharmaceutical Company Limited, which has a sales and marketing network in the leading countries of Europe and a strong understanding of the potential of lurasidone. Through these efforts, we have made steady progress toward expanding overseas operations. We will continue to focus on global development and marketing to support the market penetration of LATUDA® and maximize its sales. (See "Feature: Global Strategic Product LATUDA®"on pages 10–15 for details on LATUDA®.)

Sunovion is also conducting effective and efficient promotions to maintain sales of its other products such as LUNESTA® and XOPENEX®. In China, we are moving to strengthen sales operations to capitalize on continuing growth in the pharmaceutical market there, including adding more medical representatives (MRs) at Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. We will continue working to further expand sales in China.

Q.3

With the impact of NHI drug price revisions and other factors, the pharmaceutical business in Japan continues to face challenging conditions. How do you plan to shore up earnings in this market?

We are focusing sales resources on strategic products and new products, and aiming for patient-oriented, community-based sales.

We expect the operating environment to remain difficult in the domestic pharmaceuticals business. Our sales approach will be to further emphasize selection and concentration. We have set focus marketing areas and will aim to maximize earnings by concentrating sales resources on AVAPRO®, LONASEN® and PRORENAL®, which are strategic products that still have significant growth potential, and new products TRERIEF®, MIRIPLA®, METGLUCO® and SUREPOST®.

In fiscal 2010, we formulated "DSP Ambition", our new action guidelines for sales and marketing activities. In addition to promoting patient-oriented sales activities that are appreciated by customers, we will reinforce the Regional Division System introduced in 2009 to establish a community-based sales and marketing structure that is more responsive to changes in the market environment.

In the central nervous system (CNS) area, where we are traditionally competitive, smooth operation of the CNS Sales & Marketing Department established in April 2011 will help to quickly maximize sales of LONASEN® and further increase our presence in this area.

Q.4

What is your strategy for creating the next growth driver to follow LATUDA® and enhancing the pipeline?

We plan to accelerate selection and development of "post-LATUDA" drug candidates. We will also promote alliances and in-licensing in addition to in-house research.

First, in the U.S., we will maximize the value of LATUDA® by adding new indications and formulations, and will also promote the growth of STEDESA™, which we hope to launch in the next several years following the potential approval by the U.S. Food and Drug Administration. Furthermore, we will promote the selection of "post-LATUDA" candidates, primarily in the CNS area, but also in areas where we can efficiently deploy our marketing resources targeting oncologists and other specialists.

"Post-LATUDA" candidates include compounds under the clinical development stage in the U.S. and under the pre-clinical stage in the areas of CNS and oncology. We are conducting clinical studies in the U.S. of

"Post-LATUDA"

Targeted areas

Our primary focus is the CNS area and secondary focus is on areas for specialty physicians, such as the oncology area, in which effective marketing can be expected.

"Post-LATUDA" Candidates

- Development pipeline in the U.S.
- Compounds in pre-clinical stage in CNS and oncology areas
- Compounds from in-licensing and alliance activities

DSP-8658 (Alzheimer's disease), DSP-1053 (depression), SEP-228432 (pain, depression) and SMP-986 (overactive bladder syndrome). In addition to these in-house compounds, compounds to which DSP has certain rights in the U.S., such as SB623 (stroke) and BBI608 (cancer), would also be candidates. We will select "post-LATUDA" candidates and will speed up development of such promising candidates to launch them as early as possible.

Taking an even longer-term view, we intend to continuously generate new products from our drug discovery, centered on CNS, our focus therapeutic area, and specialty areas such as cancer in our challenge therapeutic areas. At the same time, we will continue to pursue joint development with academia and strengthen alliances and in-licensing.

Q.5

One of the basic strategies of the 2nd MTBP is to "promote CSR management and continuous increases in management efficiency". What have been some specific initiatives and results in these areas?

First of all, the entire company is working to support the recovery from the Great East Japan Earthquake. We will also continue to pursue management efficiency in Japan and overseas.

DSP is focusing on corporate social responsibility (CSR) management, with emphasis on CSR activities such as ensuring compliance, strengthening risk management and contributing to society.

During fiscal 2010, we made monetary donations and provided medicine shortly after the Great East Japan Earthquake struck. To support the recovery from the disaster, we set up a dedicated "Earthquake Disaster Reconstruction Support Office" in May 2011. This office will study, plan and implement actions DSP can take in support of disaster recovery efforts, which will likely be prolonged. One support initiative we are taking as a health care-related company is sending employee volunteers who are qualified pharmacists to the affected region.

For "continuous increases in management efficiency", we launched the "Overall Business Results Improvement Project" in fiscal 2009. In fiscal 2010, we continued to implement cost-cutting measures across the Company, including overseas operations. We made extensive improvements in efficiency, including deployment of R&D expenditures based on simplification of work processes and prioritization, and reductions of marketing and manufacturing expenses. As a result, in fiscal 2010, we reduced costs by ¥3.0 billion compared with the previous fiscal year. We are continuing cost-reduction efforts in fiscal 2011.

Q.6

What is your policy for fiscal 2011, and what closing message do you have for stakeholders?

I see this as a make-or-break year for putting DSP on a growth track, and we will put all our efforts into accomplishing that.

Fiscal 2010 was a year of significant advances for the DSP Group. The launch of LATUDA® has put us on a growth trajectory toward "become an internationally competitive R&D-oriented pharmaceutical company".

In fiscal 2011, we intend to take a step toward further growth, and will continue to conduct our business activities with a focus on three key strategic priorities: "transform the earnings structure in Japan"; "expand overseas operation and maximize earnings"; and "expand the drug pipeline for future growth".

For our top-priority project, LATUDA®, we will put our full efforts into sales and marketing in the U.S. and will continue to advance research and development globally.

With all employees fully committed to carrying out the basic strategies of the 2nd MTBP, we intend to further solidify our growth track.

Regularly delivering appropriate returns to shareholders is also one of our most important management priorities. With respect to dividends, we place an emphasis on appropriate allocations of the profit and comprehensively review and decide on management requirements such as positive investment for the company's future growth, enhancement of our business platform and improvement of our financial status, all oriented to further increase corporate value.

For fiscal 2010, we paid a year-end cash dividend of ¥9.00 per share. Including the ¥9.00 per share interim dividend, this brought total dividends for the year to ¥18.00 per share. We are planning to maintain total dividends at ¥18.00 per share in fiscal 2011 to continue delivering stable dividends to shareholders.

We will continue to focus on investor relations activities for our shareholders and other stakeholders, not only to disclose the necessary management information but also to demonstrate the accountability of senior management. We welcome the candid feedback of our stakeholders, and ask for your continued support.

June 2011

Feature:
Global Strategic Product
LATUDA®

LATUDA® (lurasidone HCl), an atypical antipsychotic indicated for the treatment of schizophrenia in adults, is a high-priority project for the DSP Group which has invested significantly in its global development. In an effort to maximize potential earnings from this drug as quickly as possible, DSP acquired Sepracor Inc. (now Sunovion Pharmaceuticals Inc.) in 2009 to establish a sales network in the United States, the world's largest pharmaceutical market, and began making preparations for a successful product launch.

Following approval from the U.S. Food and Drug Administration (FDA) in October 2010, only 10 months from the time the New Drug Application (NDA) was filed, LATUDA® became commercially available in the U.S. in February 2011.

In this feature, we focus on LATUDA® as the first major step toward making the DSP Group "become an internationally competitive R&D-oriented pharmaceutical company", taking an in-depth look at the drug's characteristics and its potential as a product.

Characteristics of LATUDA®

Numerous clinical studies have evaluated the efficacy, safety and tolerability of LATUDA®.

Demonstrated Superior Performance

The market for atypical antipsychotics is characterized by high switching and discontinuation rates and remains a market with significant unmet medical needs. This creates an opportunity to provide a new treatment option with a strong efficacy, safety and tolerability profile to adult patients with schizophrenia.

LATUDA® has been evaluated across three measurements — efficacy, safety and tolerability — in clinical studies involving more than 2,500 schizophrenia patients. In December 2010, detailed data from the third Phase III clinical study, PEARL 3 (Program to Evaluate the Antipsychotic Response to Lurasidone), was presented at the American College of Neuropsychopharmacology (ACNP). In May 2011, the results of PEARL Safety, a long-term safety study, were presented at the Annual Meeting of the American Psychiatric Association (APA). Both studies supported the use of LATUDA® to treat adult patients with schizophrenia.

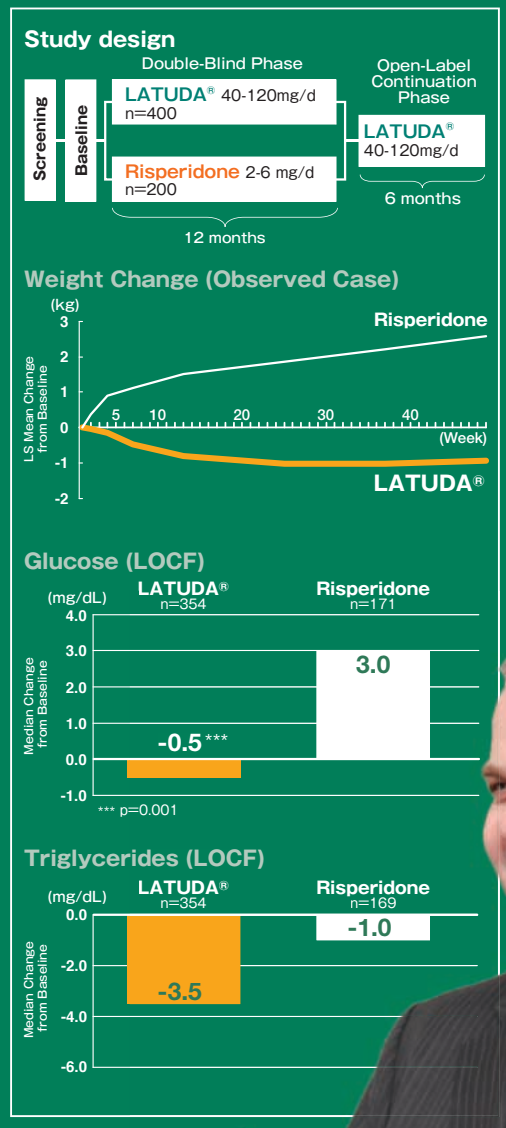
Data obtained from clinical studies conducted thus far have shown that lurasidone performs favorably in terms of weight change and worsening of metabolic parameters, both of which are common problems in drug therapy for schizophrenia.

Strategy for Further Growth

LATUDA® is currently approved for use in the U.S. as a treatment for schizophrenia in adults, but clinical studies are being conducted for a potential additional indication of bipolar disorder and major depressive disorder (with mixed features). Development for pediatric use is also being planned. While LATUDA® is available at present only in tablet form, a new injectable formulation (Intramuscular (IM) depot) is under development.

In the area of schizophrenia, a switch study to verify the impact on patients switching from another atypical antipsychotic therapy to LATUDA® is currently in progress.

Safety Results for the PEARL Safety Study
(Long-term safety study)



Antony Loebel, M.D.
Executive Vice President
Sunovion Pharmaceuticals Inc.

Marketing

We have developed a robust marketing plan to carry out our sales strategy.

Number of psychiatrists (U.S.)

Approximately

20,000

Schizophrenia affects approximately two million people in the U.S. The commercialization strategy for LATUDA® will target some 20,000 psychiatrists who prescribe drugs to treat schizophrenia patients.

Number of MRs

336

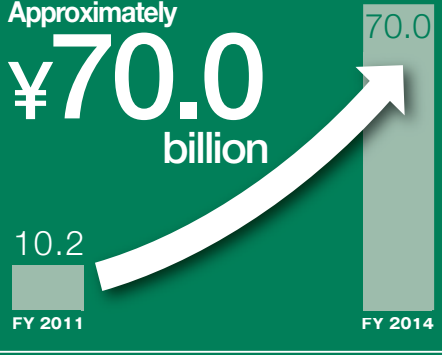
To approach these 20,000 psychiatrists, Sunovion has assembled a sales force of 336 highly experienced MRs focusing exclusively on LATUDA®.

Sales Target for Fiscal 2014

U.S. sales forecast (Billions of yen)

Approximately

¥70.0 billion



Aiming to Quickly Maximize Earnings

Today, the market size for atypical antipsychotics in North America is approximately $16 billion and has expanded by about 3% annually for the past three years.

To quickly maximize earnings for LATUDA®, Sunovion developed a comprehensive marketing plan well in advance of the product's commercial availability. The first step to ensure successful commercialization was to secure a team of 336 specialized and highly experienced medical representatives (MRs). In addition to its existing sales force that promotes central nervous system drugs such as LUNESTA®, Sunovion hired new MRs with experience in selling other atypical antipsychotics to focus exclusively on LATUDA®. The next step was to develop a comprehensive pre-launch training program designed to ensure that these MRs have the specialized product knowledge they require to effectively promote the product.

Another element of this strategy was to build pre-launch awareness among psychiatrists. To achieve this, Sunovion created a broad-based campaign focused on schizophrenia. This campaign included presentations at academic conferences and unbranded trade advertisements in targeted scientific journals.

As a result of these and other efforts, fundamentals

The launch meeting (February 2011 in the U.S.)

were in place for the successful market introduction of LATUDA® in February 2011. Initial sales calls were focused on reaching approximately 20,000 psychiatrists in the U.S. To support these efforts, Sunovion created a LATUDA® website which serves as a source of information for healthcare providers and patients alike. Other promotional activities include a robust speakers program in which approximately 400 physicians selected from throughout the U.S. participate by giving small to medium-sized promotional lectures to other medical professionals after receiving in-depth training on LATUDA®.

A Strong Start

LATUDA® is off to a strong start, in line with initial expectations, and the number of prescriptions has increased steadily since commercialization efforts began in February 2011. Aside from the therapeutic benefits offered by the product, other factors impacting performance include the success of our competitive pricing strategy and the positive feedback received by both psychiatrists and patients. To help assist potential patients, Sunovion has established a corporate patient assistance program that makes LATUDA® available at no cost to qualified individuals who otherwise could not afford it.

Sales of LATUDA® in North America are forecast to reach $120 million (¥10.2 billion) in fiscal 2011, its first full year on the market.

Going forward, marketing efforts will focus on the swift inclusion of LATUDA® in each state formulary, a list of pharmaceuticals that is regarded as a criterion for drug selection by medical institutions in the U.S. As physicians prescribe drugs from among those listed in these formularies, inclusion is an important means of ensuring widespread patient access.

Sales Target for Fiscal 2014: Approximately ¥70 Billion

The DSP Group has set the target of ¥375 billion for sales in the pharmaceuticals business in fiscal 2014. Half of that is expected to come from sales outside Japan. As one element in achieving this target, we are planning sales of approximately ¥70 billion for LATUDA® in the U.S. in fiscal 2014. That would account for approximately 17% of the DSP Group's total net sales, making LATUDA® a strategic product of critical importance.

The success of LATUDA® will be measured in large part by sales achieved and market share gained in its first year of commercial availability and these results will set the pace for future success. Sunovion will continue to place the highest priority on expanding sales of LATUDA® and maximizing its market penetration and value as a growth driver.

Mark Iwicki
President & CEO
Sunovion Pharmaceuticals Inc.

Development as a Global Strategic Product

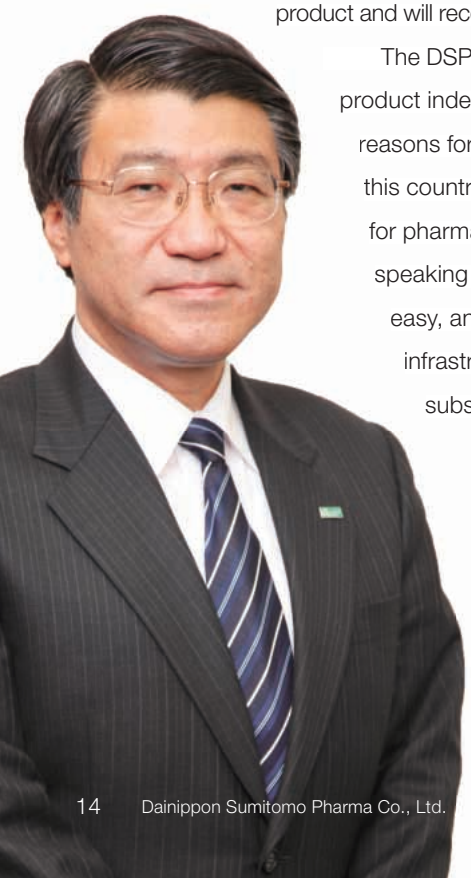
We are making steady progress with our strategy to maximize the value of LATUDA® on a global basis.

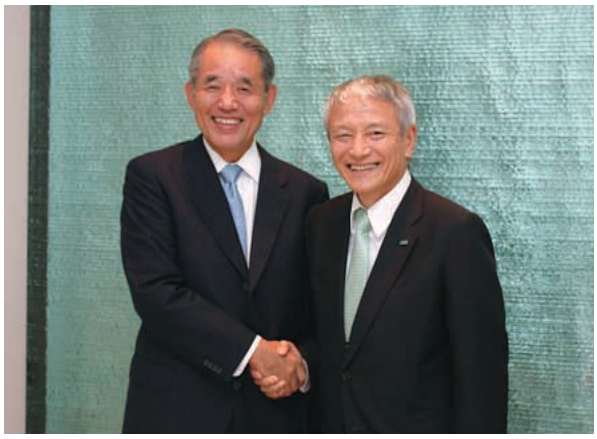
Partnership with Takeda Pharmaceutical in Europe

In examining ways to expand in Europe, DSP has focused on developing alliances. In March 2011, we entered into a co-development and commercialization agreement with Takeda Pharmaceutical Company Limited ("Takeda"). The agreement gives Takeda the exclusive right to commercialize LATUDA® for the treatment of schizophrenia and bipolar disorder in 26 countries in the European Union, excluding the U.K., and in Switzerland, Norway, Turkey and Russia.

Under the terms of this agreement, DSP received an upfront payment of ¥10 billion from Takeda and will receive milestone payments up to approximately $180 million in the event of a Marketing Authorization Application (MAA) filing and MAA approval for the indications defined above. To speed the MAA filing and approval process, DSP will co-develop LATUDA® with Takeda in Europe. If approved, DSP will supply Takeda with the product and will receive royalties based on sales.

The DSP Group plans to market the product independently in the U.K. Our reasons for marketing independently in this country are that it is a large market for pharmaceuticals, it is an English speaking country making management easy, and we currently have network infrastructure and a development subsidiary located there.





Partnership with Takeda Pharmaceutical Company Limited

For Further Global Growth

As the first step in the development of LATUDA® outside of the U.S. and Europe, a New Drug Submission (NDS) was submitted in Canada in June 2011.

In Japan, LATUDA® is currently at the Phase III stage. The results of a Pan-Asia study — a placebo-controlled, double-blind study conducted with schizophrenia patients in Japan, Korea and Taiwan — showed that lurasidone did not demonstrate a statistically significant improvement vs. placebo in the PANSS total score change, the primary endpoint, despite a significant within-group reduction in the total PANSS score. This clinical trial is viewed as a failed study, in part because of a stronger-than-expected placebo effect. Based on the data from this study, DSP plans to initiate a new Phase III clinical study in 2011, with the aim of an early filing for approval of lurasidone in Japan.

In China, we plan to file an investigational new drug application for lurasidone in 2011.

The success of LATUDA® will be vital to achieving the DSP Group's vision for the future of "become an

Makoto Hara
Member, Board of Directors, Senior Executive Officer
Executive Director, Global Business Division

internationally competitive R&D-oriented pharmaceutical company". From North America to Europe and Asia, the DSP Group is committed to promoting the market expansion of LATUDA® and maximizing the product value to achieve global success.

LATUDA® Global Development Plan

U.S.
- Change of maximum dose (160 mg/day): sNDA submitted in June 2011
- Bipolar depression: sNDA filing planned in 2012
- Major depressive disorder (with mixed features): Started clinical studies in 2Q 2011
- Bipolar maintenance: Start of clinical studies planned in 3Q 2011
- Development of IM depot formulation under way: Schedule to be determined

Canada
- NDS submitted in June 2011

Europe
- Co-development with Takeda

Japan
- Start of a new Phase III clinical study planned in 2011

China
- IND filing planned in 2011

Q: What makes you enthusiastic about the future of LATUDA®?

Iwicki

From a commercialization standpoint, a product's launch year is critical to its future success and if our performance to date is any indication, I'm confident that we will achieve our goals for this very important product. Sales of LATUDA® are strong and continue to grow and the entire Sunovion organization remains focused on and committed to ensuring its long-term success. What drives this commitment is our strong desire to help improve the lives of people suffering from schizophrenia. Through education and continued development of new use areas for LATUDA®, we believe we will make a meaningful difference for patients, healthcare providers and families for years to come.

Hara

As a global strategic product, the success of LATUDA® is of the highest priority for the DSP Group. This success hinges on the concerted efforts of development, marketing and all other employees within our organization. As one of those colleagues, I am fully committed to doing everything I can to ensure the product's success.

Loebel

I'm very pleased that the U.S. launch of LATUDA® is going smoothly and am encouraged by our efforts to obtain potential future indications for the product in the U.S. Simultaneously, we are conducting parallel global development efforts in Europe, Japan and China. Similar to our past strategies, we want to maintain our sense of urgency as we progress towards achieving our global development milestones.

Research and Development

We are aiming to produce a steady flow of new drugs from our global R&D network.

Basic Strategy

DSP is determined to “become an internationally competitive R&D-oriented pharmaceutical company” and is working to “expand the pipeline for continuous new drug creation” as one of the basic strategies in the second Mid-term Business Plan (2nd MTBP). Accordingly, we are focusing management resources on the following target areas:

Focus therapeutic area: CNS area
Challenge therapeutic areas: Specialty areas

We will accelerate the development of existing clinical-stage products regardless of their therapeutic categories to confirm Proof of Concept (POC),[1] to file new drug applications and to obtain approval as early as possible. Regarding new research and development programs, we will prioritize candidates in the focus therapeutic area and the challenge therapeutic areas to conduct speed- and efficiency-oriented research and development that ensures a high probability of success.

1. Proof of Concept: Confirmation in human subjects of estimated efficacy and safety characteristics

Drug Discovery Research Initiatives

Focus Therapeutic Area and Challenge Therapeutic Areas

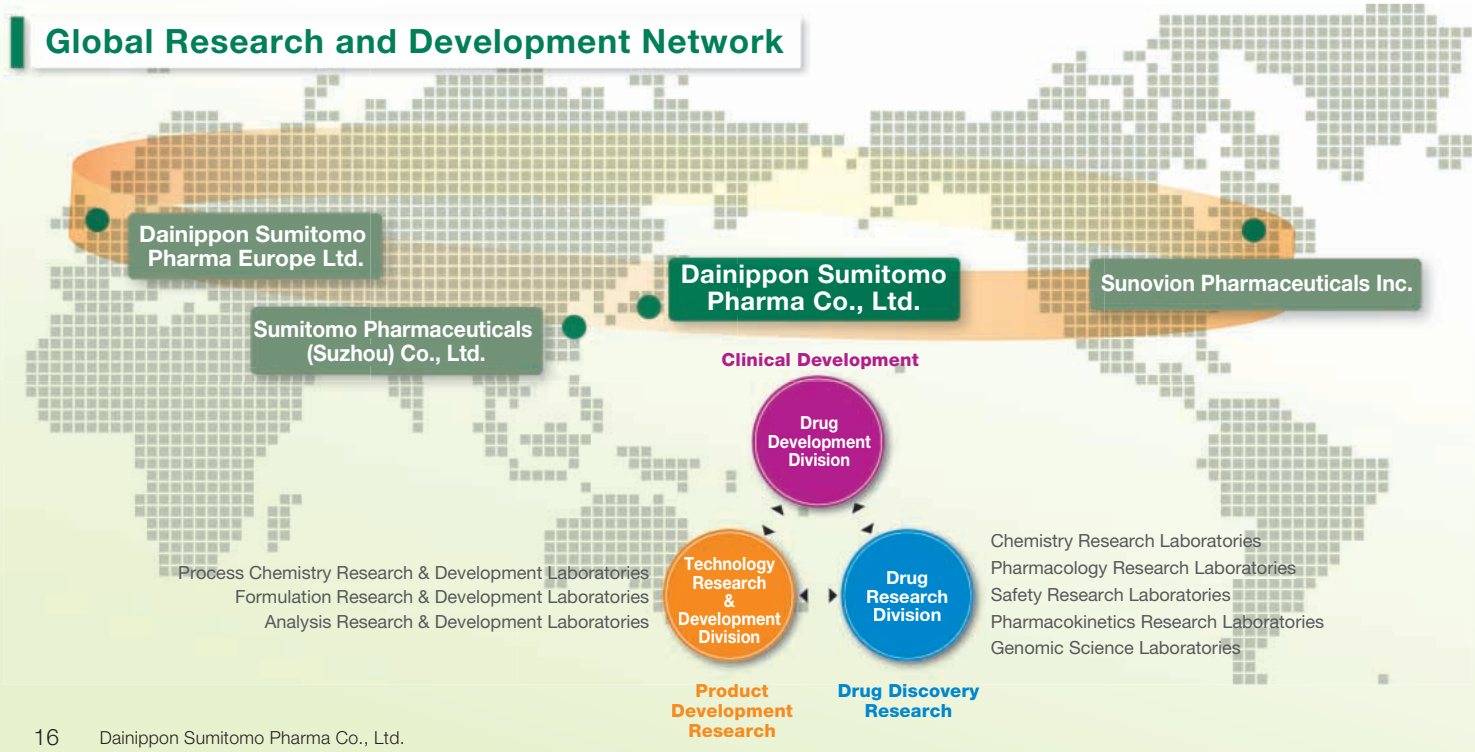
Focus Therapeutic Area

The CNS area has been our primary research area of focus in our drive to create global products. We have positioned it as our focus therapeutic area because it is an area with significant unmet medical needs and an area in which DSP has established a strong presence. In drug discovery research, we are focusing on diseases that have increasing medical needs within the current aging and high-stress society, such as schizophrenia, Alzheimer’s disease and depression. The acquisition of

Global Oncology Business Development Office

In specialty areas, we are strengthening oncology operations related to cancer treatments and diagnostics with the aim of making this a future core business area. Toward that objective, we established the Global Oncology Business Development Office in June 2011 to coordinate various functions and activities related to the area of oncology, which extends across multiple divisions and regions. The Global Oncology Business Development Office will consider and create global business strategies and a global R&D infrastructure in the area of oncology.

Global Research and Development Network



Sepracor (now Sunovion), with its competitive advantage in this area, expanded our research programs and number of research scientists. We are taking advantage of synergy with Sunovion in ways such as sharing expertise for each project and conducting personnel exchanges.

Challenge Therapeutic Areas

DSP has chosen specialty areas as its challenge therapeutic areas. Specialty areas are those that have significantly high unmet medical needs and that demand a high degree of specialization in research, development and marketing, such as cancer and immune-related diseases. We will utilize our experience in taking on new challenges in drug discovery research.

Leveraging Our Proprietary Technologies

DSP has a solid foundation of technologies and experience throughout its pharmaceutical research and development operations, and a particular competitive advantage in such cutting-edge technologies as genomics, proteomics and metabolomics. We aim to deploy these technologies in all phases of pharmaceutical research and development. In addition, we are conducting research on biopharmaceuticals, including antibody drugs and nucleic acid drugs.

Research Alliances with Outside Research Institutions

To ensure a continuous flow of new drug candidates, DSP promotes research alliances with universities and other research institutions, as well as biotech companies that possess innovative technologies. In addition, we pursue opportunities to participate in national projects. We actively seek out alliances with outside partners by gathering information in various forms, including our investment in Apposite Healthcare Fund, a bio-venture fund.

A concrete example of joint research with outside research institutions is our established alliance in the CNS area with the Graduate School of Osaka University in the Neuropsychiatric Drug Discovery Consortium (NDDC). The NDDC is working to create innovative therapies with characteristics differing from existing therapies based on the pathogenic mechanisms of psychiatric diseases at the genetic and molecular levels. In March 2011, we launched the Laboratory for Malignancy Control Research (the DSK Project), a collaborative project with Kyoto University to discover innovative anti-cancer drugs based on controlling cancer malignancy. In addition, we entered into collaborative research with the Center for iPS Cell Research and Application (CiRA), Kyoto University to develop a treatment for a rare intractable disease. We also began a

Project Profile Laboratory for Malignancy Control Research: A Base for Cancer Research in Collaboration with Kyoto University (the "DSK Project")

The DSK Project is a collaborative research project with Kyoto University aimed at creating innovative anti-cancer drugs, diagnostics and treatments based on control of cancer malignancy.

Kyoto University has established the Medical Innovation Center, Japan's first open innovation laboratory based on equal partnership, with the mission of creating innovative drugs and treatment technologies and fostering the development of drug discovery researchers. It promotes comprehensive and systematic collaborative research projects between industry and academia. In the field of oncology, Kyoto University has established the Cancer Center, the first in Japan located at a national university hospital, to provide state-of-the-art treatments.

DSP has set specialty areas, including oncology, as its challenge therapeutic areas. By combining our human resources, capital, knowledge and management expertise with Kyoto University's extensive knowledge of basic and clinical medicine, we will make effective use of each other's intellectual assets as we collaborate in research. Our goal is to identify new drug targets and biomarkers and search for candidate substances that will eventually lead to the discovery of innovative drugs, diagnostic tools and therapeutic strategies for life-threatening cancers.

Opening ceremony for the DSK Project

research collaboration with the University of Tokyo on apoptosis inhibitor of macrophages (AIM).[2] Overseas, we are screening candidate molecules, primarily targeting Alzheimer's disease, at the Karolinska Institutet Sumitomo Pharmaceuticals Alzheimer Center (KASPAC), DSP's research laboratory within the Karolinska Institutet of Sweden. We are now in the third stage of joint research, which focuses on promising target molecules.

2. Apoptosis inhibitor of macrophages (AIM): Produced from a macrophage, AIM acts on fat cells and the macrophages itself. It was shown that AIM has a strong relation to metabolic syndrome.

Initiatives for a Continuous Flow of New Drug Candidates

We are focusing on the following three initiatives as general R&D strategies in line with the basic strategies of the 2nd MTBP.

Prioritize Investment in Confirming POC of Next Strategic Candidates

To create novel strategic drug candidates to follow LATUDA®, we will prioritize allocation of resources to compounds already in clinical-stage development to confirm POC as soon as possible. We will focus on CNS as the primary target area for "post-LATUDA" candidates, with a secondary focus on areas in which we can conduct effective marketing targeting specialists such as oncologists. We plan to select several promising candidates from our in-house products under development in the U.S., several of our compounds in the pre-clinical stage in the CNS and oncology areas, and in-licensing and alliance activities, and will accelerate development of selected candidates.

Enhance Overseas Development Functions as a Basic Strategy for Global Development

We are moving to optimize the DSP Group's overall portfolio through the Global Portfolio Management Committee (PMC), which was set up to discuss development strategies from a global perspective. The Global PMC deliberates global R&D strategy, development plans and budget proposals, sets priorities and selects global projects. It has selected several projects that we will move into global development, including those in the pre-clinical stage. We are also actively incorporating cooperative development with Sunovion through sharing of knowledge and employee exchanges depending on the project.

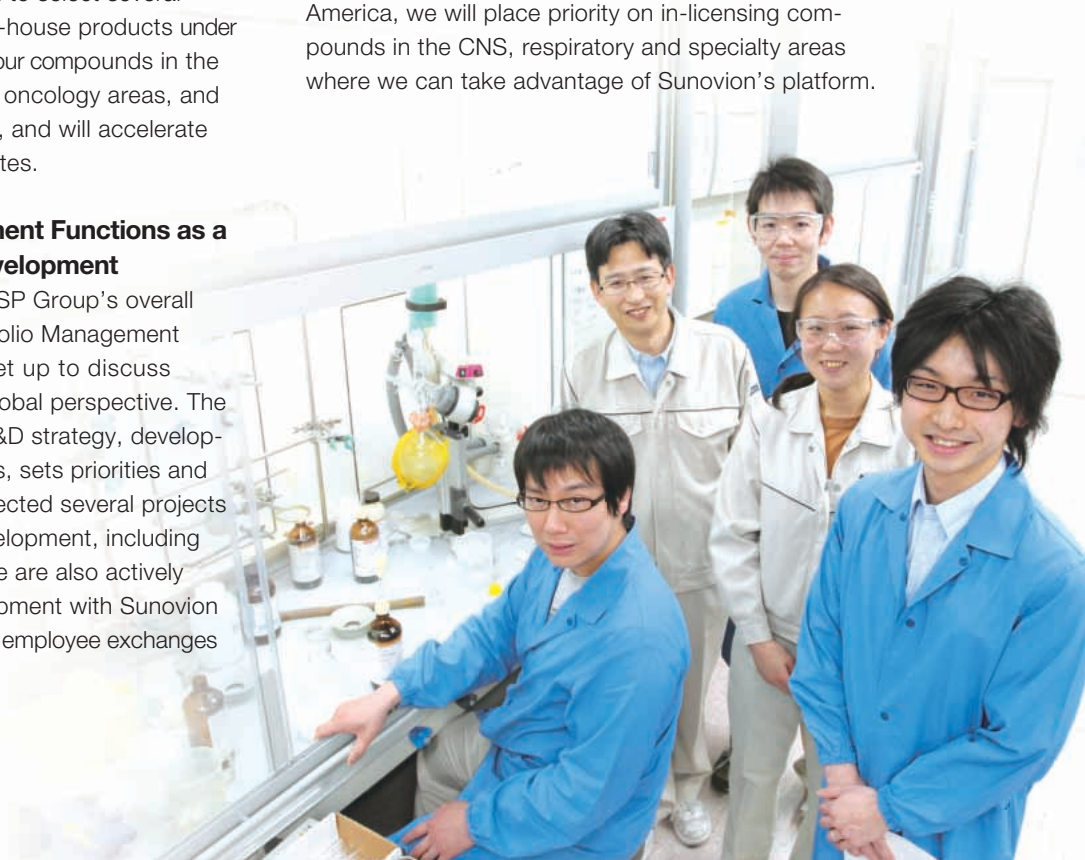
Seek Various Measures to Expedite R&D

We are taking various measures to expedite R&D and raise operating efficiency.

Specifically, we are able to efficiently confirm POC in the shortest period with the fewest resources possible. We subsequently make the go/no go decision based on those study results and on an assessment of commerciality. The Drug Research Division is in charge of the R&D process up until the early stage of implementation of POC studies to ensure a seamless transition from research to development. To expedite R&D, we utilize a screening cascade (evaluation steps and selection criteria for new drug candidates) in the drug discovery stage and proactively incorporate extemporaneous preparation, microdosing, and global clinical studies in the development stage.

Promotion of Alliances and In-Licensing through Strategic Investment

From the standpoint of expanding our pipeline, we will also fully leverage Sunovion's existing information network, knowledge and expertise as we actively promote alliances and in-licensing through strategic investment. In Japan, we will pursue in-licensing of compounds in the later stages of development that can be launched earlier, with an emphasis on products in areas such as CNS where we can make use of our domestic sales and marketing infrastructure. In North America, we will place priority on in-licensing compounds in the CNS, respiratory and specialty areas where we can take advantage of Sunovion's platform.



We will also enhance and supplement our pipeline with alliances and in-licensing for compounds in the early stages of development in our focus therapeutic area and challenge therapeutic areas.

We entered into agreements for four new products during fiscal 2010. Details are summarized in the chart below.

Products in Development

▶ CNS

In October 2010, DSP obtained approval in the U.S. for LATUDA®, an agent for the treatment of schizophrenia in adults that DSP had been developing as a global product, and launched it in February 2011. We also plan to add new indications, and clinical studies of this product for the potential treatment of bipolar disorder and MDD with mixed features are currently at the Phase III stage. DSP has submitted a new drug submission (NDS) in Canada, and in Europe and Japan are also at the Phase III stage.

For STEDESA™, an antiepileptic agent for which an NDA has been submitted in the U.S., DSP is working toward early approval following discussions with the U.S. Food and Drug Administration (FDA).

Compounds that moved into clinical development are DSP-8658 for the treatment of Alzheimer's disease and DSP-1053 for the treatment of depression.

In addition, SEP-228432 for the treatment of neuropathic pain and depression is in Phase I.

STEDESA™: A novel voltage-gated sodium channel blocker. It is expected to be safe and tolerable, have clear dose-response correlation and marked and sustained seizure reduction.

DSP-8658: A PPAR α / γ modulator that has entered clinical studies for the new indication of Alzheimer's disease in addition to diabetes. It is expected to improve symptomatic cognitive decline and show disease modification by reducing beta amyloid in the brain.

SEP-228432: A new triple reuptake inhibitor (TRI) that inhibits reuptake of serotonin, norepinephrine and dopamine. The compound is under development for neuropathic pain and depressive disorder in the CNS area.

Products In-Licensed in Fiscal 2010 To Further Expand Our Pipeline

Partnership with Intercept Pharmaceuticals, Inc.

Partnership with Boston Biomedical, Inc.

In addition to in-house research, DSP is aggressively pursuing alliances and in-licensing from the standpoint of expanding its pipeline. New agreements we entered in fiscal 2010 are introduced below.

Product	Licenser	Content
Cell therapy for stroke recovery SB623	SanBio, Inc. (U.S.)	Option agreement for co-development and exclusive marketing rights in the U.S. and Canada (September 2010)
SB623 is an allogeneic cell product, derived from bone marrow stromal cells isolated from healthy donors. By promoting regeneration of neuronal cells, it is expected to be effective in the chronic phase of stroke, for which there is currently no effective therapy. It has shown efficacy and safety in non-clinical studies, and a Phase I/IIa clinical study by SanBio is currently under way in the U.S.		
Therapeutic agent for chronic liver disease INT-747	Intercept Pharmaceuticals, Inc. (U.S.)	Licensing agreement for exclusive development, manufacturing and marketing in Japan and China (March 2011)
INT-747 is a Farnesoid X receptor (FXR) agonist expected to have a therapeutic effect on liver dysfunction and hepatic fibrosis by increasing bile in the liver. Intercept is currently preparing for a Phase III clinical study in the U.S. and Europe for primary biliary cirrhosis (PBC), and for a Phase II clinical study in the U.S. for portal hypertension. A Phase IIb clinical study by the U.S. National Institutes of Health (NIH) is also under way with the goal of making this the world's first drug approved for nonalcoholic steatohepatitis (NASH).		
Anti-cancer agent BBI608	Boston Biomedical, Inc. (U.S.)	Option agreement for exclusive development and marketing rights in Japan (March 2011). Also includes exclusive negotiation rights for BBI608 in the U.S. and Canada.
BBI608 is an orally administered small-molecule drug designed for an antitumor effect on cancer stem cells. It targets cancer stem cells as well as other heterogeneous cancer cells, and is therefore expected to be effective against resistance to therapy, recurrence and metastasis, which are challenges in cancer treatment. It is currently in Phase I extension for colorectal cancer and in a Phase Ib/II study for selected solid cancers. The results of studies to date have confirmed the drug's safety and shown strong efficacy.		
Cephem antibiotic ceftaroline fosamil	Takeda Pharmaceutical Company Limited (Japan)	License agreement for exclusive development, manufacturing and commercialization in Japan (March 2011)
Ceftaroline fosamil is an antibiotic with strong antibacterial activities against gram-positive bacteria including methicillin-resistant *Staphylococcus aureus* (MRSA) and multiply-resistant *Streptococcus pneumonia*, as well as gram-negative bacteria. Ceftaroline fosamil was developed by Forest Laboratories, Inc. of the U.S., which obtained approval from the U.S. FDA in October 2010. Forest Laboratories has signed a collaboration agreement for this drug with AstraZeneca covering all markets except the U.S., Canada and Japan. AstraZeneca has submitted a Marketing Authorization Application in Europe.		

DSP-1053: Phase I in the U.S. for the treatment of depression. In addition to action similar to selective serotonin reuptake inhibitors (SSRIs), this compound has a new mechanism that acts on monoamine receptors. It has been confirmed in various animal models to have an earlier onset of action compared with current SSRIs.

▶ Cancer & Infection

In Japan, we obtained approval of a partial change in the dosage and administration of MEROPEN® in March 2011 (a change in the maximum daily dose for severe and refractory infections). Clinical studies are also under way for WT4869, a therapeutic cancer vaccine, in co-development with Chugai Pharmaceutical Co., Ltd. In China, the DSP Group is engaged in a Phase III clinical study of amrubicin hydrochloride (brand name in Japan: CALSED®) for the treatment of small cell lung cancer.

WT4869: A therapeutic cancer vaccine targeting Wilms' tumor gene 1 (WT1), a protein expressed in cancer cells. It is expected that administration of WT4869 will show efficacy in the treatment of leukemia and other types of cancers that express WT1, by inducing WT1-specific cytotoxic T-lymphocytes that have the potential to attack tumor cells. The compound is under development for the treatment of myelodysplastic syndromes (MDS) and solid cancer.

▶ Cardiovascular & Diabetes

In January 2011, DSP obtained approval of SUREPOST® (generic name: repaglinide), a rapid-acting insulin secretagogue. Preparations have begun for a domestic Phase III clinical study of ranirestat, a potential treatment for diabetic neuropathy with high market potential. We have granted the development and marketing rights for this compound outside Japan to Eisai Co., Ltd., which is now conducting Phase II/III clinical studies in the U.S., Canada and Europe. Furthermore, clinical studies in Japan for DSP-8153 for hypertension, a combination product of amlodipine besilate (AMLODIN® calcium channel blocker) and irbesartan (AVAPRO® angiotensin II receptor blocker) are at the Phase II stage. Clinical studies are currently at the Phase I stage in the U.S. for DSP-8658, developed from DSP research, for the potential treatment of type 2 diabetes.

Ranirestat: This compound is expected to alleviate diabetic neuropathy, a complication of diabetes, by inhibiting aldose reductase and thereby inhibiting the accumulation of intracellular sorbitol that causes diabetic neuropathy. The results of a Phase IIb clinical study in Japan showed that although a clear dose response relationship was not established, a significant increase in sensory-motor nerve conduction velocity, a primary endpoint, was seen in all ranirestat arms compared to before administration.

▶ Respiratory

In the U.S., Sunovion submitted an NDA for ciclesonide HFA, a new formulation of its allergic rhinitis treatment OMNARIS® in March 2011.

In Japan, DSP-3025, a potential treatment for bronchial asthma and allergic rhinitis, is at the Phase I stage. Overseas licensee AstraZeneca PLC is also conducting Phase II clinical studies in Europe.

DSP-3025: An immune response modifier with agonistic activity against Toll-like receptor 7 (TLR7). This compound is expected to become a therapeutic agent providing long-term disease remission in bronchial asthma and allergic rhinitis.

▶ Others

SMP-986, a potential treatment for overactive bladder syndrome developed by DSP, is at the Phase II stage in the U.S., Europe and Japan.

Furthermore, a Phase II clinical study for PRORENAL® for the treatment of carpal-tunnel syndrome as an additional indication in Japan has begun in co-development with Ono Pharmaceutical Co., Ltd., and Phase I clinical studies for DSP-6952 for the treatment of Irritable Bowel Syndrome (IBS) with constipation and chronic idiopathic constipation in Japan have also begun.

SMP-986: This compound possesses the dual pharmacological actions of muscarinic receptor antagonism (non-selective) and inhibition of the bladder afferent pathway through Na^+– channel blockade. It is expected to ease urinary urgency and reduce the frequency of both urination and incontinence. The compound is also expected to have lower incidence of side effects related to muscarinic receptor antagonism, such as dry mouth.

DSP-6952: A high affinity serotonin-4 receptor partial agonist with enterokinetic effect. The compound is expected to be effective for IBS with constipation and chronic idiopathic constipation by increasing complete spontaneous bowel movement.

New Drugs in the R&D Pipeline

Product/ Code Name	Generic Name	Formulation	Therapeutic Indications	Country/ Area	Development Stage	Origin	Remarks
CNS							
LATUDA® (SM-13496)	lurasidone hydrochloride	Oral	Schizophrenia	Canada	Phase III	In-house	
				Japan	Phase III		New Phase III study under preparation
			Schizophrenia Bipolar disorder	Europe	Phase III		Co-development with Takeda Pharmaceutical Company Limited
			(Change of maximum dose) Schizophrenia: 160mg daily	U.S.	Phase III		
			(New indication) Bipolar disorder	U.S. and Europe, etc.	Phase III	In-house	Approved countries: U.S.
			(New indication) MDD with mixed features	U.S.	Phase III		
STEDESA™	eslicarbazepine acetate	Oral	Epilepsy (adjunct)	U.S.	Phase III	BIAL-Portela & Ca, S.A.	
			Epilepsy (adult monotherapy)	U.S.	Phase III		
DSP-8658	TBD	Oral	Alzheimer's disease	U.S.	Phase I	In-house	
SEP-228432	TBD	Oral	Neuropathic pain Depressive disorder	U.S.	Phase I	In-house (Sunovion)	
DSP-1053	TBD	Oral	Depressive disorder	U.S.	Phase I	In-house	
LUNESTA® [1]	eszopiclone	Oral	Insomnia	Japan	Phase III	In-house (Sunovion)	Out-licensed to Eisai Co., Ltd.
DOPS® [2]	droxidopa	Oral	Neurogenic orthostatic hypotension	U.S. and Europe	Phase III	In-house	Out-licensed to Chelsea Therapeutics International, Ltd.
			Intradialytic hypotension	U.S.	Phase II		
			Fibromyalgia	U.K.	Phase II		
Cancer/Infection							
CALSED® [2]	amrubicin hydrochloride	Injection	Small cell lung cancer	China	Phase III	In-house	
				U.S. and Europe	Phase III		Out-licensed to Celgene Corporation
WT4869	TBD	Injection	Myelodysplastic syndromes	Japan	Phase I [3]	In-house/Chugai Pharmaceutical Co., Ltd.	Co-development with Chugai Pharmaceutical Co., Ltd.
			Solid cancer	Japan	Phase I		
DSP-5990	ceftaroline fosamil	Injection	MRSA infection	Japan	Phase I [4]	Takeda Pharmaceutical Company Limited	
AG-7352	TBD	Injection	Cancer	U.S. and Canada	Phase III	In-house	Out-licensed to Sunesis Pharmaceuticals, Inc.
Cardiovascular/Diabetes							
SUREPOST®	repaglinide	Oral	(New indication) Type 2 diabetes (Combination therapy with biguanide)	Japan	Phase III	Novo Nordisk A/S	Approved indication: The reduction of postprandial blood glucose in patients with type 2 diabetes (monotherapy combination with α-GI)
			(New indication) Type 2 diabetes (Combination therapy with thiazolidine)	Japan	Phase III		
METGLUCO®	metformin hydrochloride	Oral	(Addition of pediatric usage) Type 2 diabetes	Japan	Phase III	Merck Santé	
AS-3201	ranirestat	Oral	Diabetic neuropathy	Japan	Phase III [4]	In-house	
				U.S., Canada and Europe	Phase III		Out-licensed to Eisai Co., Ltd.
DSP-8153	amlodipine besilate/ irbesartan	Oral	Hypertension	Japan	Phase II	In-house	Combination product
DSP-8658	TBD	Oral	Type 2 diabetes	U.S.	Phase I	In-house	
Respiratory							
Ciclesonide Nasal Aerosol (HFA)	ciclesonide	Collunarium	(HFA-New formulation) Allergic rhinitis	U.S.	Phase III	Nycomed S.C.A., SICAR	Approved formulation: OMNARIS® Nasal Spray
DSP-3025	TBD	Collunarium	Bronchial asthma, Allergic rhinitis	Japan	Phase I	In-house	
				Europe	Phase II		Out-licensed to AstraZeneca PLC
Others							
SMP-986	afacifenacin	Oral	Overactive bladder syndrome	Japan	Phase II	In-house	
				U.S. and Europe	Phase II		
PRORENAL®	limaprost alfadex	Oral	(New indication) Carpal-tunnel syndrome	Japan	Phase II	In-house/Ono Pharmaceutical Co., Ltd.	Co-development with Ono Pharmaceutical Co., Ltd. Approved indication: lumbar spinal canal stenosis, etc.
DSP-6952	TBD	Oral	IBS with constipation, Chronic idiopathic constipation	Japan	Phase I	In-house	
DSP-1747	obeticholic acid	Oral	Primary biliary cirrhosis (PBC), Nonalcoholic steatohepatitis (NASH)	Japan	Phase I [4]	Intercept Pharmaceuticals, Inc.	

1. Product name in U.S. market
2. Product name in Japanese market (product name for overseas markets is to be decided)
3. Phase I stage of Phase I/II
4. Under preparation

(As of July 29, 2011)

Manufacturing

We provide a stable supply of products with quality at the global level.

Global-minded Supply Chain

DSP's supply chain management is conducted by the Manufacturing Division, which combines manufacturing, logistics and shipping functions to provide a stable supply of products to all customers. To maintain an optimal product supply system, DSP runs four factories in Japan as its primary manufacturing bases, while also cooperating with domestic and overseas contract manufacturers.

Under the second Mid-term Business Plan, we are further expanding overseas sourcing of raw material & pharmaceutical intermediates and conducting some manufacturing at overseas factories as we move toward globalization. In upgrading our overseas manufacturing network, in addition to manufacturing at our own facilities, we will promote contract manufacturing under technology alliances. This approach is exemplified by MIRIPLA®, a therapeutic agent for hepatocellular carcinoma, which is manufactured by Pierre Fabre in France.

The Great East Japan Earthquake of March 11, 2011 had no effect on DSP's manufacturing bases. The impact on our distribution bases was also minor.

Quality Assurance

The production of pharmaceuticals requires a high-level quality assurance system. Consequently, rigorous Good Manufacturing Practice (GMP) standards have been established in many countries.

The pharmaceuticals manufactured by DSP are exported around the world after obtaining regulatory approvals from government institutions of importing nations, including the U.S. Food and Drug Administration (FDA) and the European Medicines Agency (EMA). Therefore, operating standards at DSP are consistent with the GMP standards of the U.S. and Europe. Furthermore, we have established a high level of facility design and a quality assurance system to meet strict quality standards at the global level, including audits by overseas partner companies and the guidelines of the International Conference on Harmonisation (ICH).

Standards for quality assurance at the global level are forecast to become increasingly rigorous. DSP is therefore making proactive investments in manufacturing facilities — including a new solid dosage form facility — to meet future standards. Our manufacturing, quality assurance and other related divisions will work in concert to continue to provide pharmaceuticals of the highest quality.

A Trusted Manufacturing Division

DSP is striving for customer-oriented product development. For example, we have responded to requests from medical institutions and patients by improving package and label designs in an effort to help prevent medical errors.

We also continuously work to reduce production costs through labor-saving measures such as automation of facilities and by optimizing production sites. Moreover, as part of our commitment to eco-friendly production activities, we are thoroughly reducing waste and introducing co-generation systems.

Overseas Plants

The plant at Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. in China serves as our own production facility and packages products for sale in the local market. A merger with Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd. was completed in 2010, and a factory formerly owned by that company began the packaging process in January 2011. It is scheduled to start fully integrated production, from formulation to packaging, in 2014.

In North America, we are making preparations for the creation of a cooperative system with Sunovion.

Production Sites

Suzuka Plant

The Suzuka Plant, our main factory, is a facility that is compliant with cGMP (U.S. current GMP). A state-of-the-art formulation facility was constructed in 2008 and began operation in January 2009. The plant maintains integrated pharmaceutical manufacturing facilities at which a full range of operations are conducted, from production of active pharmaceutical ingredients and finished products to packaging. Products manufactured at Suzuka include LONASEN®, PRORENAL®, GASMOTIN® and EBASTEL®.

Ibaraki Plant

This plant, which is also the main base of the Technology Research and Development Division, is an R&D-driven pharmaceutical plant able to accommodate new products and technologies in a flexible manner. It produces drugs in a broad range of dosage forms, including AVAPRO®, AMLODIN® and various investigational new drugs.

Ehime Plant

One of the world's largest biopharmaceutical production facilities, the Ehime Plant manufactures a stable supply of biopharmaceuticals, which demand high-precision technology. The plant produces crude intermediate solution of SUMIFERON® and CALSED®, a sterile freeze-dried formulation.

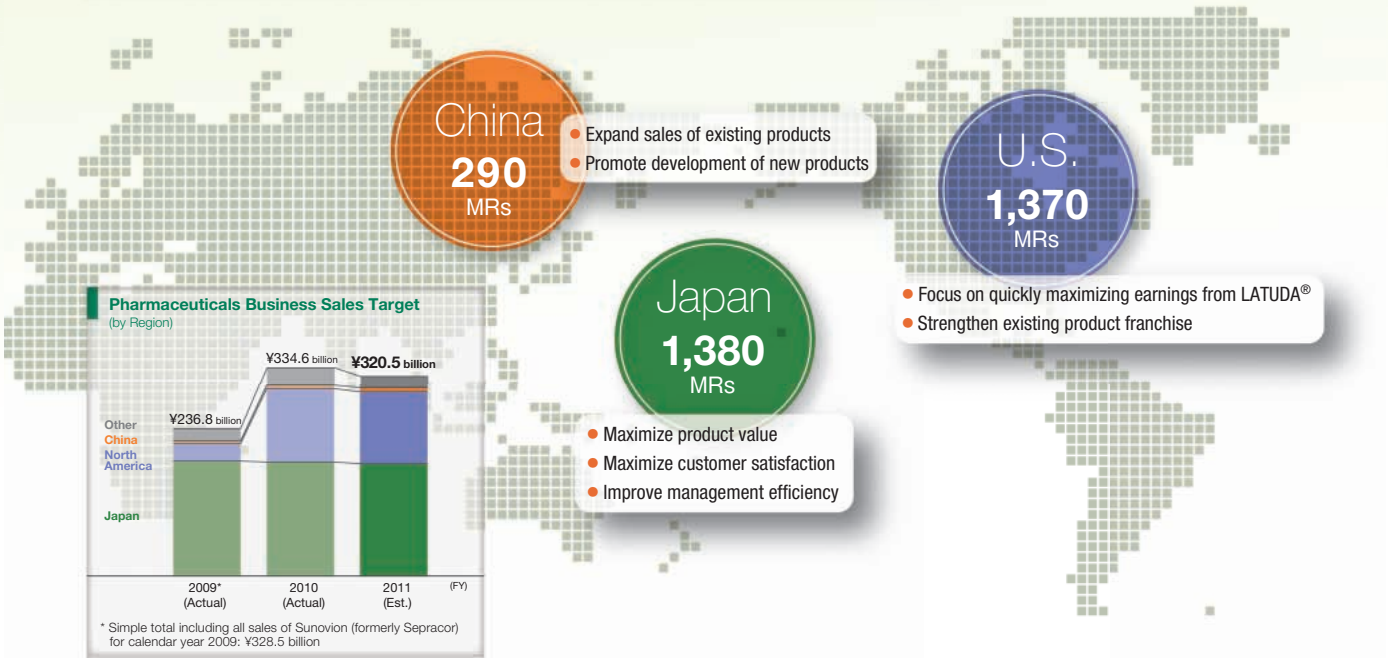
Oita Plant

The Oita Plant is our core facility for the production of active pharmaceutical ingredients and its equipment is cGMP-compliant. The plant produces MEROPEN® from active ingredient to finished product and supplies it to the domestic and overseas markets. It also produces the active pharmaceutical ingredients for LATUDA®, AMLODIN®, DOPS® and other products.

Marketing

Focused allocation of sales resources is supporting strong performance by new products. In North America, sales of the global strategic product LATUDA® are now under way.

Area-based Marketing Structure (As of March 31, 2011)



Marketing Strategy

Basic Strategy

In the Second Mid-term Business Plan (2nd MTBP), we have set “transform the earnings structure in Japan” and “expand overseas operation and maximize earnings” as basic strategies. Beyond that, we will aim to fulfill our vision for the future of establishing “two solid mainstreams of our revenue, from domestic operation and from international operation”.

In Japan, in addition to development of compounds from DSP research, we will pursue alliances and in-licensing to increase the proportion of new drugs in our product portfolio. To maximize earnings, we have positioned cardiovascular/diabetes, central nervous system (CNS) and cancer/infectious diseases as our focus marketing areas, and are concentrating sales resources on strategic products AVAPRO®, LONASEN® and PRORENAL® and new products TRERIEF®, MIRIPLA®, METGLUCO® and SUREPOST®.

In the North American market, we aim to maximize earnings from the launch of LATUDA®, a global strategic product, in addition to the existing products of Sunovion Pharmaceuticals Inc.

In the Chinese market, we will work to expand sales of existing products such as MEPEM® (MEROPEN®) and introduce new products, with the target of ¥10 billion in sales in fiscal 2014.

For the DSP Group, we intend to generate 50% of net sales from overseas markets in fiscal 2014.

Domestic Pharmaceuticals Business

Domestic Market

Net sales: ¥182.9 billion

Number of MRs: 1,380

(Fiscal 2010)

Main Points of Key Measures

- Maximize product value
- Maximize customer satisfaction
- Improve management efficiency

Focus Marketing Areas

Cardiovascular/diabetes, CNS and cancer/infectious diseases

Key Products for Sales and Marketing

Strategic products	AVAPRO® (cardiovascular), LONASEN® (CNS), PRORENAL® (other)
New products	TRERIEF® (CNS), MIRIPLA® (cancer), METGLUCO® (diabetes), SUREPOST® (diabetes)

Key Measures

Consistent with the basic strategies of the 2nd MTBP, we are executing sales strategies in Japan that emphasize maximization of product value, maximization of customer satisfaction and improvement of management efficiency.

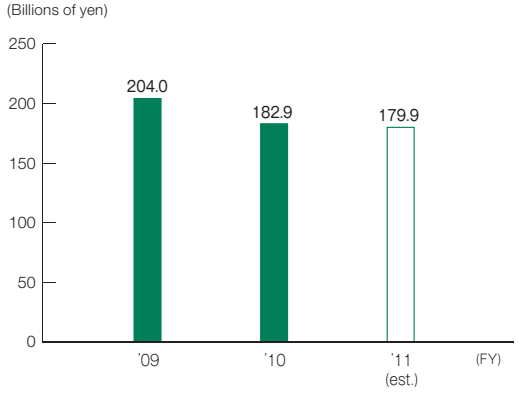
During fiscal 2011, we made concentrated investments of marketing resources in strategic products with high market growth rates and new products to maximize product value and increase management efficiency. In addition, we worked to firmly establish our sales structure and promote our strategies under the Regional Division System instituted in June 2009, and conducted community-based sales in which we make in-depth proposals.

Enhanced MR Training

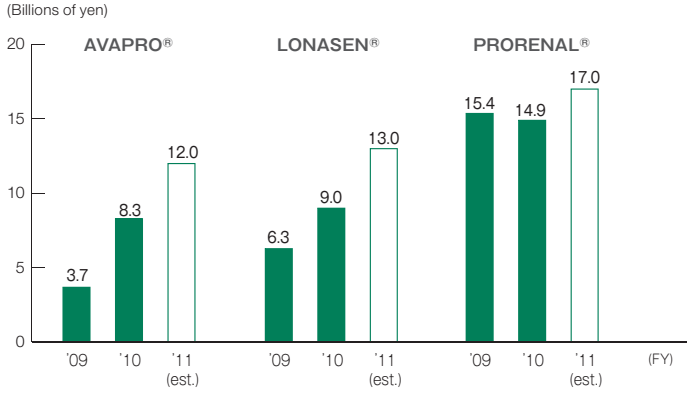
We believe it is important to cultivate specialized medical representatives (MRs) to meet increasingly diverse and sophisticated customer needs. MRs are required not only to have a high level of specialized knowledge, but also to be keenly aware of patients' viewpoints and proactively anticipate customer needs, offering information in both a timely and appropriate manner.

We want DSP to be distinguished by the ability of its MRs to provide information as well as products. To that end, we are enhancing training programs to increase specialization in each area and establishing a variety of training opportunities and initiatives aimed at cultivating MRs who are trusted and respected by customers. Specifically, in addition to programs to enhance specialization in the cardiovascular and CNS areas, we are

Domestic Pharmaceuticals Sales



Three Strategic Products



training MRs to provide information that leads to higher customer satisfaction in areas such as prevention of hospital-acquired infections and treatment of cancer pain. We also formulated “DSP Ambition”, a set of action guidelines for MRs, in June 2010. By instilling these guidelines, we will promote marketing with an even clearer focus on patients.

Cardiovascular/Diabetes

In the cardiovascular area centered on hypertension, DSP strives to be a partner in hypertension treatment handling a variety of antihypertensive products with a lineup consisting of an ARB, calcium antagonist, diuretic, ACE inhibitor and alpha-beta blocker.

While we are concentrating sales and marketing resources on our strategic product AVAPRO®, a therapeutic agent for hypertension, we are making prescription suggestions that encompass this area as a whole, including our focus product AMLODIN®, a therapeutic agent for hypertension and angina pectoris. For AVAPRO®, we are providing accurate information through e-promotion using our medical information site and a pharmaceutical portal site, and aim to increase sales to ¥15.0 billion in fiscal 2014.

In the diabetes area, we launched SUREPOST®, a rapid-acting insulin secretagogue, in May 2011 to follow METGLUCO®, a biguanide oral hypoglycemic drug launched in May 2010. SUREPOST® is approved and sold in more than 90 countries around the world, including major countries. DSP took over development of SUREPOST® in Japan from Novo Nordisk and began clinical studies in 2004. By providing several type 2 diabetes drugs with different mechanisms of action, we plan to contribute to diabetes therapy by broadening patients’ treatment options.

CNS

As a pharmaceutical company handling therapeutic agents for schizophrenia, Parkinson’s disease, anxiety and epilepsy, DSP has established a unique position by offering a number of atypical antipsychotics with differing characteristics.

In the CNS area, we are focusing on our strategic product LONASEN®, an antipsychotic, and new product TRERIEF®, a treatment for Parkinson’s disease. We are working to maximize the value of both products as quickly as possible.

We also inaugurated the CNS Sales & Marketing Department in April 2011 to strengthen promotion and marketing functions. We are deploying approximately 200 CNS MRs to conduct prescription proposal-based promotional activities covering all major CNS care facilities throughout Japan.

In addition, to prepare for the potential future launch of the atypical antipsychotic lurasidone in Japan, we are bolstering training of CNS specialist MRs.

Strategic Products

AVAPRO® (Therapeutic agent for hypertension)

AVAPRO® is a long-acting ARB (angiotensin II receptor blocker) with a long half-life in blood and a sustained hypotensive effect lasting 24 hours. It has demonstrated good efficacy in lowering blood pressure in patients with mild to severe hypertension. This drug has already been launched in the U.S. and in Europe, where it is marketed under the brand name of AVAPRO or APROVEL, and substantial evidence has been accumulated showing its renoprotective effect.

LONASEN® (Atypical antipsychotic)

Characterized by its strong blocking action and high selectivity against dopamine-2 receptors and serotonin-2 receptors, LONASEN® has shown not only efficacy on positive symptoms of schizophrenia, such as hallucinations and delusions, but also on negative symptoms such as affective flattening and decrease in motivation. It also has a low rate of extrapyramidal symptoms and few of the side effects, such as weight gain and hyperprolactinemia, that are problematic with existing antipsychotic drugs.

PRORENAL® (Vasodilator)

This is the only drug indicated in Japan for lumbar spinal canal stenosis. PRORENAL® improves blood flow to nerve tissue compressed by changes in the vertebra associated with aging. It thus improves symptoms such as pain, numbness and intermittent claudication in the lower extremities, contributing to improvement of patients’ quality of life.

For LONASEN®, we will focus on compiling evidence and implementing product life cycle management (PLCM), and our CNS MRs will bring a high level of specialization to sales activities. Our target for sales is ¥22.0 billion in fiscal 2014.

Cancer/Infectious Diseases

In the cancer area, we are focusing on expanding sales of MIRIPLA®, a new product launched in January 2010. With this product, as well as the natural alpha interferon SUMIFERON®, we aim to contribute to the total care of liver diseases. We are also focusing on research and development as we work to fortify our development pipeline in the area of cancer, where there are high medical needs.

In the area of infectious diseases, we work to contribute to medical treatment mainly by promoting appropriate use of MEROPEN®, a carbapenem antibiotic, while also highlighting the advantages of AmBisome®, a therapeutic agent for systemic fungal infection, and HIBITANE®, a disinfectant.

Other Areas

In other therapeutic areas, we will strive to expand sales with our strategic product PRORENAL®, a vasodilator, and our focus product GASMOTIN®, a gastroprokinetic. For PRORENAL®, we are aiming for sales of ¥18.0 billion in fiscal 2014 by expanding the market with education of patients about lumbar spinal canal stenosis in the context of accelerated aging in society, raising product recognition and compiling evidence as a result.

New Products

TRERIEF® (Parkinson's disease treatment)
Launched in March 2009

MIRIPLA® (small cell lung cancer treatment)
Launched in January 2010

METGLUCO® (biguanide oral hypoglycemic)
Launched in May 2010

SUREPOST® (rapid-acting insulin secretagogue)
Launched in May 2011

Overseas Pharmaceuticals Business

North American Market

Net sales: ¥117.6 billion

Number of MRs: 1,370 (U.S.)

(Fiscal 2010)

Main Points of Key Measures

- Focus on quickly maximizing earnings from LATUDA®
- Strengthen existing product franchise

Key Measures

One of the basic strategies of the 2nd MTBP is to "expand overseas operation and maximize earnings". We plan to carry out this strategy by strengthening the existing product franchises of Sunovion Pharmaceuticals Inc. (Sunovion) in both the CNS and respiratory areas. We will also focus on quickly maximizing earnings from LATUDA®, a global strategic product launched in the U.S. in February 2011.

CNS

LATUDA® (lurasidone HCl), an atypical antipsychotic, is a product of global strategic importance. In October 2010, the U.S. Food and Drug Administration (FDA) approved LATUDA® for the treatment of schizophrenia in adults and sales began in February 2011.

To lay the groundwork for quickly maximizing earnings upon launch, Sunovion created a team of 336 highly experienced medical representatives (MRs) dedicated exclusively to LATUDA®. Each MR completed an intensive, specialized training program in preparation for providing product information to psychiatrists. Medical professionals and patients alike can also get information on the newly created LATUDA® website. Among promotional activities designed to ensure physician knowledge about the product, Sunovion is also conducting a speaker's program for medical professionals.

Steady growth in the number of LATUDA® prescriptions written since launch attests to the success of these measures. Promotional efforts will focus on continuing to increase the market penetration and sales of LATUDA®, a top priority for Sunovion.

In its first year on the market, sales of LATUDA® in the U.S. are projected to be $120 million (¥10.2 billion). Under the 2nd MTBP, we are aiming for sales of approximately ¥70 billion in fiscal 2014, the final year of the plan.

To achieve ongoing success in marketing LUNESTA®, a non-narcotic sedative hypnotic indicated for insomnia, Sunovion continues to utilize an effective and strategic mix of promotional initiatives designed to position it as a distinctive, safe and effective alternative to competing products. Sunovion also uses various methods to build awareness of the potential benefits and features of LUNESTA® directly among patients with insomnia. The launch of a competing generic product near the end of 2010 has led to increased market competition and sales of LUNESTA® are forecast to decrease in fiscal 2011.

Respiratory

XOPENEX® is a short-acting beta agonist for the treatment of constricted airways often experienced by patients with asthma. It is available in two different formulations: XOPENEX® Inhalation Solution, used with a nebulizer; and XOPENEX HFA® which is delivered via a metered dose inhaler. Given a challenging market environment, sales of XOPENEX® have slowed. However, Sunovion is working to maintain the present level of sales by continuing its strategy of targeting high-prescribing physicians, including pediatricians, and encouraging initial use by patients through the offering of product samples.

BROVANA® is a long-acting beta agonist designed as a maintenance treatment for chronic obstructive pulmonary disease. It continues to build sales volume as a result of Sunovion's ongoing efforts to maintain or improve high levels of access to the product for patients in both private and public health plans. Sunovion will promote further growth with marketing activities aimed at increasing product awareness among a narrow group of top prescribing physicians.

OMNARIS® is an inhaled nasal corticosteroid used to treat the symptoms of allergic rhinitis. Ongoing efforts to support sales include focused marketing

LUNESTA® (Non-narcotic sedative hypnotic)

LUNESTA® is indicated for the treatment of insomnia, including sleep onset and sleep maintenance, and may be used by patients experiencing transient insomnia, as well as those with chronic insomnia.

BROVANA® (Long-acting beta agonist)

BROVANA® is indicated for the long-term, twice daily maintenance treatment of bronchoconstriction in adult patients with chronic obstructive pulmonary disease (COPD), including chronic bronchitis and emphysema.

programs and creative television commercials to increase brand awareness among patients. Product performance is strong and annual sales are projected to grow by approximately 30% in fiscal 2011. In addition to the existing formulation, a New Drug Application for Ciclesonide HFA Nasal Aerosol was submitted to the FDA in March 2011.

ALVESCO® is an inhaled corticosteroid used to treat asthma. Sunovion is promoting this product to physicians by highlighting its ability to provide symptom relief directly to the lungs. In its efforts to increase product awareness and use among patients, Sunovion offers a reduced patient co-pay to encourage initial product trial.

Chinese Market

Net sales: ¥5.7 billion

Number of MRs: 290

(Fiscal 2010)

Main Points of Key Measures

- Expand sales of existing products
- Promote development of new products

Key Measures

China's high economic growth rate is reflected in its pharmaceutical market, which is growing by approximately 20 percent annually. This rapid market expansion is projected to continue in the coming years. Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. is moving to expand sales of existing products and aggressively introduce new products in China with the goal of generating ¥10.0 billion in sales in fiscal 2014.

Sumitomo Pharmaceuticals (Suzhou) currently sells four products in China: MEPEM® (MEROPEN®), a carbapenem antibiotic; ALMARL®, a therapeutic agent for hypertension, angina pectoris and arrhythmia; SEDIEL®, a serotonin-agonist antianxiety drug; and GASMOTIN®, a gastroprokinetic.

In order to quickly capture a share of this growing market, Sumitomo Pharmaceuticals (Suzhou) has reinforced and enhanced its sales structure, focused on departments that handle sales promotion and marketing. It is expanding its promotion area in stages, with 290 MRs covering hospitals in 30 sectors (major urban, administrative and self-governed areas) as of March 31, 2011. It plans to further increase the number of MRs in line with sales expansion.

Future Business Expansion

Operations in China generated sales of ¥5.7 billion in fiscal 2010, and are making steady progress toward achieving ¥10 billion in sales in fiscal 2014. We are currently developing CALSED®, a small cell lung cancer treatment. China has a high rate of lung cancer and, considering its population of 1.3 billion, we believe this will become a promising new product.

Non-pharmaceuticals Operations

Cooperation with the pharmaceuticals business will support the development of research and development-oriented businesses.

Food Ingredients, Food Additives and Chemical Product Materials

The food ingredients, food additives and chemical product materials business is handled by subsidiary DSP Gokyo Food & Chemical Co., Ltd.

In the food ingredients and food additives business, the company develops and sells ingredients and additives for use in manufacturing safe, high-quality foods. Products include polysaccharides, primarily GLYLOID® (tamarind gum), the first product of its kind successfully produced on an industrial scale; seasonings such as soup bouillon; and sweeteners such as MIRASEE®, an easy-to-use preparation based on neotame, a high-intensity sweetener.

The chemical product materials business encompasses such products as cosmetic materials, active pharmaceutical ingredients, electronic chemicals and coating materials.

Leveraging DSP's technologies and know-how from the pharmaceuticals business, and through cooperation with domestic and overseas suppliers, we are expanding these business units as a company that integrates research, development and sales operations to continually create the value that customers require.

Veterinary Medicines

The veterinary medicines business is conducted by DS Pharma Animal Health Co., Ltd., which sells not only veterinary medicines, but pet food and other products for companion animals, primarily dogs and cats as well as farm animals such as cattle, swine, horses and cultured fish. The company has produced and provided its own products to customers through development works done under collaboration and support from the pharmaceuticals business.

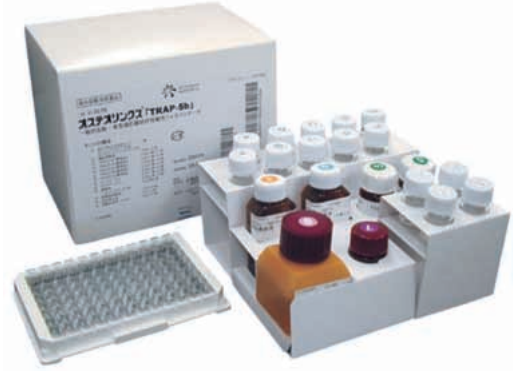
Focusing on the companion animal market in particular, the subsidiary sells a broad line of therapeutics, including VICTAS®, an antibacterial preparation, APINAC® for treating chronic canine heart failure, and PRONAMID®, a canine gastroprokinetic agent for the improvement of gastrointestinal motility. It also sells STEROP®, the first anti-inflammatory steroid eye-drop approved for veterinary use in Japan. In addition to its veterinary medicines, other products include Prescription Diet®, a line of canine and feline therapeutic nutritional formulas from Hill's Pet Nutrition, Inc.

In addition, the company sells URSO®, a bile acid agent for farm animals, and the inactivated iridovirus vaccine for aquaculture. It emphasizes sales of these types of products aimed at disease prevention through immunostimulation to further contribute to food safety and reliability.

Diagnostics and Research Materials

DSP subsidiary DS Pharma Biomedical Co., Ltd. conducts the diagnostics and research materials business. In the diagnostics business, to help ensure accurate and timely treatment, the subsidiary primarily focuses on point-of-care testing (POCT) products such as diagnostics for influenza, *Streptococcus* and other infectious diseases and for acute myocardial infarction. The subsidiary also develops and supplies in-vitro diagnostics for bone and calcium metabolism and central nervous system disorders.

The company also develops and supplies research materials that help facilitate research related to medical care. It is focusing on creating new value by providing cells and culture media that can be applied in regenerative medicine using ES cells and iPS cells.



Osteolinks TRAP-5b®
(an in-vitro diagnostic useful in auxiliary diagnosis for osteoporosis, etc.)

Corporate Governance

Basic Approach to Corporate Governance

DSP recognizes that strengthening corporate governance is a key managerial responsibility to ensure sustained augmentation of corporate value — 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.

Factors that Could Significantly Influence Corporate Governance

Holding a 50.22% 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 also retains some personnel seconded from the parent company based on DSP's own judgment, but believes this has no influence on the Company's business operations. Respect for autonomy is affirmed by the parent company and DSP's independence is maintained. Therefore, DSP believes that having a parent company does not undermine the interests of general shareholders.

Management Structure

The Board of Directors meets at least once a month.

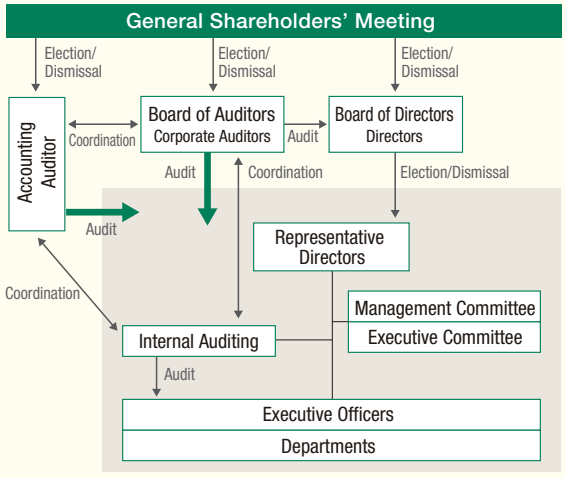
DSP has a Management Committee, composed of several executive officers, which serves as a consultative body to assist the President of DSP in his decision-making. The Management Committee convenes at least twice a month to deliberate on important business matters, guided by the basic strategies made 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.

Audit System

DSP has appointed five corporate auditors, three of whom are outside auditors. One of the outside auditors is registered as an independent officer with Tokyo Stock Exchange, Inc. and the Osaka Securities Exchange. The outside auditors contribute statements from their respective professional viewpoints, thus enhancing the Company's auditing system

The Board of Auditors, composed of all the corporate auditors, meets at least once a month to discuss and decide important audit-related matters and review the agenda for board meetings. In line with the audit policy and task allocation determined by the Board of Auditors, each corporate auditor endeavors to communicate with directors, the employees belonging to the Internal Auditing Department and other relevant sections, the corporate auditors in the parent company of DSP, and other parties to gather information and maintain an environment conducive to the auditing process. Corporate auditors attend key business meetings including those of the Board of Directors and the Management Committee. They receive reports from directors and employees on the status of task execution, requesting explanation as necessary and viewing significant approval forms and other documents. This enables the Corporate Auditors to take a proactive internal auditing stance, focusing in particular on legal compliance and the efficiency of business operations.

Corporate Governance Structure



Accounting audits are handled by KPMG AZSA LLC, based on an audit agreement. Internal audits are carried out by the Internal Auditing Department, which reports directly to the President of DSP. The basic elements for achieving the objectives of internal control, including subsidiaries, are audited from a fair and independent standpoint.

Corporate auditors, accounting auditors and internal auditors meet periodically to exchange information and enhance cooperation.

DSP has multiple departments that promote internal control. The corporate auditors receive reports from each internal control promotion department, and confirm the status of improvement and promotion of internal control. The Internal Auditing Department obtains pertinent information from each internal control promotion department, before auditing and evaluating the status of internal control improvement and promotion, from a fair and independent standpoint.

Establishment of an Internal Control System

The Board of Directors of DSP passed a resolution on the basic policies for the establishment of a system to ensure appropriate business operation. The status of implementation efforts pursuant to the basic policies for each year is reported at the Board of Directors meeting held in the last month of the fiscal year and the basic policies are revised as necessary to improve the system.

Internal Control over Financial Reporting

DSP is improving and operating internal control over financial reporting, in accordance with the basic framework for internal control.

In fiscal 2010, DSP evaluated the improvement and operation of internal control over financial reporting. The results confirmed that there are no significant deficiencies in DSP's internal control over financial reporting.

Compliance

DSP has declared both internally and publicly its commitment to "abide by laws and regulations, and conduct corporate activities in a transparent and fair manner with high ethical standards". The Compliance Committee, presided over by the executive officer in charge of compliance, met twice in fiscal 2010. The committee ascertained the status of compliance efforts throughout DSP and issued reminders, recommendations and advice as necessary to the parties concerned.

In addition, a compliance hotline has been set up for use within and outside DSP to provide consultation or accept reports in the event that an employee has questions or has obtained information concerning violations related to compliance.

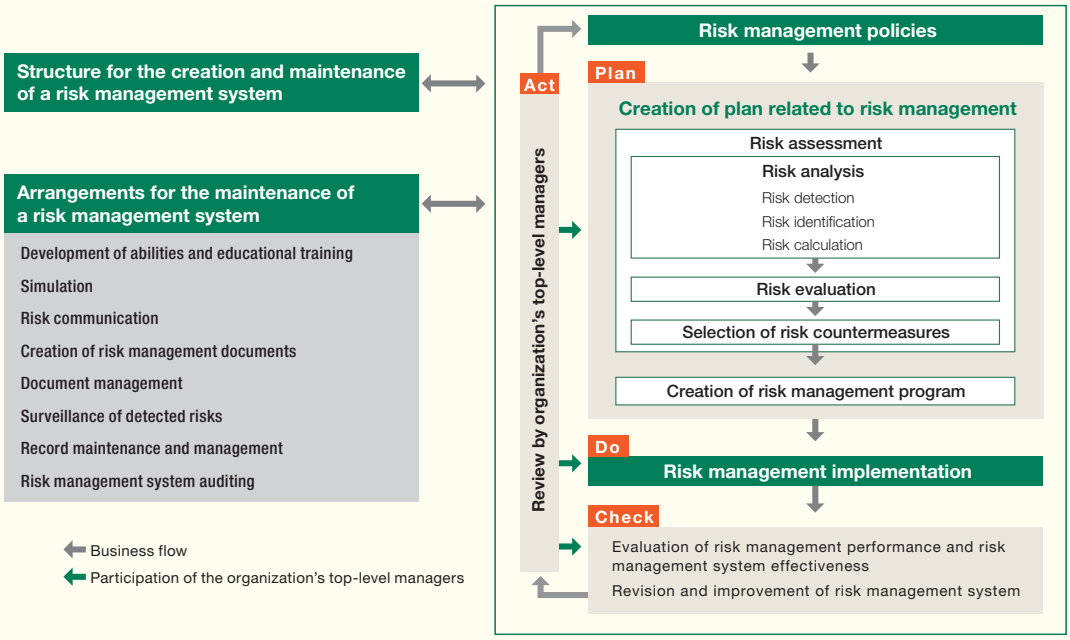
As initiatives for fiscal 2010, DSP provided e-learning training to all employees from May to June 2010, concerning the Foreign Corrupt Practices Act. A full-time lecturer from the TSE Regulation Compliance Learning Center (TSE COMLEC) was invited to provide lectures on insider trading regulations to executives at DSP's main offices from November 2010 to January 2011.

Risk Management

To deal with risks that might affect its business activities, DSP has established in-house Risk Management Promotion Regulations and has organized a Risk Management Committee that is chaired by the president. In addition, a risk management program is established each fiscal year to enable all of the corporate departments to make systematic efforts to solve their respective issues.

The Disaster Countermeasures Office was set up to deal with the Great East Japan Earthquake. It ascertained employee whereabouts and the status of damage at DSP's plants and offices, took measures for business continuity, and provided disaster support in the affected region. DSP is verifying its response to the Great East Japan Earthquake, and short, medium and long term measures for possible future earthquakes are being implemented and investigated. One of the main response measures is a revision of the business continuity plan (BCP).

Risk Management System



Other measures being taken include strengthening the functions of the Disaster Countermeasures Office, strengthening the security system, improving the earthquake and tsunami resistance of plants and offices, improving IT infrastructure and network systems, and upgrading risk response regulations and manuals. DSP is also improving its risk management system in cooperation with group companies in and outside Japan.

Annual Shareholders' Meeting and Exercise of Voting Rights

DSP endeavors to conduct its annual shareholders' meetings in an open manner.

First, DSP sends out a notice of convocation approximately three weeks before the date of the annual shareholders' meeting to facilitate the exercise of voting rights.

For foreign shareholders, DSP sends out an English-language version of the convocation notice, which is also posted on DSP's website together with the Japanese version on the day the convocation notices are sent. As to methods of voting, in addition to conventional voting in writing, voting by electromagnetic methods (the Internet, etc.) is allowed.

Furthermore, DSP takes measures to add vitality to the annual shareholders' meeting, including the use of video and narration when presenting business and other reports.

At the 191st Annual Shareholders' Meeting held on June 24, 2011, the number of shareholders who voted in writing or via the Internet was 5,961 (including 187 who were in attendance), and the voting rate (ratio of voting rights exercised to total number of voting rights) was 87.9 percent.

IR Activities

DSP regularly holds meetings for analysts and institutional investors worldwide. In Japan, meetings are held to coincide with financial results announcements at the end of the second and fourth quarters, while conference calls are carried out for announcements of financial results of the first and third quarters. For overseas investors, representatives of DSP visited European investors in July 2010, and participated in a conference held by a securities firm in the U.S. in January 2011.

DSP also presents financial information, presentation materials for investors, annual reports, and other materials on its website.

DSP Website (Investor Relations)
http://www.ds-pharma.com/ir/

Board of Directors and Executive Officers

(As of June 24, 2011)

In front, from left: Keiichi Ono, Masayo Tada

Behind, from left: Kazumi Okamura, Yoshihiro Okada, Hiroshi Noguchi, Makoto Hara, Masaru Ishidahara, Tetsuya Oida

Directors

Masayo Tada
Representative Director, President and Chief Executive Officer

Keiichi Ono
Representative Director, Executive Vice President
Chief Scientific Officer
Executive Director, Drug Development; Drug Research

Kazumi Okamura
Member, Board of Directors, Executive Vice President
Corporate Communications; Legal Affairs; Environment & Safety; General Affairs; Osaka Administration; Earthquake Disaster Reconstruction Support Office

Hiroshi Noguchi
Member, Board of Directors, Executive Vice President
Chief Strategic Officer
Executive Director, Strategic Planning & Business Development; Global Oncology Business Development Office

Makoto Hara
Member, Board of Directors, Senior Executive Officer
Chief Financial Officer
Executive Director, Global Business; Corporate Planning; Finance & Accounting; Business Support Center

Yoshihiro Okada
Member, Board of Directors, Executive Officer
Executive Director, Manufacturing; Technology Research & Development

Masaru Ishidahara
Member, Board of Directors, Executive Officer
Director, Personnel; Career Development Support; Procurement

Tetsuya Oida
Member, Board of Directors

Corporate Auditors

Ikuo Hino
Full-Time Corporate Auditor

Nobuo Takeda
Full-Time Corporate Auditor

Masahiro Kondo
Corporate Auditor

Harumichi Uchida
Corporate Auditor

Hidehiko Sato
Corporate Auditor

Executive Officers

Yasuji Furutani
Senior Executive Officer
Executive Director, Corporate Regulatory Compliance & Quality Assurance; Director, Computer Systems Compliance

Susumu Nakajima
Senior Executive Officer
Executive Director, Sales & Marketing

Masaharu Kanaoka
Executive Officer
Executive Director, Drug Research; Intellectual Property

Hiroshi Nomura
Executive Officer
Deputy Executive Director, Sales & Marketing; External Affairs

Nobuhiko Tamura
Executive Officer
Member, Board of Directors, Executive Vice President, Chief Scientific Officer, Sunovion Pharmaceuticals Inc.

Yoshihiro Shinkawa
Executive Officer
Deputy Executive Director, Sales & Marketing

Yoshinori Oh-e
Executive Officer
Director, Business Development

Yoshiharu Ikeda
Executive Officer
Director, Corporate Planning; Information Systems Planning

Mutsuo Taiji
Executive Officer
Deputy Executive Director, Drug Research; Director, Pharmacology Research Laboratories

Mark Iwicki
Executive Officer
Member, Board of Directors, President and CEO, Sunovion Pharmaceuticals Inc.

Social Responsibility of Dainippon Sumitomo Pharma

We view corporate social responsibility (CSR) as the daily pursuit of our mission by each DSP member.

Fundamental Approach to CSR

The mission of DSP toward society is given in the company's Corporate Mission, and the aim of its operations, which are focused on its stakeholders, is given in the Management Mission. CSR for our company is the daily pursuit of our mission by each DSP executive and employee, never forgetting their position as a member of society.

In September 2010, Keidanren (Japan Business Federation) substantially revised its Charter of Corporate Behavior and Implementation Guidance. Accordingly, DSP also revised its Declaration of Conduct (Guidebook for Daily Application), which outlines specific guidelines for fulfilling CSR. By acting according to our Declaration, we intend to boldly carry out initiatives to help solve issues faced by society in a wide range of areas. These initiatives include providing even better pharmaceuticals, promoting compliance, respecting human rights, and addressing global environmental issues. In this way, we believe DSP will be better able to fulfill its responsibilities as a corporate citizen.

Activities in Fiscal 2010

Declaration of Conduct	Specific Examples of Conduct	Keidanren Charter of Corporate Behavior
1. Help people to have "healthy bodies, healthy lives"	(1) Provision of products, information, and services from the customer perspective	Clause 1, Clause 3 Clause 9, Clause 10
	(2) Assess and reflect of customer needs	
2. Pursue trustworthy corporate activities	(1) Fair and transparent corporate activities	Clauses 2 ~ 4 Clauses 7 ~ 10
	(2) Handling of compliance violations	
	(3) Promotion of appropriate use and provision of safety information	
	(4) Respect of the rights of third parties	
3. Positively disclose information and properly manage information	(1) Appropriate information disclosure	Clause 3, Clause 9 Clause 10
	(2) Appropriate information management and protection	
4. Help employees reach their full potential	(1) Creating a workplace environment in which employees can focus on their work with a sense of security	Clause 4 Clauses 8 ~ 10
	(2) Emphasis on the exercise and cultivation of abilities	
	(3) Emphasis on autonomy, initiative and creativity	
	(4) Creation of a workplace culture with integrity	
5. Respect human rights	(1) Elimination of all discriminatory words and actions	Clause 4, Clause 9 Clause 10
	(2) Elimination of discrimination in the workplace	
6. Positively address global environmental issues	(1) Build environmental awareness	Clause 5 Clause 9 Clause 10
	(2) Efficient use of resources and energy	
	(3) Environmental activities at home	
7. Build harmonious relationships with society	(1) Communication with society	Clause 3 Clause 6 Clauses 8 ~ 10
	(2) Appropriate behavior as a member of society and as a member of the company	
	(3) Engagement with local communities	
	(4) Positive contributions to society	

Initiatives for Patients and Medical Professionals

Responding to the Needs of Patients

DSP regularly engages not only in the development of new pharmaceuticals but also the improvement and enhancement of existing drugs.

In March 2011, we obtained approval for a partial change in the dosage and administration of MEROPEN®, a carbapenem antibiotic preparation — more specifically, a change in the maximum daily dose from 2g to 3g for serious illness and refractory infections. Particular attention has been paid in recent years to the importance of "optimal" administration based on PK-PD theory.* In this connection, it is often pointed out that dosage levels approved in Japan are low compared with those in many foreign countries. Under the approval for partial change, an administration of 3g per day is now possible, which is expected to show promising results in clinical practice as well as significant bacteriological effects.

Furthermore, in January 2011 we obtained manufacturing and marketing approval for the noradrenaline-activating neural function ameliorant DOPS®, in 100mg and 200mg OD tablets. The DOPS® OD tablets are an additional formulation of DOPS®, using an orally disintegrating tablet formulation design with consideration for patients' state of illness. The drug makes use of our proprietary new technology SUITAB-MAX®, which achieves fast disintegration even at high concentrations while maintaining constant hardness. As such, it is easy to ingest for patients with Parkinson's disease, which is often accompanied by dysphagia, and also offers a size that is easy to handle by patients with the muscular contractions or shaking characteristic of Parkinson's disease. Furthermore, it can be taken with or without water, making its use easy for patients on dialysis.

In addition, we have received development requests from authorities regarding the efficacy against pediatric hypertension of AMLODIN® and the efficacy against pediatric diabetes of metformin, which are currently unapproved, and we follow a policy of responding actively to such requests. We will continue striving to meet the diverse needs of patients and to enhance our contribution to healthcare.

* PK-PD theory: This is a concept to design the optimal administration of an anti-microbial agent by evaluating its efficacy and safety in connection with pharmacokinetics (PK), which shows how anti-microbial agent concentration changes within the human body, and pharmacodynamics (PD).

Initiatives for Employees

Initiatives for Work-Life Balance Improvement

DSP promotes various initiatives to support a balance between work and family for its employees. Since October 2008, we have established and been implementing two-year general business operator action plans, which include holding "no overtime days" in each workplace, and revising the eligibility and operation rules for maternity/childcare leave to make the system easier to use. Through the active cooperative effort of labor and management, the entire action plan was achieved. As a result, DSP was recognized by the director of the Osaka Labour Bureau as a company that supports childrearing and received the Japanese government's "Kurumin" mark, which recognizes support for childrearing, in November 2010. As part of the new two-year general business operator action plan, in October 2010 we also established and implemented the following measures based on labor-management cooperation: providing the necessary information to encourage male employees to take childcare leave; introducing a work-from-home system to enable flexible work hours and locations; and adding "hospital visits for fertility treatment" as an eligible reason for taking special accumulated leave. In 2012, we will continue to actively pursue initiatives to acquire certification.

Next-generation accreditation mark "Kurumin"

Occupational Health and Safety Initiatives

DSP prepares company-wide shared main subjects based on the company-wide Safety and Health Policy and the Mid-term Action Plan and develops DSP's annual action plan containing concrete initiatives which reflect the above main subjects in each business site. Main subjects for fiscal 2010 contain "complying with laws and regulations relating to occupational health and safety", "promoting health and safety risk management", "improving health and safety education and awareness-raising activities", and "promoting health management and mental health". Based on these, we implemented internal audits, health and safety risk assessment, health and safety education, company-wide sharing of work-related injury information, and the introduction of employee stress checkup activities. Particularly in the internal audits for each business site, we confirm "the status of compliance with laws relating to occupational health and safety, chemical substances, and safety and disaster prevention", "the status of progress in health and safety activities", and "measures to minimize risk hazards", and we further promote effective health and safety management by also providing appropriate guidance which leads to enhancing the level of health and safety management in the above internal audits.

Working with Society

Donations by Employees' Ideas

DSP's social contribution activities include fund-raising from executives and employees of DSP and its group companies, as well as donations from the companies themselves. These funds are donated to organizations that reflect the company slogan, "Healthy bodies, healthy lives".

In fiscal 2010, as in the previous year, donations were made to "Japan Hearing Dogs for Deaf People"; the non-profit organization "Asobi no Volunteer", which conducts activities including playful interaction with sick children; and five Clubhouses recognized by the International Center for Clubhouse Development.

Over the three years from fiscal 2011 to fiscal 2013, DSP will continue to back the activities of these Clubhouses, while also newly supporting the non-profit

A message card from “Asobi no Volunteer”

organization “The Supporting Network for Chronic Sick Children of Japan”.

Japan Epilepsy Research Foundation

The Japan Epilepsy Research Foundation was established to promote research into the causes and pathology of epilepsy, its diagnosis and clinical symptoms, and measures to prevent epileptic seizures, as well as the development of highly effective drugs for the prevention and treatment of the disease. The foundation operates using funds from DSP and other contributors and holds research conferences, publishes literature and engages in other efforts aimed primarily at furthering the research and treatment of epilepsy.

In fiscal 2010, the foundation decided to support 17 researchers through grants and programs for sending Japanese researchers overseas, and bringing foreign researchers to Japan. In October 2010, the foundation obtained authorization from the Cabinet Office of Japan to change its status to a public interest incorporated foundation.

Support for Hoof-and-Mouth Disease Outbreak in Miyazaki

In April 2010, there was an outbreak of hoof-and-mouth disease in Miyazaki Prefecture. DSP donated ¥2 million to support the livestock farmers affected by the outbreak.

Support for Victims of the Great East Japan Earthquake

Along with a relief donation of ¥100 million through the Japanese Red Cross to the victims of the Great East Japan Earthquake that struck in March 2011, DSP carried out other support activities such as the donation of pharmaceuticals including hand disinfectant products, HIBISOFT® and HIBISCRUB®, as well as antiepileptics.

In May 2011, DSP set up the “Earthquake Disaster Reconstruction Support Office” to assist reconstruction efforts in the disaster area, and is providing ongoing aid for recovery. The office plans and implements support activities according to needs in the area, and dispatched employee volunteers who are qualified pharmacists.

DSP Group companies in and outside Japan have also conducted their own relief activities including corporate donations, voluntary fund-raising by employees, and the provision of products.

CSR Activities Outside Japan

Sunovion Pharmaceuticals Inc. remains committed to supporting a variety of initiatives that are focused within the areas of central nervous system and respiratory disease states. Currently, they are providing support to two “Clubhouses”. U.S. employees have also participated in *NAMI*Walks, a nationwide fundraising event organized by the National Alliance on Mental Illness (NAMI), the largest patient advocacy group in the area of mental illness. Additionally, Sunovion has hosted exhibits of art created by those affected by mental illness as a means of calling attention to and supporting research into psychiatric treatment that enables people to live fuller lives. Within their local communities, Sunovion employees have joined to build bicycles which have been donated to children in need and have also provided science-related teaching materials to local elementary schools.

For Sumitomo Pharmaceuticals (Suzhou) Co., Ltd, the 2008 Sichuan Earthquake was the initial spark for making donations. The company conducts ongoing social contribution activities to support children orphaned by the earthquake. In September 2009, Sumitomo Pharmaceuticals (Suzhou) presented the “Sumitomo Collection” to the Lijiang Ethnic School for Orphans, and also established a fund for classroom activities. In July 2010, the company established the “Tai Yang Hua Ai Xin Fund (Sunflower Heart Fund),” which provides opportunities for the company and its employees to participate in CSR activities. The company also makes regular contributions to the China Children and Teenagers’ Fund.


*NAMI*Walks


Presentation ceremony of donation to the China Children and Teenagers’ Fund

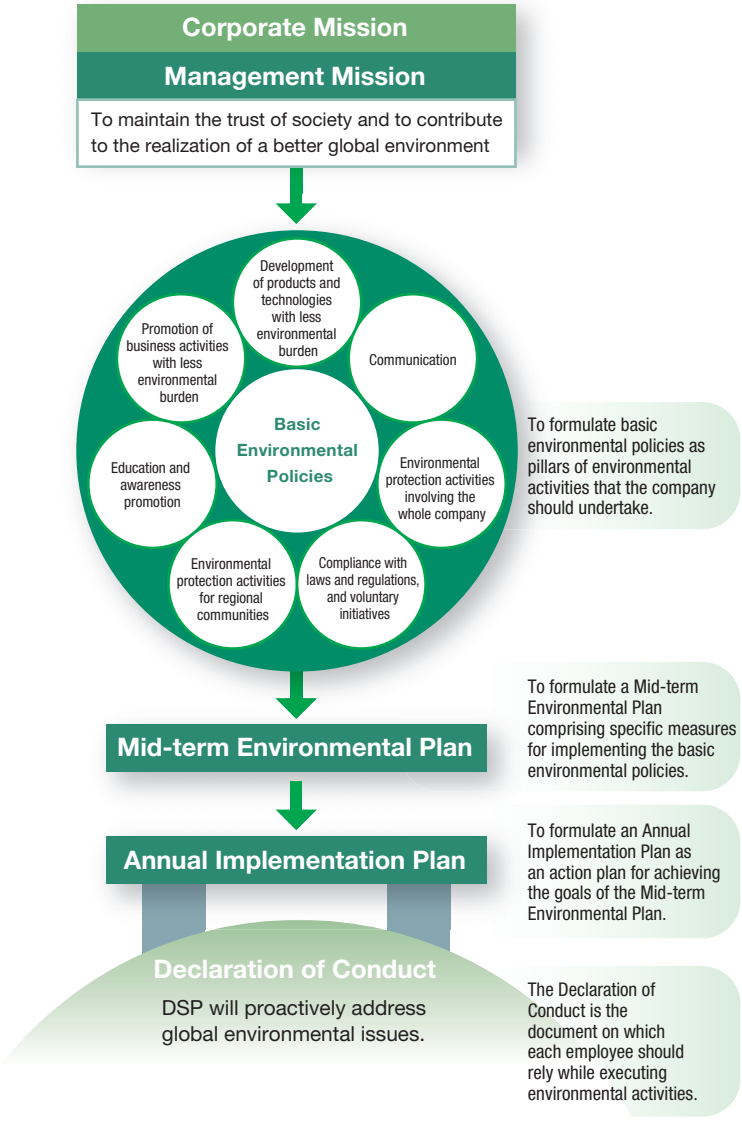
Environmental Activities

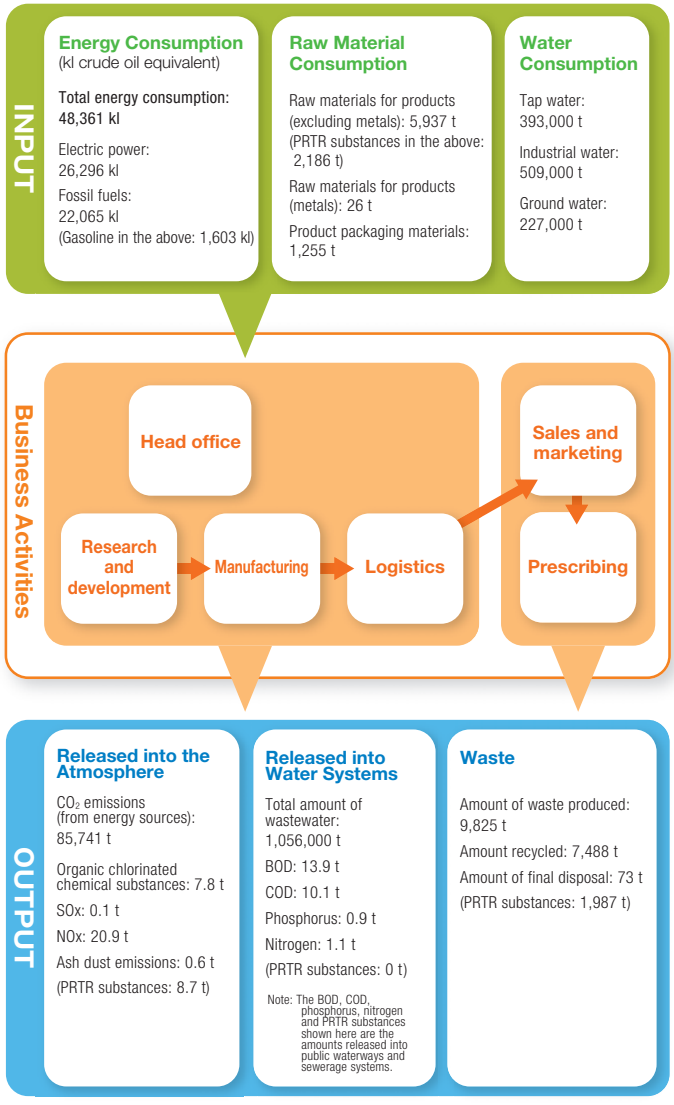
DSP's Environmental Vision

DSP understands that the global environment is entering a critical phase. As a company that aims to protect people's lives and their health, DSP makes all-out efforts to realize a world that is prosperous and nice to live in, by proactively working for environmental protection and creating a recycling-oriented society through the company's business activities.

Overview of the Environmental Burden

DSP's business activities affect the environment in various ways at every stage of research and development, manufacturing, logistics and marketing, as well as the use of its products by customers. All our employees are aware of this environmental impact and work to reduce the environmental burden.





Mid-term Environmental Plan (Fiscal 2010 — Fiscal 2012)

DSP has formulated the Mid-term Environmental Plan to clearly define key objectives in environmental activities and to form an action plan for achieving and continuously improving on these objectives. During fiscal 2010, we made steady progress in most areas but fell short of some targets. We will continue activities for further improvement.

Degree of progress: ◎ : Goal achieved ○ : Steady progress made toward objective △ : Progress somewhat behind schedule × : Progress significantly behind schedule

Goals of Special Importance	Objectives	Progress in Fiscal 2010	Degree of Progress
1. To enhance the environmental preservation promotion system	(1) To implement a green procurement system	(1) Now implementing standards for formulating guidelines and guidelines for items including office supplies	◎
	(2) To implement a green logistics system	(2) Now implementing green logistics guidelines	◎
	(3) To implement green product development	(3) Implementing in Manufacturing Division and Technology Research & Development Division	◎
	(4) To implement a system for green equipment designing	(4) Implementing in Manufacturing Division, Drug Research Division and General Affairs Department	◎
2. To reduce emissions of chemical substances	(1) To properly manage chemical substances, and to continually strive to reduce emissions of chemical substances (PRTR substances, etc.) into the environment	(1) Reduced atmospheric emissions of dichloromethane by 76% compared to FY2009. Greatly reduced atmospheric emissions of chloroform through the near total elimination of its use in production processes	◎
3. To promote energy saving and prevent global warming	**[1] Numerical targets:** (1) To reduce CO_2 emissions for the whole company to the level of the benchmark year (FY2006) by FY2012	**[1] Numerical targets**: (1) CO_2 emissions for the whole company in FY2010 were 104.5% of the level in FY2006	○
	(2) To improve the specific energy consumption and CO_2 emission rate for the whole company by 1% or more per year	(2) Compared to FY2009, specific energy consumption for the whole company worsened by 4.9% and CO_2 emission rate worsened by 4.9%	×
	[2] Activity targets: (1) To promote greening of the company's work sites	**[2] Activity targets:** (1) Considered various measures at each work site and in Environment & Safety Department	△
	(2) To promote the introduction of energy-efficient equipment and machinery at the company's work sites	(2) Renewed co-generation facilities at the Central Research Laboratories	◎
	(3) To promote the use of renewable energy at the company's work sites	(3) Considered various measures at each work site and in Environment & Safety Department	△
	(4) To promote efficiency in all types of business operations at the company's work sites	(4) Implemented across the whole company	○
	(5) To promote visualization of energy use at work sites	(5) Considered various measures at each work site	○
4. To reduce waste	(1) To maintain final landfill disposal by the whole company at less than 1% of waste generated	(1) Maintained at less than 1% (FY2010 result 0.7%)	◎
	(2) Plants and research laboratories: To maintain final landfill disposal of industrial waste at less than 1% of amount generated	(2) Achieved zero emissions at three plants (excluding the Ehime Plant) and two research laboratories	○
	(3) Other sites: To continue complete recycling of recyclable waste	(3) Other sites made progress in recycling recyclable waste	○
5. To be conscious of environmental safety in contract production	(1) To establish and implement environmental safety measures in contract production	(1) Manufacturing Division provided information to contract manufacturers	○
6. To promote communications with group companies	(1) To support environmental safety activities of group companies	(1) Held meeting in March 2011 to exchange information on energy management of domestic group companies	○
7. To promote communications with local communities	(1) To understand environmental risks that corporate activities can present to the local community	(1) Gained understanding of most risks, and are implementing countermeasures	○
	(2) To disclose suitable information to the local community in an appropriate way	(2) Implementing appropriately	○
	(3) To participate actively in local environmental activities	(3) Actively participating at each work site	○
8. To support social contribution activities	(1) To support and collaborate with environment-related social contribution activities	(1) Considered implementation within the framework for CSR activities of the whole company	△
9. To enhance environmental education	(1) To develop and implement educational programs	(1) Created and implemented a setup for education by job level, education of all employees, and support for education conducted by work sites	○
10. To train employees	(1) To train key persons in environmental management	(1) Training taking place at each work site	○

A more detailed report is available on our website:
URL http://www.ds-pharma.com/csr/

Initiatives in Fiscal 2010

• Efforts on Energy Conservation and Global Warming Prevention

Measures against global warming are a top-priority issue around the world. DSP has set a target for reducing company-wide CO_2 emissions by fiscal 2012 to the level of the base year of fiscal 2006. We are actively using energy efficiently in all areas of our business as we work to reduce our greenhouse gas emissions.

Concerns over energy usage heightened in fiscal 2010 due to factors including the summer heat wave. However, through measures including organization of items produced, consolidation of animal feeding rooms in research laboratories, introduction of hybrid vehicles into our fleet, and introduction of energy-saving equipment (including renewal of co-generation facilities at the Central Research Laboratories), we achieved company-wide reductions of 2.4% in energy usage and 2.5% in CO_2 emissions[1] compared with fiscal 2009.

In addition, the revised Law Concerning the Rational Use of Energy that went into effect in fiscal 2010 requires reporting of energy usage for each company. By responding with measures including information exchange meetings for employees in charge of workplace energy management, we properly reported our results to the government.

We will continue our efforts to reduce greenhouse gas emissions in all of our business activities.

1. CO_2 conversions use the values prescribed within the company. Thus, the figures may differ from those reported in accordance with the Law Concerning the Promotion of Measures to Cope with Global Warming and other standards.

• Waste Reduction

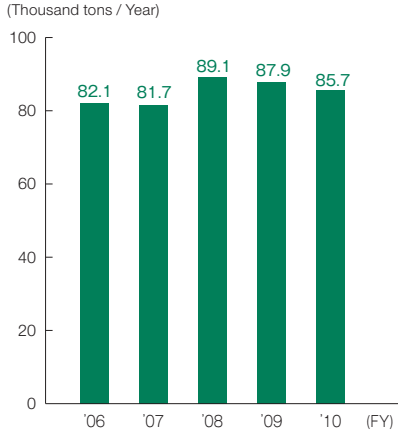
DSP actively employs the “3 Rs” (Reduce, Reuse, Recycle) to make effective use of finite resources. Through fiscal 2009 we steadily reduced the amount of landfill (buried) waste generated by the whole company, but the amount increased considerably in fiscal 2010. This was caused by a decline in our recycling rate for the fiscal year due to a change in the disposal method for returned pharmaceutical products.

Since fiscal 2008, we have achieved or maintained zero emissions[2] at all of our plants and research laboratories. However, in fiscal 2010, the Ehime Plant temporarily generated wastes that could not be recycled, resulting in that plant’s inability to achieve zero emissions. We did achieve zero emissions in fiscal 2010 at all other plants and research laboratories.

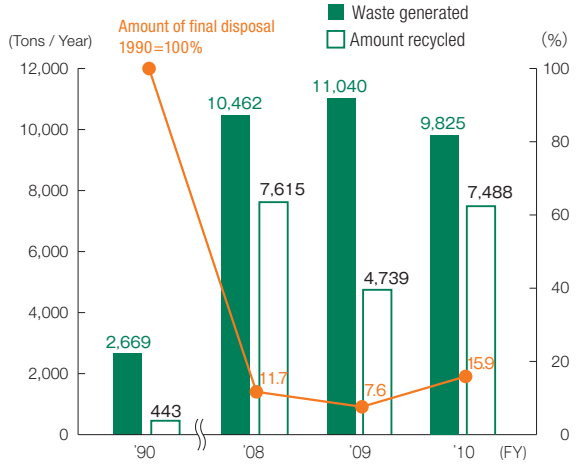
Throughout the company, we will continue to actively pursue thorough waste separation and consignment to waste recyclers, and strive to further reduce our amount of landfill waste.

2. We define and promote zero emissions as reducing the amount of final landfill waste to less than 1% volume of the total amount of industrial waste generated.

CO_2 Emissions



Waste Recycling



Financial Section

Contents

Six-Year Summary

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011, 2010, 2009, 2008, 2007 and 2006
(Fiscal years 2010, 2009, 2008, 2007, 2006 and 2005)

	Millions of yen						Thousands of U.S. dollars (Note 1)
Fiscal Year (FY)	**2010**	2009	2008	2007	2006	2005	**2010**
RESULTS OF OPERATIONS:							
Net sales	**¥379,513**	¥296,262	¥264,037	¥263,993	¥261,213	¥245,784	**$4,572,446**
Cost of sales	**110,030**	112,263	103,741	99,385	99,346	130,437	**1,325,663**
Selling, general and administrative expenses	**238,531**	148,374	129,130	124,794	116,312	86,461	**2,873,867**
Operating income	**30,952**	35,625	31,166	39,814	45,555	28,886	**372,916**
Income before income taxes and minority interests	**25,050**	31,423	32,168	41,457	38,415	25,687	**301,807**
Net income	**16,796**	20,958	19,988	25,592	22,605	15,377	**202,361**
Comprehensive income (loss)	**(12,066)**	27,148	—	—	—	—	**(145,374)**
FINANCIAL POSITION:							
Current assets	**¥333,000**	¥287,555	¥263,540	¥251,063	¥234,313	¥249,733	**$4,012,048**
Net property, plant and equipment	**69,794**	74,084	69,105	70,280	65,241	68,336	**840,891**
Total assets	**589,868**	626,743	391,295	399,791	382,535	392,966	**7,106,843**
Current liabilities	**157,204**	265,000	53,350	67,915	56,039	80,071	**1,894,024**
Long-term liabilities	**108,681**	18,260	13,449	13,598	20,484	24,262	**1,309,409**
Net assets	**323,983**	343,483	324,496	318,278	306,012	288,633	**3,903,410**
OTHER STATISTICS:							
R&D costs	**¥68,160**	¥51,371	¥52,819	¥47,266	¥40,870	¥29,636	**$821,205**
Capital expenditures	**8,663**	6,471	10,569	15,491	9,543	6,616	**104,373**
Depreciation and amortization	**44,628**	18,650	11,455	11,870	12,008	8,901	**537,687**

	Yen						U.S. dollars
PER SHARE OF COMMON STOCK:							
Basic net income	**¥42.27**	¥52.75	¥50.30	¥64.39	¥56.86	¥54.57	**$0.51**
Cash dividends applicable to the year	**18.00**	18.00	18.00	18.00	14.00	12.00	**0.22**

Notes 1: The U.S. dollar amounts in this report represent translations of Japanese yen solely for the reader's convenience at the rate of ¥83 = U.S.$1.00, the approximate exchange rate at March 31, 2011.

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 fiscal 2006. In accordance with the adoption of the new accounting standards, net assets in the financial position of 2005 have been reclassified.

4: Dainippon Sumitomo Pharma Co., Ltd. acquired Sepracor Inc. (now Sunovion Pharmaceutical Inc.) in October 2009. Consolidated results for fiscal 2009 include the results of this company for 2.5 months (October 15 - December 31, 2009).

Management's Discussion and Analysis

Overview

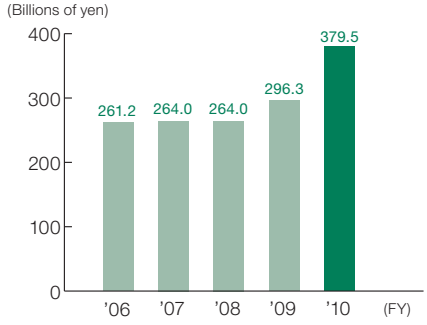
During the fiscal year ended March 31, 2011 (fiscal 2010), a severe employment situation and deflationary conditions persisted in the Japanese economy, although signs of recovery were seen in certain areas, including improvement in corporate profits. In the midst of these conditions, the Great East Japan Earthquake, which caused unprecedented damage, led to a greater risk of downturn and an increasing sense of uncertainty about the economic outlook.

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

Under these conditions, the Dainippon Sumitomo Pharma Group ("the Group") has actively engaged in business development positioning fiscal 2010 — the first year of its Second Mid-term Business Plan — as a critical year, and worked aggressively to achieve its Mid- to Long-term Vision.

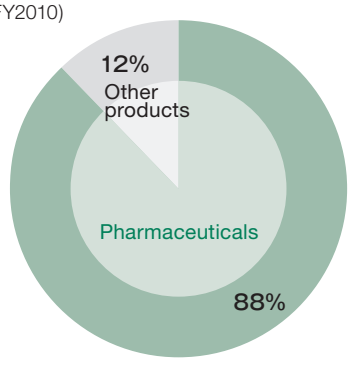
Among major initiatives during the fiscal year, marketing approval of the company's global strategic product LATUDA® was obtained for the indication of schizophrenia from the FDA (U.S. Food and Drug Administration) in October 2010, and LATUDA® was launched in the United States in February 2011. In addition, in March 2011 we entered into a development and commercialization agreement with Takeda Pharmaceutical Company Limited for the purpose of launching the said product in the European market at an early date and maximizing product value. With these and other initiatives, we worked to establish the foundation for overseas business expansion. Furthermore, efforts were made to continuously create globally competitive products and actively promote in-licensing and alliances for expansion of the drug pipeline.

Net Sales



Sales Composition by Business Segment

(FY2010)



Results of Operations

General Results

Net Sales

Net sales for fiscal 2010 increased ¥83.3 billion, or 28.1%, year-on-year to ¥379.5 billion.

Sales increased substantially with the full-year contribution from the U.S. subsidiary Sunovion Pharmaceuticals Inc. and an upfront payment received in connection with a license agreement for lurasidone in Europe. In the domestic pharmaceuticals business, the Group offset the impact of drug price revisions by concentrating marketing resources on strategic products and new products.

Cost of Sales and Gross Profit

Cost of sales decreased ¥2.2 billion, or 2.0%, year-on-year to ¥110.0 billion, and the cost of sales ratio improved 8.9 percentage points to 29.0%. While drug price revisions were a negative factor in the cost of sales ratio, the sales of Sunovion Pharmaceuticals Inc., which has a low cost of sales ratio, contributed for the full fiscal year and the Group recorded an upfront payment received in connection with a license agreement, revised its

method of accounting for animal health product business sales, and worked to lower costs under the “Overall Business Results Improvement Project”. As a result, gross profit increased ¥85.5 billion, or 46.5%, to ¥269.5 billion.

Selling, General and Administrative Expenses

With the full-year contribution of Sunovion Pharmaceuticals Inc., expenses including amortization of patent rights and goodwill increased ¥88.7 billion, and as a result selling, general and administrative (SG&A) expenses increased ¥90.2 billion, or 60.8%, year-on-year to ¥238.5 billion. Among these, research and development costs increased ¥15.7 billion at Sunovion Pharmaceutical Inc. and in-licensing expenses increased, but research and development costs for the Group increased ¥16.8 billion, or 32.7%, year-on-year to ¥68.2 billion as a result of efforts to use expenses more efficiently.

Operating Income

As a result of the above factors, operating income decreased ¥4.7 billion, or 13.1%, year-on-year to ¥31.0 billion.

Other Income (Expenses) and Net Income

During the fiscal year, other expenses exceeded other income by ¥5.9 billion. The principal factors were an increase in interest payments on borrowings and the recording of impairment losses on patent rights and fixed assets.

As a result, net income after income taxes for fiscal 2010 was ¥16.8 billion, a decrease of ¥4.2 billion, or 19.9% from the amount recorded in the previous fiscal year.

Results by Business Segment

Japan (Pharmaceuticals)

The DSP Group maximized earnings and offset the impact of drug price revisions by concentrating sales resources on strategic products AVAPRO®, LONASEN® and PRORENAL®, and new products TRERIEF®, MIRIPLA®, METGLUCO® and others. In addition, the Group recorded an upfront payment received in connection with a license agreement for lurasidone in Europe. As a result, sales in Japan were ¥211.3 billion, an increase of ¥7.4 billion, or 3.6%, year-on-year, and operating income increased ¥9.0 billion, or 26.1%, to ¥43.3 billion.

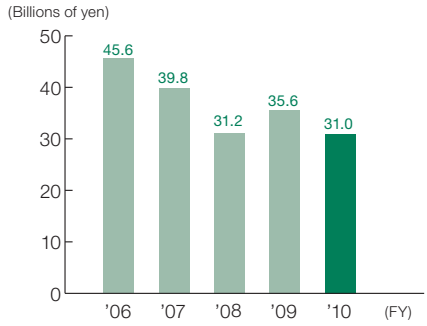
United States

Sales in the United States increased ¥89.0 billion, or 310.7%, year-on-year to ¥117.6 billion. The inclusion of the sales of Sunovion for the full fiscal year, centered on LUNESTA® and XOPENEX®, was a major factor in the increase. Operating loss was ¥11.6 billion (compared to an operating loss of ¥2.2 billion in the previous fiscal year) due to amortization of patent rights and goodwill.

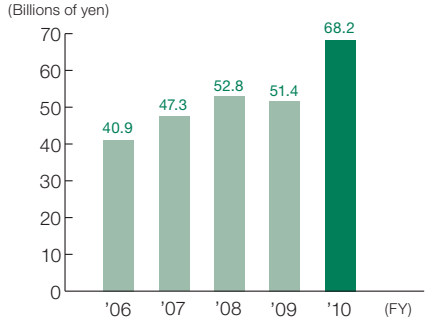
China

Sales in China increased ¥1.4 billion, or 34.8%, year-on-year to ¥5.6 billion due to sales of MEROPEN® and other products. However, mainly due to increased sales expenses, operating income decreased ¥0.1 billion, or 10.4%, to ¥0.8 billion.

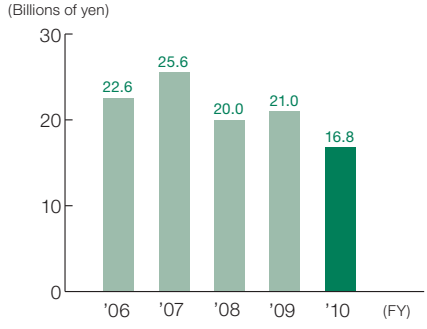
Operating Income



R&D Costs



Net Income



Other Businesses

In other businesses, sales decreased ¥14.6 billion, or 24.5%, year-on-year to ¥44.9 billion, primarily because DSP recorded only the commission equivalent on animal health product business sales due to the split-off of the veterinary medicines business. Operating income decreased ¥0.6 billion, or 24.7%, to ¥2.0 billion.

Sales of Major Pharmaceutical Products

In the domestic pharmaceuticals business, sales of DSP's three strategic products – AVAPRO®, LONASEN® and PRORENAL® – totaled ¥32.2 billion, an increase of ¥6.8 billion, or 26.7%, year-on-year. Sales of new products, including TRERIEF®, MIRIPLA® and METGLUCO® (including MELBIN®), totaled ¥9.9 billion, an increase of ¥4.9 billion, or 99.7%, year-on-year.

Sales of AMLODIN® and MEROPEN® decreased by ¥10.6 billion and ¥2.1 billion, respectively, compared with the previous fiscal year. However, these decreases were more than offset by increased sales of strategic products and new products.

In the United States, Sunovion contributed to results for the full fiscal year. Consequently, sales expanded significantly, with sales of LUNESTA® increasing ¥43.3 billion to ¥53.9 billion and sales of XOPENEX® increasing ¥24.8 billion to ¥38.4 billion.

Sales of these and other major pharmaceutical products were as follows:

Domestic Sales of Major Pharmaceutical Products

(Before deduction of rebates; Billions of yen)

Brand name	Therapeutic indication	FY2010	FY2009
AMLODIN®	Therapeutic agent for hypertension and angina pectoris	41.4	52.0
GASMOTIN®	Gastroprokinetic	21.0	20.7
PRORENAL®	Vasodilator	14.9	15.4
MEROPEN®	Carbapenem antibiotic	12.6	14.7
LONASEN®	Atypical antipsychotic	9.0	6.3
EBASTEL®	Antiallergic	8.6	9.2
AVAPRO®	Therapeutic agent for hypertension	8.3	3.7
REPLAGAL®	Anderson-Fabry disease drug	6.2	2.5
SUMIFERON®	Natural alpha interferon	5.1	5.8
AmBisome®	Therapeutic agent for systemic fungal infection	4.6	4.0
MELBIN®	Biguanide oral hypoglycemic	4.4	3.9
TRERIEF®	Parkinson's disease drug	3.7	0.8
EXCEGRAN®	Antiepileptic	3.5	3.6
DOPS®	Neural function ameliorant	3.3	3.6
GLIMICRON®	Sulfonylurea oral hypoglycemic	2.8	3.2
QVAR™	Bronchial asthma	2.7	3.0
ALMARL®	Therapeutic agent for hypertension, angina pectoris and arrhythmia	2.6	2.8
LULLAN®	Atypical antipsychotic	2.5	2.6
SEDIEL®	Serotonin-agonist antianxiety drug	2.4	2.5
MIRIPLA®	Therapeutic agent for hepatocellular carcinoma	1.5	0.2
METGLUCO®	Biguanide oral hypoglycemic	0.3	—

Major Exported Pharmaceuticals (Billions of yen)

Brand name	Therapeutic indication	FY2010	FY2009
MEROPEN®	Carbapenem antibiotic	14.5	15.7
EXCEGRAN®	Antiepileptic	1.5	0.6
GASMOTIN®	Gastroprokinetic	1.0	1.1

Note: For external customers

U.S. Subsidiaries Sales (Billions of yen)

Brand name	Therapeutic indication	FY2010	FY2009
LUNESTA®	Sedative hypnotic	53.9	10.5
XOPENEX®	Short-acting beta-agonist	38.4	13.6
BROVANA®	Long-acting beta-agonist	9.3	1.7
OMNARIS®	Corticosteroid nasal spray	4.8	0.6
ALVESCO®	Inhaled corticosteroid	2.5	0.3

Note: Sales of U.S. subsidiaries in fiscal 2009 are for October 15 – December 31, 2009.

China Subsidiaries Sales (Billions of yen)

Brand name	Therapeutic indication	FY2010	FY2009
MEROPEN®	Carbapenem antibiotic	5.0	3.8

Financial Position

Assets, Liabilities and Net Assets

Total Assets

Total assets as of March 31, 2011 amounted to ¥589.9 billion, a decrease of ¥36.9 billion from the end of the previous fiscal year. Notes and accounts receivable increased, but intangible assets including goodwill and patent rights and investment securities decreased.

Current assets increased ¥45.4 billion from a year earlier to ¥333.0 billion due to an increase in notes and accounts receivable and an increase in marketable securities due in part to transfers from investment securities.

Noncurrent assets decreased ¥82.3 billion to ¥256.9 billion, primarily reflecting a decrease due to amortization of goodwill and patent rights and the reduced value of overseas assets due to the stronger yen.

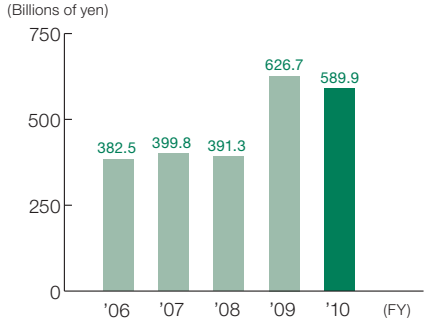
Total Liabilities

Total liabilities as of March 31, 2011 were ¥265.9 billion, a decrease of ¥17.4 billion from a year earlier. The principal factor was a decrease in interest-bearing debt reflecting the repayment of loans.

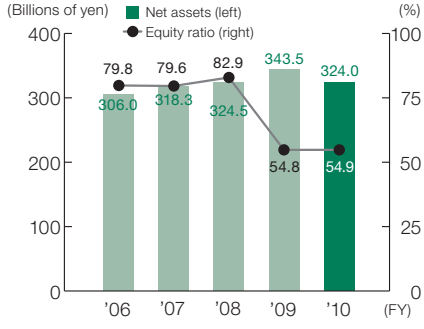
Net Assets

Net assets as of March 31, 2011 were ¥324.0 billion, a decrease of ¥19.5 billion from a year earlier, despite an increase in retained earnings as foreign currency translation adjustments turned negative due to the stronger yen.

Total Assets



Net Assets/Equity Ratio



Cash Flows

Cash and Cash Equivalents

The balance of cash and cash equivalents ("cash") as of March 31, 2011 was ¥82.9 billion, up ¥24.7 billion from the end of the previous fiscal year.

Net Cash Provided by Operating Activities

Net cash provided by operating activities was ¥55.0 billion, and primarily consisted of income before income taxes and minority interests along with adjustments for depreciation and amortization and other items, partially offset by factors including income taxes paid.

Net Cash Used in Investing Activities

Net cash used in investing activities was ¥6.6 billion due to a net increase in purchases of property, plant and equipment.

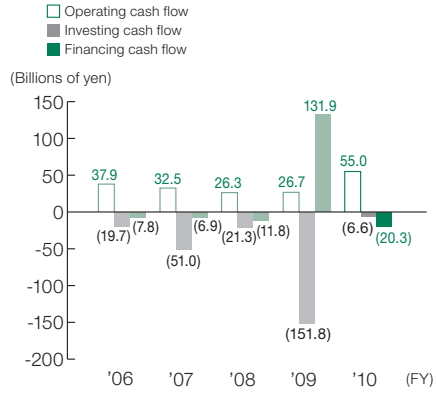
Free Cash Flow

Free cash flow, defined as the total of net cash provided by operating activities and net cash used in investing activities, turned to a positive ¥48.5 billion, compared with a negative ¥125.2 billion in the previous fiscal year.

Net Cash Provided by Financing Activities

Net cash used in financing activities was ¥20.3 billion due to a net decrease in short-term bank loans, dividends paid and other factors.

Cash Flows



Major Cash Flow Indicators

	FY2005	FY2006	FY2007	FY2008	FY2009	FY2010
Equity ratio	73.2%	79.8%	79.6%	82.9%	54.8%	54.9%
Equity ratio on fair value basis	132.1%	130.8%	90.6%	83.1%	54.3%	52.2%
Ratio of interest-bearing debt to cash flows	52.4%	18.1%	17.5%	8.5%	431.2%	218.4%
Interest coverage ratio	328.8	960.4	748.5	648.1	42.7	37.4

Dividend Policy and Dividends

The Company views the regular and consistent return of profits to shareholders 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 an interim dividend and second as a year-end dividend. The Board of Directors and the general meeting of shareholders determine the interim and year-end dividends, respectively.

We believe that it is important to allocate profits to our shareholders in a way that accurately reflects our business performance. When determining the amount of dividends to be distributed, we take a comprehensive view that includes consideration for the importance of raising corporate value through aggressive investment in future growth, solidifying our operating base and enhancing our financial position. We also take into consideration the importance of paying stable dividends.

Based on this policy, the Company paid cash dividends applicable to fiscal 2010 of ¥18.00 per share, consisting of an interim dividend and a year-end dividend of ¥9.00 per share each.

The Company plans to use internal reserves primarily for investments in R&D and business development in Japan and overseas, for capital investments to improve the efficiency of business activities, and to strengthen its financial position through repayment of borrowings and other means.

Number of Employees

The Group had 7,746 employees as of March 31, 2011, up 339 from a year earlier. The number of employees decreased by 57 to 4,460 in the Japan (Pharmaceuticals) segment; increased by 251 to 2,419 in the United States segment; increased by 147 to 560 in the China segment; and decreased by 2 to 307 in the Other Products segment.

Outlook for Fiscal 2011

In fiscal 2011, the Group will continue to "transform its earnings structure in Japan", "expand overseas operation and maximize earnings", and "expand the pipeline for future growth", as it did in fiscal 2010, the first year of the Second Mid-term Business Plan, under the slogan "Creation and transformation toward a new stage of globalization".

In the domestic pharmaceuticals business, the Group will work to expand sales with a focus on strategic products and new products, but expects sales to decrease slightly due to the impact of generics and other factors. In the U.S. pharmaceuticals business, the Group will focus on expanding sales mainly with further market penetration of the global strategic product LATUDA®. However, a slight decrease in sales is projected due to lower sales of LUNESTA® and XOPENEX®, and the assumption that the yen will be stronger than in the previous fiscal year. In addition, revenue from upfront payments recorded in the previous fiscal year in connection with licensing agreements will decrease.

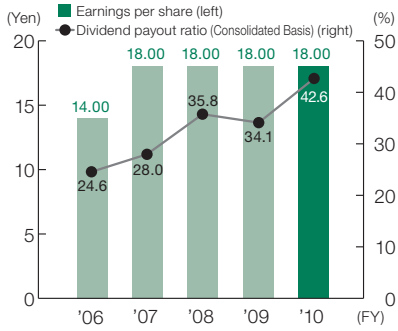
In terms of profit, although the Group will conduct ongoing initiatives in pursuit of efficient Groupwide management, such as continuing measures to reduce expenses, gross profit is forecast to decrease due to the decrease in net sales. In the U.S., we forecast an increase in selling expenses for LATUDA® for the rapid maximization of the product.

For fiscal 2011, we forecast net sales of ¥362.0 billion, a year-on-year decrease of 4.6%, operating income of ¥17.0 billion, a year-on-year decrease of 45.1%, and net income of ¥8.5 billion, a year-on-year decrease of 49.4%. EBITDA is projected to be ¥59.5 billion.

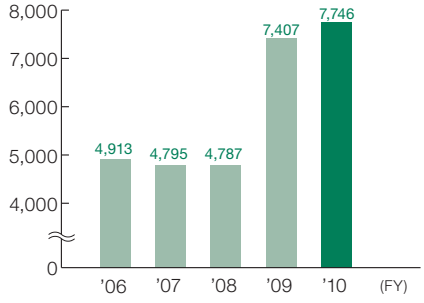
These forecasts reflect management's judgments based on currently available information. Actual results may differ from these forecasts due to various risks and uncertainties.

* Foreign currency exchange rates used for forecasts: ¥85 = U.S.$1.00 , ¥13 = 1 RMB

Earnings Per Share/Dividend Payout Ratio (Consolidated Basis)



Number of Employees (Consolidated Basis)



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 discussion of risks discussed below reflect the judgment of the Dainippon Sumitomo Pharma Group as of March 31, 2011.

Risk Relating to 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 the development of certain products must be halted. 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 pharmaceutical products at different stages of development, with products receiving approval only after rigorous screening by the regulatory authorities in each country. These efforts notwithstanding, previously unreported adverse events are sometimes discovered only after a drug has already been marketed. The appearance of such 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

The precipitous decline in Japan's birthrate and the rapid increase 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 aimed at curbing healthcare costs, and how to best reform the country's healthcare system continues to be debated. The direction that any healthcare system reforms might take, including mandated NHI drug price revisions, could ultimately have a significant and negative impact on the Dainippon Sumitomo Pharma Group's operating results and financial position. Outside Japan, pharmaceuticals are also subject to various regulations, and the policies other governments may pursue could have a significant and negative impact on the Group's operating results and financial position.

Risk Relating to the Sale of Products

In the event that sales of pharmaceutical products sold by the Dainippon Sumitomo Pharma Group decrease due to factors including competition with the products of other manufacturers in the same therapeutic area or the launch of generic products following the expiration of a patent period or otherwise, such decreases could be significant and have a 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 both property owned by the Group and property that the Group lawfully uses with the authorization of the property's owner. Nevertheless, the Group recognizes the possibility, no matter how slight, that some use might be deemed an infringement of a third party's intellectual property rights. Consequently, legal disputes pertaining to intellectual property rights could arise and 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 pharmaceutical products business. Accordingly, the Group obtains licenses and other certifications, including Type 1 and Type 2 Pharmaceuticals Manufacturing and Sales Business licenses (both valid for five years), to engage in R&D and the manufacture and sale of drugs pursuant to Japan's Pharmaceutical Affairs Law and other laws and regulations related to pharmaceuticals. In addition, in conducting its ethical pharmaceutical business outside Japan, the Company is subject to pharmaceutical related laws and other regulations in the countries in which it operates, and obtains licenses and other certifications as necessary.

Maintaining the validity of these licenses and other certifications requires that the Company properly carry out the procedures stipulated by the applicable laws and regulations. These laws and regulations also stipulate that these licenses and certifications may be revoked and/or that the Company may be ordered to suspend part 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 or suspension of any of its licenses or other certifications. However, a revocation or suspension of any of the Company's licenses or other certifications could have a significant and negative impact on the Group's operating results and financial position.

Litigation Risk

The Dainippon Sumitomo Pharma Group is exposed to the possibility of lawsuits in connection with adverse effects of pharmaceuticals, product liability, labor issues, fair trade or other issues related to its business activities. The outcome of such lawsuits could have a significant and negative impact on the Group's operating results and financial position.

Closure or Shutdown of Factories

In the event that the Dainippon Sumitomo Pharma Group's factories are forced to close or shut down due to technical problems, interruption in the supply of raw materials, fire, earthquake or any other disaster, the resulting delay or suspension of the supply of products could have a significant and negative impact on the Group's operating results and financial position.

Effect of Financial Market Conditions and Changes in Exchange Rates

Losses on devaluation or sale of stocks due to a downturn in stock markets, an increase in interest payments on loans or other debt due to changes in interest rates or an increase in retirement benefit obligations due to deteriorating conditions in financial markets could have a significant and negative impact on the Dainippon Sumitomo Pharma Group's operating results and financial position. Fluctuations in exchange rates could also have a significant impact on the translation into yen of import and export transactions, the results of consolidated subsidiaries or other foreign currency amounts.

Effect of Impairment of Assets

The Dainippon Sumitomo Pharma Group owns various tangible and intangible fixed assets, including assets used in business operations and goodwill. In the future, the need to recognize impairment of these assets may arise because of a sharp decline in business results, a drop in asset value or other events. The recognition of such impairment 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 sites and other locations. These agreements involve prices that are determined based on discussions between the two parties with reference to general market prices. These agreements are customarily renewed every year. The Company also accepts employees on loan from the parent company. Furthermore, during the year the Company also made short-term loans to its parent company to raise capital efficiency. The Company's policy is to continue these transactions and other ties with the parent company.

However, changes in these agreements, including changes in the transaction terms specified therein, could have a significant and negative impact on the Group's operating results and financial position.

Risks Related to the Business Activities of Sunovion

Consolidated subsidiary Sunovion Pharmaceuticals Inc., a U.S. pharmaceutical company, has played an important part in the Dainippon Sumitomo Pharma Group's business expansion in North America. However, changes in the operating environment, competition or other conditions that result in the Group's inability to achieve its business plans could have a significant 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, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2011**	2010	**2011**
CURRENT ASSETS:			
Cash and time deposits (Note 3)	**¥ 14,939**	¥ 13,823	**$ 179,988**
Marketable securities (Notes 3 and 6)	**90,921**	51,185	**1,095,434**
Receivables:			
Trade notes	**2,811**	2,791	**33,867**
Trade accounts	**106,437**	92,953	**1,282,373**
Due from parent company, unconsolidated subsidiaries and affiliates (Note 13)	**25,101**	25,118	**302,422**
Allowance for doubtful receivables	**(123)**	(173)	**(1,482)**
Total	**134,226**	120,689	**1,617,180**
Inventories (Note 4)	**55,972**	65,230	**674,361**
Deferred tax assets (Note 9)	**33,489**	32,447	**403,482**
Other current assets	**3,453**	4,181	**41,603**
Total current assets	**333,000**	287,555	**4,012,048**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**10,292**	10,332	**124,000**
Buildings and structures	**91,227**	89,108	**1,099,120**
Machinery and equipment	**104,619**	101,193	**1,260,470**
Construction in progress	**942**	2,691	**11,349**
Total	**207,080**	203,324	**2,494,939**
Accumulated depreciation	**(137,286)**	(129,240)	**(1,654,048)**
Net property, plant and equipment	**69,794**	74,084	**840,891**
INVESTMENTS AND OTHER ASSETS:			
Investment in unconsolidated subsidiaries and affiliates	**973**	3,752	**11,723**
Investment securities (Note 6)	**27,150**	51,137	**327,108**
Goodwill	**70,370**	83,565	**847,831**
Intangible assets	**72,897**	115,918	**878,277**
Deferred tax assets (Note 9)	**7,024**	2,389	**84,627**
Other assets (Note 10)	**8,660**	8,343	**104,338**
Total investments and other assets	**187,074**	265,104	**2,253,904**
TOTAL	**¥ 589,868**	¥ 626,743	**$ 7,106,843**

See Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2011	2010	Thousands of U.S. dollars (Note 1) 2011
CURRENT LIABILITIES:			
Short-term bank loans (Note 8)	**¥ 50,000**	¥ 165,800	**$ 602,409**
Current portion of long-term debt (Note 8)	**10,600**	—	**127,711**
Payables:			
Trade notes	**193**	176	**2,325**
Trade accounts (Notes 6 and 7)	**45,047**	44,682	**542,736**
Due to parent company, unconsolidated subsidiaries and affiliates (Note 13)	**2,309**	2,682	**27,819**
Total	**47,549**	47,540	**572,880**
Income taxes payable	**7,678**	8,571	**92,506**
Accrued expenses	**34,312**	33,294	**413,398**
Other current liabilities	**7,065**	9,795	**85,120**
Total current liabilities	**157,204**	265,000	**1,894,024**
LONG-TERM LIABILITIES:			
Long-term debt (Note 8)	**93,000**	—	**1,120,482**
Liability for retirement benefits (Note 10)	**10,274**	9,848	**123,783**
Other liabilities (Notes 8 and 9)	**5,407**	8,412	**65,144**
Total long-term liabilities	**108,681**	18,260	**1,309,409**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 17)**:**			
NET ASSETS:			
Shareholders' equity (Note 11)			
Common stock: authorized —1,500,000,000 shares in 2011 and 2010; issued —397,900,154 shares in 2011 and 2010	**22,400**	22,400	**269,880**
Capital surplus	**15,860**	15,860	**191,084**
Retained earnings	**304,186**	294,702	**3,664,891**
Treasury stock, at cost, 587,168 shares in 2011 and 584,644 shares in 2010	**(649)**	(647)	**(7,819)**
Total shareholders' equity	**341,797**	332,315	**4,118,036**
Accumulated other comprehensive income (loss)			
Unrealized gains on available-for-sale securities, net of tax	**5,414**	7,945	**65,229**
Foreign currency translation adjustment	**(23,228)**	3,223	**(279,855)**
Total accumulated other comprehensive income (loss)	**(17,814)**	11,168	**(214,626)**
Total net assets	**323,983**	343,483	**3,903,410**
TOTAL	**¥589,868**	¥626,743	**$7,106,843**

Consolidated Statements of Income

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
NET SALES (Notes 12 and 13)	**¥379,513**	¥296,262	**$4,572,446**
COST OF SALES (Notes 12 and 13)	**110,030**	112,263	**1,325,663**
Gross profit	**269,483**	183,999	**3,246,783**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 13)	**238,531**	148,374	**2,873,867**
Operating income	**30,952**	35,625	**372,916**
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 13)	**1,248**	1,228	**15,036**
Interest expense	**(1,919)**	(1,017)	**(23,120)**
Impairment loss (Note 2 (i))	**(3,246)**	—	**(39,108)**
Compensation for revision of personnel system	**—**	(1,570)	**—**
Loss on valuation of investment securities (Note 6)	**(320)**	(843)	**(3,855)**
Other — net	**(1,665)**	(2,000)	**(20,062)**
Other income (expenses) — net	**(5,902)**	(4,202)	**(71,109)**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**25,050**	31,423	**301,807**
INCOME TAXES (Note 9)**:**			
Current	**13,989**	13,999	**168,542**
Deferred	**(5,735)**	(3,541)	**(69,096)**
Total income taxes	**8,254**	10,458	**99,446**
MINORITY INTERESTS IN NET INCOME	**—**	7	**—**
NET INCOME	**¥ 16,796**	¥ 20,958	**$ 202,361**

	Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK:			
Basic net income	**¥ 42.27**	¥ 52.75	**$0.51**
Cash dividends applicable to the year	**18.00**	18.00	**0.22**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income (Loss)

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
Income before minority interests	**¥ 16,796**	¥20,965	**$ 202,361**
Other comprehensive income (loss)			
Unrealized gains (losses) on available-for-sale securities, net of tax	**(2,532)**	2,782	**(30,506)**
Foreign currency translation adjustment	**(26,330)**	3,401	**(317,229)**
Total other comprehensive income (loss)	**(28,862)**	6,183	**(347,735)**
Comprehensive income (loss)	**(12,066)**	27,148	**(145,374)**
Comprehensive income (loss) attributable to			
Comprehensive income (loss) attributable to owners of the parent	**(12,066)**	27,142	**(145,374)**
Comprehensive income (loss) attributable to minority interests	**—**	6	**—**

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, 2011 and 2010

	Thousands of shares		Millions of yen									
			Shareholders' equity					Accumulated other comprehensive income (loss)				
	Issued number of shares of common stock	Number of treasury stocks	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
BALANCE, MARCH 31, 2009	397,900	(581)	¥22,400	¥15,860	¥281,629	¥(643)	¥319,246	¥ 5,162	¥ —	¥ 5,162	¥ 88	¥324,496
Cash dividends, ¥18.00 per share					(7,152)		(7,152)					(7,152)
Net income					20,958		20,958					20,958
Purchases of treasury stock		(4)				(4)	(4)					(4)
Sales of treasury stock		0			(0)	0	0					0
Change in scope of consolidation					(733)		(733)					(733)
Net change in items other than shareholders' equity								2,783	3,223	6,006	(88)	5,918
BALANCE, MARCH 31, 2010	397,900	(585)	22,400	15,860	294,702	(647)	332,315	7,945	3,223	11,168	—	343,483
Cash dividends, ¥18.00 per share					**(7,152)**		**(7,152)**					**(7,152)**
Net income					**16,796**		**16,796**					**16,796**
Purchases of treasury stock		**(2)**				**(2)**	**(2)**					**(2)**
Sales of treasury stock					**(0)**	**0**	**0**					**0**
Change in scope of consolidation					**(160)**		**(160)**		**(120)**	**(120)**		**(280)**
Net change in items other than shareholders' equity								**(2,531)**	**(26,331)**	**(28,862)**		**(28,862)**
BALANCE, MARCH 31, 2011	**397,900**	**(587)**	**¥22,400**	**¥15,860**	**¥304,186**	**¥(649)**	**¥341,797**	**¥ 5,414**	**¥(23,228)**	**¥ (17,814)**	**¥ —**	**¥323,983**

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity					Accumulated other comprehensive income (loss)				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
BALANCE, MARCH 31, 2010	$269,880	$191,084	$3,550,627	$(7,795)	$4,003,796	$ 95,723	$ 38,831	$ 134,554	$ —	$4,138,350
Cash dividends, U.S.$0.22 per share			**(86,169)**		**(86,169)**					**(86,169)**
Net income			**202,361**		**202,361**					**202,361**
Purchases of treasury stock				**(24)**	**(24)**					**(24)**
Sales of treasury stock			**(0)**	**0**	**0**					**0**
Change in scope of consolidation			**(1,928)**		**(1,928)**		**(1,445)**	**(1,445)**		**(3,373)**
Net change in items other than shareholders' equity					**0**	**(30,494)**	**(317,241)**	**(347,735)**		**(347,735)**
BALANCE, MARCH 31, 2011	**$269,880**	**$191,084**	**$3,664,891**	**$(7,819)**	**$4,118,036**	**$ 65,229**	**$(279,855)**	**$(214,626)**	**$ —**	**$3,903,410**

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	**2011**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 25,050**	¥ 31,423	**$ 301,807**
Adjustments for:			
Depreciation and amortization	**39,589**	17,783	**476,976**
Impairment loss	**3,246**	—	**39,108**
Amortization of goodwill	**4,037**	867	**48,639**
Provision for liability for retirement benefits, less payments	**369**	1,527	**4,446**
Interest and dividend income	**(1,248)**	(1,228)	**(15,036)**
Interest expense	**1,919**	1,017	**23,120**
Loss on valuation of investment securities	**320**	843	**3,855**
Changes in assets and liabilities:			
Increase (decrease) in receivables	**(15,175)**	988	**(182,831)**
Decrease in inventories	**8,161**	2,872	**98,325**
Increase (decrease) in payables	**2,296**	(16,781)	**27,663**
Other — net	**1,768**	(1,399)	**21,301**
Subtotal	**70,332**	37,912	**847,373**
Interest and dividend received	**1,578**	1,462	**19,012**
Interest paid	**(1,925)**	(921)	**(23,192)**
Income taxes paid	**(14,943)**	(11,771)	**(180,036)**
Net cash provided by operating activities	**55,042**	26,682	**663,157**
INVESTING ACTIVITIES:			
Net decrease in time deposits	**—**	5,000	**—**
Purchases of property, plant and equipment	**(7,134)**	(5,241)	**(85,952)**
Purchases of intangible assets	**(2,012)**	(889)	**(24,241)**
Proceeds from sales of intangible assets	**1,097**	—	**13,217**
Net decrease (increase) in marketable securities	**(714)**	24,803	**(8,602)**
Proceeds from sales of investment securities	**3,581**	1	**43,145**
Purchases of investment securities	**(2,524)**	(1,078)	**(30,410)**
Proceeds from redemption of investment securities	**1,624**	2,007	**19,566**
Purchase of investments in subsidiaries	**—**	(88)	**—**
Net decrease in short-term loans receivables	**—**	25,000	**—**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	(200,649)	**—**
Other — net	**(486)**	(705)	**(5,856)**
Net cash used in investing activities	**(6,568)**	(151,839)	**(79,133)**
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term bank loans	**(115,500)**	164,900	**(1,391,566)**
Proceeds from long-term debt	**58,000**	—	**698,795**
Repayment of long-term debt	**(5,300)**	—	**(63,855)**
Proceeds from issuance of bonds	**49,763**	—	**599,554**
Redemption of bonds	**(74)**	(25,795)	**(892)**
Increase in treasury stock	**(2)**	(3)	**(24)**
Dividends paid	**(7,149)**	(7,150)	**(86,133)**
Dividends paid to minority shareholders	**—**	(1)	**—**
Other — net	**(73)**	(21)	**(879)**
Net cash provided by (used in) financing activities	**(20,335)**	131,930	**(245,000)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(3,797)**	430	**(45,747)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**24,342**	7,203	**293,277**
INCREASE IN CASH AND CASH EQUIVALENTS RELATED TO CHANGE IN SCOPE OF CONSOLIDATION	**386**	1,455	**4,651**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**58,140**	49,482	**700,482**
CASH AND CASH EQUIVALENTS, END OF YEAR	**¥ 82,868**	¥ 58,140	**$ 998,410**

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2011 and 2010

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Financial Instruments 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.

The accounts of consolidated subsidiaries in the U.S. are prepared in accordance with U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable according to Practical Issues Task Force No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements".

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 ¥83 to U.S.$1.00, the approximate rate of exchange at March 31, 2011. 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") have made certain reclassifications in the 2010 consolidated financial statements to conform to the classifications applied in 2011. These reclassifications have had no effect on the previously reported net income or retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and its 13 significant subsidiaries.

DS Pharma Animal Health Co., Ltd., which was newly established by means of corporate separation, has been included in the scope of consolidation. Dainippon Sumitomo Pharma America, Inc. has been excluded from the scope of consolidation as it was merged with Sunovion. Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd., which was previously non-consolidated has been included in the scope of consolidation as it was merged with Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.

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. An affiliate company which was stated with the fair value option of U.S. GAAP has been excluded from our affiliates due to the disposition of all of its shares. 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.

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

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

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and have no significant risk of change in value. Cash equivalents include time deposits, certificates of deposit, 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, the carrying value is reduced to net realizable value by a charge to income.

d. Inventories

Inventories are stated at the lower of weighted-average cost or net realizable value. Certain overseas consolidated subsidiaries use the FIFO (first-in, first-out) costing method. Book values have been calculated using the lower of cost or net realizable value.

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 life of the asset. Depreciation of machinery and equipment is computed by the declining balance method over the estimated useful life of the asset. At the overseas consolidated subsidiaries, depreciation of all tangible fixed assets is computed by the straight-line method. 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. Ranges of useful lives used in the computation of depreciation are as follows:

Patent rights:	1 to 10 years

g. Goodwill

Goodwill represents the excess of the purchase price over the fair value of the net assets of businesses acquired and is amortized using the straight-line method over 20 years.

h. Leases

Finance leases are to be capitalized, except for finance leases that commenced prior to April 1, 2008 and do not transfer the ownership of the leased property to the lessee.

Capitalized finance leases are depreciated by the straight-line method in which the lease period is taken as the useful life and the residual value is zero.

i. Long-Lived Assets

Long-lived assets presented as property, plant and 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 that the Group recognized and charged to income for the year ended March 31, 2011 was ¥1,067 million for property, plant and equipment and ¥2,180 million for intangible assets.

j. Retirement and Severance 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 fair value of plan assets at the balance sheet date.

The liability for retirement benefits for directors and corporate auditors in certain 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.

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.

k. 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, 2011 and 2010 were ¥68,160 million ($821,205 thousand) and ¥51,371 million, respectively.

l. 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 tax assets and liabilities are measured by using currently enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

m. Foreign Currency Items

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

Financial statements of overseas subsidiaries are translated into Japanese yen at the year-end rate for all assets and liabilities and at weighted average rates for income and expense accounts. Differences arising from such translations are shown as “Foreign currency translation adjustments” in a component of net assets.

n. Derivative Financial Instruments

Foreign exchange contracts are utilized to hedge the exposure risk arising from fluctuations in foreign exchange rates. Derivative instruments are stated at fair value and accounted for using deferred hedge accounting. Recognition of gain or loss resulting from a change in fair value of a derivative financial instrument is deferred until the related loss or gain on the hedged item is recognized if the derivative financial instrument is used as a hedge and meets certain hedging criteria. Foreign exchange contracts that meet certain hedging criteria are accounted for under the allocation method. The allocation method requires recognized foreign currency receivables and payables to be translated using the corresponding

foreign exchange contract rates. The Group has established a hedging policy which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of derivatives transactions. The Group does not hold or issue derivative financial instruments for speculative trading purposes.

The Group is exposed to certain market risk arising from its forward foreign exchange contracts. The Group is also exposed to the risk of credit loss in the event of nonperformance by the counterparties to its currency contracts. However, the Group does not anticipate nonperformance by any of these counterparties as all are financial institutions with high credit ratings.

o. Per Share Information

Basic 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 397,314 thousand and 397,317 thousand for the years ended March 31, 2011 and 2010, 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.

p. Use of Estimates

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in Japan requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

q. Accounting Changes

Application of "Accounting Standard for Asset Retirement Obligations"

Effective April 1, 2010, the Company and its consolidated domestic subsidiaries adopted "Accounting Standard for Asset Retirement Obligations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 18 issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21 issued on March 31, 2008). Consequently, for the year ended March 31, 2011, operating income, and income before income taxes and minority interests decreased by ¥310 million ($3,735 thousand), respectively.

r. Additional Information

Application of "Accounting Standard for Presentation of Comprehensive Income"

Effective March 31, 2011, the Company adopted "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No. 25 issued on June 30, 2010) and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, revised on June 20, 2010). As a result of the adoption of these standards, the Company has presented the Consolidated Statements of Comprehensive Income (Loss) in the consolidated financial statements for the years ended March 31, 2011 and 2010.

Application of "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information"

Effective April 1, 2010, the Company adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No. 17 issued on March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 issued on March 21, 2008).

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2011 and 2010 for purposes of the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Cash and time deposits	**¥14,939**	¥13,823	**$179,988**
Marketable securities with a maturity of three months or less when purchased	**67,929**	44,317	**818,422**
Cash and cash equivalents	**¥82,868**	¥58,140	**$998,410**

4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Finished goods and semi-finished goods	**¥38,443**	¥46,708	**$463,168**
Work-in-process	**2,388**	3,348	**28,771**
Raw materials and supplies	**15,141**	15,174	**182,422**
Total	**¥55,972**	¥65,230	**$674,361**

5. FINANCIAL INSTRUMENTS

1) *Policies for using financial instruments*

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

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

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

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

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

Almost all income taxes payable are due within two months.

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

Derivative financial instruments of the Group include forward exchange contracts for the purpose of hedging risks of fluctuations in exchange rates of receivables and payables denominated in foreign currencies. With respect to forward

exchange contracts, the Finance & Accounting Division formulates an implementation plan for hedging foreign currency risks every half year pursuant to the regulations for management of foreign currency risks and, upon reporting to the Board of Directors, executes transactions, and posts the applicable entries. The results of derivative transactions are also reported to the Board of Directors. See “Derivative Financial Instruments” as stated in the above “Summary of Significant Accounting Policies” for information on hedging instruments, hedged items, hedging policy, and the method by which the effectiveness of hedging is evaluated, as they relate to hedge accounting.

3) *Supplemental information on market values*

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

Book values and market values of the financial instruments on the consolidated balance sheet at March 31, 2011 and 2010 were as follows:

	Millions of yen		
	2011		
	Book values	Market values	Difference
(1) Cash and time deposits	**¥ 14,939**	**¥ 14,939**	**¥ —**
(2) Trade notes	**2,811**	**2,811**	**—**
(3) Trade accounts	**106,437**	**106,437**	
(4) Due from parent company, unconsolidated subsidiaries and affiliates	**25,101**	**25,101**	**—**
(5) Marketable securities and investment securities	**115,609**	**115,616**	**7**
Total assets	**¥264,897**	**¥264,904**	**¥ 7**
(1) Short-term bank loans	**50,000**	**50,000**	**—**
(2) Trade notes	**193**	**193**	**—**
(3) Trade accounts	**45,047**	**45,047**	**—**
(4) Due to parent company, unconsolidated subsidiaries and affiliates	**2,309**	**2,309**	**—**
(5) Income taxes payable	**7,678**	**7,678**	**—**
(6) Bonds payable	**50,000**	**50,002**	**2**
(7) Long-term debt (*)	**53,600**	**53,422**	**(178)**
Total liabilities	**¥208,827**	**¥208,651**	**¥(176)**
Derivative transactions	**¥ —**	**¥ —**	**¥ —**

(*) Long-term debt includes the amount of current portion of long–term debt.

	Millions of yen		
	2010		
	Book values	Market values	Difference
(1) Cash and time deposits	¥ 13,823	¥ 13,823	¥ —
(2) Trade notes	2,791	2,791	—
(3) Trade accounts	92,953	92,953	—
(4) Due from parent company, unconsolidated subsidiaries and affiliates	25,118	25,118	—
(5) Marketable securities and investment securities	99,993	100,016	23
(6) Investment in unconsolidated subsidiaries and affiliates	1,262	1,262	—
Total assets	¥235,940	¥235,963	¥ 23
(1) Short-term bank loans	165,800	165,800	—
(2) Trade notes	176	176	—
(3) Trade accounts	44,682	44,682	—
(4) Due to parent company, unconsolidated subsidiaries and affiliates	2,682	2,682	—
(5) Income taxes payable	8,571	8,571	—
Total liabilities	¥221,911	¥221,911	¥ —
Derivative transactions	¥ —	¥ —	¥ —

	Thousands of U.S. dollars		
	2011		
	Book values	Market values	Difference
(1) Cash and time deposits	$ 179,988	$ 179,988	$ —
(2) Trade notes	33,867	33,867	—
(3) Trade accounts	1,282,373	1,282,373	—
(4) Due from parent company, unconsolidated subsidiaries and affiliates	302,422	302,422	—
(5) Marketable securities and investment securities	1,392,880	1,392,964	84
Total assets	$3,191,530	$3,191,614	$ 84
(1) Short-term bank loans	602,409	602,409	—
(2) Trade notes	2,325	2,325	—
(3) Trade accounts	542,736	542,736	—
(4) Due to parent company, unconsolidated subsidiaries and affiliates	27,819	27,819	—
(5) Income taxes payable	92,506	92,506	—
(6) Bonds payable	602,410	602,434	24
(7) Long-term debt (*)	645,783	643,639	(2,144)
Total liabilities	$2,515,988	$2,513,868	$(2,120)
Derivative transactions	$ —	$ —	$ —

(*) Long-term debt includes the amount of current portion of long–term debt.

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

Assets

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

(2) Trade notes, (3) Trade accounts, (4) Due from parent company, unconsolidated subsidiaries and affiliates
As these assets are settled on a short-term basis, fair value is approximately equal to book value and is calculated according to the applicable book value.

(5) Marketable securities and investment securities
The fair value of these assets is calculated according to the quoted market price for shares and the price indicated by the applicable financial trading institution for bonds. As negotiable certificates of deposit are settled on a short-term basis, fair value is approximately equal to book value and is calculated according to the applicable book value. See Note 2 (c), "Summary of Significant Accounting Policies—Marketable and Investment Securities," for notes pertaining to securities according to the purpose for which they are held.

Liabilities

(1) Short-term bank loans, (2) Trade notes, (3) Trade accounts, (4) Due to parent company, unconsolidated subsidiaries and affiliates, (5) Income taxes payable
As these liabilities are settled on a short-term basis, fair value is approximately equal to book value and is calculated according to the applicable book value.

(6) Bonds payable
The fair value of corporate bonds is calculated according to market price.

(7) Long-term debt
The fair value of long-term debt is calculated as the present value of the total sum of principal and interest discounted by an assumed rate that would have been applicable had a new identical loan been undertaken.

Derivative transactions

See notes on "Derivative Transactions."

Note 2: Financial instruments for which the ascertainment of a fair value is deemed to be exceedingly difficult and are not included in "(5) Marketable and investment securities, (6) Investment in unconsolidated subsidiaries and affiliates" are as follows:

	Amount on consolidated balance sheet		
	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unlisted shares	¥ 486	¥ 434	$ 5,855
Investment in unconsolidated subsidiaries and affiliates	973	2,490	11,723
Investment in limited partnership	1,977	1,895	23,819

The fair value of unlisted shares and investment in unconsolidated subsidiaries and affiliates is not disclosed given the unavailability of quoted market prices because they are deemed to be exceedingly difficult to ascertain.

The fair value of investment in limited partnerships is not disclosed as their assets consist of those deemed to be exceedingly difficult to ascertain, such as unlisted shares.

Note 3: Scheduled redemption amounts after March 31, 2011 for monetary claims and securities with period of maturity

	Millions of yen			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and time deposits	¥ 14,939	¥ —	¥—	¥—
Trade notes	2,811	—	—	—
Trade accounts	106,437	—	—	—
Due from parent company, unconsolidated subsidiaries and affiliates	25,101	—	—	—
Marketable securities and investment securities: Bonds held to maturity (corporate bonds)	1,997	—	—	—
Available-for-sale securities with terms of maturity (negotiable certificates of deposit)	40,500	—	—	—
Available-for-sale securities with terms of maturity (bonds)	20,995	821	—	51
Total	¥212,780	¥821	¥—	¥51

	Thousands of U.S. dollars			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and time deposits	$ 179,988	$ —	$ —	$ —
Trade notes	33,867	—	—	—
Trade accounts	1,282,373	—	—	—
Due from parent company, unconsolidated subsidiaries and affiliates	302,422	—	—	—
Marketable securities and investment securities: Bonds held to maturity (corporate bonds)	24,060	—	—	—
Available-for-sale securities with terms of maturity (negotiable certificates of deposit)	487,952	—	—	—
Available-for-sale securities with terms of maturity (bonds)	252,952	9,892	—	614
Total	$2,563,614	$9,892	$ —	$614

6. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Current:			
Government/local government bonds	¥ 2,173	¥ 575	$ 26,181
Corporate bonds	15,158	6,754	182,627
Negotiable certificates of deposit	40,500	28,000	487,952
MMF	27,430	15,856	330,482
Trust fund investments and other	5,660	—	68,192
Total	¥90,921	¥51,185	$1,095,434
Noncurrent:			
Equity securities	¥23,815	¥28,300	$ 286,928
Government and corporate bonds	821	13,908	9,892
Trust fund investments and other	2,514	8,929	30,288
Total	¥27,150	¥51,137	$ 327,108

The carrying amount and aggregate fair value of marketable securities and investment securities at March 31, 2011 and 2010 were as follows:

	Millions of yen			
	2011			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥14,783	¥9,732	¥(700)	¥23,815
Bonds and debentures	16,397	10	(251)	16,156
Other securities	5,594	118	(0)	5,712
Held-to-maturity	1,997	8	(1)	2,004

	Millions of yen			
	2010			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	¥14,965	¥13,605	¥(270)	¥28,300
Bonds and debentures	16,260	13	(29)	16,244
Other securities	6,541	59	—	6,600
Held-to-maturity	4,994	26	(4)	5,016

	Thousands of U.S. dollars			
	2011			
	Cost	Unrealized gains	Unrealized losses	Fair value
Securities classified as:				
Available-for-sale:				
Equity securities	**$178,108**	**$117,253**	**$(8,433)**	**$286,928**
Bonds and debentures	**197,554**	**120**	**(3,024)**	**194,651**
Other securities	**67,398**	**1,421**	**(0)**	**68,819**
Held-to-maturity	**24,060**	**97**	**(12)**	**24,145**

The Company recognized ¥320 million ($3,855 thousand) and ¥843 million as impairment loss on equity securities in available-for-sale securities with determinable market value in the years ended at March 31, 2011 and 2010, respectively.

Proceeds from sales of available-for-sale securities were ¥11,401 million ($137,361 thousand) and ¥19,882 million for the years ended March 31, 2011 and 2010, respectively. On those sales, gross realized gains and losses computed on a moving average cost basis were ¥32 million ($386 thousand) and ¥12 million ($145 thousand), respectively, for the year ended March 31, 2011, and ¥2 million and ¥0 million, respectively, for the year ended March 31, 2010.

At March 31, 2011, investment securities of ¥60 million ($723 thousand) were pledged as collateral for trade accounts of ¥168 million ($2,024 thousand). At March 31, 2010, investment securities of ¥62 million were pledged as collateral for trade accounts of ¥219 million.

7. DERIVATIVE TRANSACTIONS

Derivative transactions as of March 31, 2011 and 2010 were as follows:

Currency related

2011

Hedge accounting method	Transaction type	Main hedged items	Contract amount		Portion over 1 year		Market value	
			Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Appropriation of foreign exchange forward contracts	Foreign exchange contracts							
	Buy contracts	Trade						
	USD	accounts/	**¥116**	**$1,398**	**—**	**—**	**(*)**	**(*)**
	EUR	payable	**37**	**446**	**—**	**—**	**(*)**	**(*)**
	GBP		**4**	**48**	**—**	**—**	**(*)**	**(*)**

* As forward exchange contracts subject to appropriation are processed in an integrated manner together with the hedged trade accounts/payable, the fair value of the forward exchange contact is included in the fair value of the applicable trade accounts/payable items and stated accordingly.

2010

Hedge accounting method	Transaction type	Main hedged items	Contract amount	Portion over 1 year	Market value
			Millions of yen		
Appropriation of foreign exchange forward contracts	Foreign exchange contracts				
	Buy contracts	Trade			
	USD	accounts/payable	¥172	—	(*)
	EUR		22	—	(*)

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

Short-term bank loans consisted of unsecured loans from banks bearing interest at a rate of 0.75% at March 31, 2011 and a rate of 0.93% at March 31, 2010. Other liabilities include deposits received from customers in the amount of ¥3,296 million ($39,711 thousand) as of March 31, 2011, bearing interest at a rate of 1.52%, and ¥3,259 million as of March 31, 2010, bearing interest at a rate of 1.53%.

The annual average interest rate applicable to short-term bank loans at March 31, 2011 was 0.75%.

Long-term debt at March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Unsecured loans from banks and financial institutions, due 2011 to 2018 with average interest rate of 0.72%	**¥ 53,600**	—	**$ 645,783**
Unsecured bonds due 2014 with average interest rate of 0.53%	**10,000**	—	**120,482**
Unsecured bonds due 2016 with average interest rate of 0.78%	**30,000**	—	**361,446**
Unsecured bonds due 2018 with average interest rate of 1.11%	**10,000**	—	**120,482**
Total	**¥103,600**	—	**$1,248,193**
Less current portion	**(10,600)**	—	**(127,711)**
Long-term debt, less current portion	**¥ 93,000**	—	**$1,120,482**

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

Year ending March 31	Millions of yen		Thousands of U.S. dollars
2012	**¥ 10,600**	—	**$ 127,711**
2013	**10,000**	—	**120,482**
2014	**20,000**	—	**240,964**
2015	**10,000**	—	**120,482**
2016 and thereafter	**53,000**	—	**638,554**
Total	**¥103,600**	—	**$1,248,193**

9. 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, 2011 and 2010.

Significant components of deferred tax assets and liabilities as of March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Deferred tax assets:			
Liability for retirement benefits	**¥ 3,015**	¥ 3,016	**$ 36,325**
Accrued enterprise taxes	**782**	799	**9,422**
Accrued bonuses to employees	**2,974**	2,967	**35,831**
Reserve for sales rebates	**5,881**	5,932	**70,855**
Loss on devaluation of investment securities	**595**	1,265	**7,169**
Research and development costs	**11,093**	13,143	**133,651**
Inventories	**2,660**	2,638	**32,048**
Net operating loss carried forward	**13,252**	22,110	**159,663**
Amortization of intangible assets	**10,909**	13,140	**131,434**
Tax credit for R&D expenses of overseas subsidiaries	**7,968**	9,513	**96,000**
Other	**14,438**	12,183	**173,951**
Gross deferred tax assets	**73,567**	86,706	**886,349**
Valuation allowance	**(4,307)**	(5,191)	**(51,892)**
Total deferred tax assets	**¥69,260**	¥81,515	**$834,457**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**¥ (3,588)**	¥ (5,044)	**$ (43,229)**
Deferred gain on sales of fixed assets	**(632)**	(663)	**(7,614)**
Tax effect of intangible assets related to business combination	**(24,923)**	(40,633)	**(300,277)**
Other	**—**	(1,092)	**—**
Total deferred tax liabilities	**(29,143)**	(47,432)	**(351,120)**
Net deferred tax assets	**¥ 40,117**	¥ 34,083	**$ 483,337**

A reconciliation between the normal statutory tax rates and the effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2011 and 2010 was as follows:

	2011	2010
Normal statutory tax rate	**40.6%**	40.6%
Increase (decrease) in taxes due to:		
Expenses not deductible for tax purposes	**6.5**	4.9
Nontaxable dividend income	**(0.8)**	(0.4)
Tax credits for research and development costs	**(17.5)**	(11.7)
Amortization of goodwill	**6.6**	1.1
Change in valuation allowance	**(2.6)**	(1.5)
Other	**0.2**	0.3
Effective tax rate	**33.0%**	33.3%

10. RETIREMENT AND SEVERANCE BENEFITS

The liability (asset) for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Projected benefit obligation	**¥ 80,179**	¥ 81,791	**$ 966,012**
Fair value of plan assets	**(65,379)**	(66,079)	**(787,699)**
Unrecognized prior service benefit	**976**	1,428	**11,759**
Unrecognized actuarial gain (loss)	**(8,369)**	(10,102)	**(100,831)**
Prepaid pension cost	**2,860**	2,759	**34,458**
Liability for employees' retirement benefits	**¥ 10,267**	¥ 9,797	**$ 123,699**

Certain 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
	2011	2010	2011
Service cost	**¥ 3,210**	¥ 3,166	**$ 38,676**
Interest cost	**1,628**	1,624	**19,614**
Expected return on plan assets	**(1,235)**	(1,159)	**(14,880)**
Amortization of prior service cost	**(222)**	(234)	**(2,675)**
Recognized actuarial loss	**946**	1,217	**11,398**
Net periodic benefit costs	**¥ 4,327**	¥ 4,614	**$ 52,133**
Contribution payments to defined contribution pension plan	**2,604**	706	**31,373**
Total	**¥ 6,931**	¥ 5,320	**$ 83,506**

The Company has a lump-sum payment plan, a noncontributory defined benefit pension plan and a defined contribution pension plan.

The liability for retirement benefits for directors and corporate auditors in the consolidated subsidiaries as of March 31, 2011 and 2010 was ¥7 million ($84 thousand) and ¥51 million, respectively.

Assumptions used for the years ended March 31, 2011 and 2010 were as follows:

	2011	2010
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 gain/loss	**15 years**	15 years

11. SHAREHOLDERS' EQUITY

Under The Japanese Corporate Law ("the Law") 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 Japanese Commercial 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, but 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 unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

At the annual shareholders' meeting held on June 24, 2011, the shareholders approved year end cash dividends of ¥9.00 ($0.11) per share, amounting to ¥3,576 million ($43,084 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2011. Such appropriations are recognized in the period in which they are approved by the shareholders.

12. TRANSACTIONS WITH PARENT COMPANY, UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Transactions of the Group with the parent company, Sumitomo Chemical Co., Ltd., unconsolidated subsidiaries and affiliates for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Sales	**¥ 205**	¥ 286	**$ 2,470**
Purchases	**8,104**	7,566	**97,639**

13. RELATED PARTY TRANSACTIONS

Major transactions of the Group with the parent company, Sumitomo Chemical Co., Ltd., for the years ended March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Sales of products	**¥ 8**	¥ 20	**$ 96**
Purchases of products	**4,761**	4,501	**57,361**
Payments of other expenses	**1,244**	1,627	**14,988**
Sales of other assets	**2**	47	**24**
Loans	**25,000**	25,000	**301,205**
Interest income	**96**	260	**1,157**

The balances due to or from the parent company, Sumitomo Chemical Co., Ltd., at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Trade receivable accounts	**¥ 3**	¥ 42	**$ 36**
Other current assets	**25,000**	25,012	**301,205**
Trade payable accounts	**1,662**	1,793	**20,024**

14. LEASES

The Group leases certain machinery, computer equipment, office space and other assets. Total rental expenses for the years ended March 31, 2011 and 2010 were ¥7,592 million ($91,470 thousand) and ¥6,920 million, respectively, including ¥265 million ($3,193 thousand) and ¥513 million of lease payments under finance leases.

Pro forma information for leased property, including acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense for finance leases that do not transfer ownership of the leased property to the lessee that commenced prior to April 1, 2008 on an "as if capitalized" basis, for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Machinery and equipment:			
Acquisition cost	**¥ 597**	¥ 1,775	**$7,193**
Accumulated depreciation	**(505)**	(1,404)	**(6,085)**
Net leased property	**¥ 92**	¥ 371	**$1,108**

	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Obligations under finance leases:			
Due within one year	**¥63**	¥274	**$ 759**
Due after one year	**29**	97	**349**
Total	**¥92**	¥371	**$1,108**

15. BUSINESS COMBINATIONS

Acquisition of Sepracor Inc.

a. Name of acquired company, description of its business, main reasons for undertaking the business combination, date and legal form of business combination, name of combined entity, ratios of acquired voting rights, and main basis behind the determination of the acquiring company

1. Name of acquired company and description of its business
   Name of acquired company: Sepracor Inc.
   Description of business: Research and development into and the production, marketing, and sales of ethical drugs for areas such as the central nervous system and the respiratory system.
2. Main reasons for undertaking business combination
   To establish a sales system in the United States and facilitate early market penetration for lurasidone. To allow for the rapid maximization of sales, significantly expanding our overseas operations and further fortifying our development pipeline in the United States.
3. Date of business combination
   October 15, 2009
4. Legal form of business combination
   Acquisition of shares for cash consideration
5. Name of combined entity
   Sepracor Inc.
6. Ratios of acquired voting rights
   Ratio of voting rights owned prior to the acquisition of shares: 0%
   Ratio of voting rights after acquisition: 100%
7. Main basis behind the determination of the acquiring company
   Aptiom, Inc., an indirect wholly owned subsidiary, acquired 100% of the shares of Sepracor Inc. for cash consideration

b. Term of performance of the acquired company included in the consolidated financial statements
From October 15, 2009 to December 31, 2009

c. Cost of acquisition and form of consideration
The acquisition cost was 2,506 million US dollars and the consideration was cash.

d. Amount of accrued goodwill, cause of accrual, amortization method, amortization period

1. Amount of goodwill: ¥82,986 million ($913,847 thousand)
2. Cause of accrual: As the cost of acquisition exceeded the net amount allocated to acquired assets and assumed liabilities, the difference has been posted as goodwill.
3. Amortization method and amortization period
   Straight-line method for 20 years
4. The amount of goodwill has been calculated on a tentative basis.

e. Total assets acquired and liabilities assumed on the date of business combination and the main components thereof

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 93,392	$1,028,436
Fixed assets	226,433	2,493,475
Total assets	319,825	3,521,911
Current liabilities	83,182	916,001
Long-term liabilities	9,028	99,418
Total liabilities	¥ 92,210	$1,015,419

f. The cost of acquisition allocated to intangible fixed assets other than goodwill and amortization periods by main components

	Amount		
Main components	Millions of yen	Thousands of U.S. dollars	Amortization period
Patent rights	¥108,654	$1,168,323	1 to 10 years
In-process research and development	5,358	57,613	available period

16. SEGMENT INFORMATION

1) Outline of reportable segments

The Group's reportable segments are the components of the Group whose operating results are regularly reviewed by the Board of Directors to make decisions about resources to be allocated to the segment and assess performance, and for which discrete financial information is available.

The Group purchases, manufactures, and sells mainly ethical pharmaceuticals. In Japan, the U.S. and China, the Company, the consolidated subsidiary Sunovion and the consolidated subsidiary Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., respectively, are conducting business activities. The subsidiaries are financially independent business units. Therefore, the pharmaceutical business consists of geographical segments that are based on the business units, and the three segments, i.e., "Japan (Pharmaceuticals)", "U.S." and "China" are designated as reportable segments. In addition, the businesses such as food ingredients, food additives, chemical product materials, veterinary drugs, diagnostics, and other products, are included in "Other Business."

2) Method of calculating sales, income/loss, assets, liabilities and other items by reportable segments

The accounting methods used for business segment reporting are the same as those described in Note 1, "Basis of Presenting Consolidated Financial Statements." Income by reportable segment is calculated based on operating income. Intersegment sales and internal return are calculated based on current market prices.

3) Information on sales, income/loss, assets, liabilities and other items by reportable segment

Segment information for the Group for the years ended March 31, 2011 and 2010 was as follows:

	Millions of yen					
	2011					
	Japan (Pharmaceuticals)	U.S.	China	Subtotal	Other business	Total
Net sales						
Sales to customers	**¥211,349**	**¥117,647**	**¥5,590**	**¥334,586**	**¥44,927**	**¥379,513**
Intersegment sales and transfers	**6,451**	**4,271**	**520**	**11,242**	**58**	**11,300**
Total	**217,800**	**121,918**	**6,110**	**345,828**	**44,985**	**390,813**
Income (loss) of segment	**43,315**	**(11,621)**	**781**	**32,475**	**1,918**	**34,393**
Assets	**214,385**	**241,943**	**4,532**	**460,860**	**27,953**	**488,813**
Others						
Depreciation and amortization	**10,229**	**28,969**	**221**	**39,419**	**170**	**39,589**
Amortization of goodwill	**—**	**4,037**	**—**	**4,037**	**—**	**4,037**
Impairment loss	**1,067**	**2,179**	**—**	**3,246**	**—**	**3,246**
Increase in property, plant and equipment and intangible assets	**6,938**	**1,216**	**148**	**8,302**	**361**	**8,663**
Balance of goodwill	**¥ —**	**¥ 70,370**	**¥ —**	**¥ 70,370**	**¥ —**	**¥ 70,370**

	Millions of yen					
	2010					
	Japan (Pharmaceuticals)	U.S.	China	Subtotal	Other business	Total
Net sales						
Sales to customers	¥203,961	¥ 28,648	¥4,147	¥236,756	¥59,506	¥296,262
Intersegment sales and transfers	1,361	1,304	463	3,128	—	3,128
Total	205,322	29,952	4,610	239,884	59,506	299,390
Income (loss) of segment	34,344	(2,159)	872	33,057	2,611	35,668
Assets	215,696	281,046	2,852	499,594	22,922	522,516
Others						
Depreciation and amortization	10,302	6,385	117	16,804	172	16,976
Amortization of goodwill	2	864	—	866	—	866
Impairment loss	—	—	—	—	—	—
Increase in property, plant and equipment and intangible assets	6,176	119	26	6,321	150	6,471
Balance of goodwill	¥ —	¥ 83,565	¥ —	¥ 83,565	¥ —	¥ 83,565

	Thousands of U.S. dollars					
	2011					
	Japan (Pharmaceuticals)	U.S.	China	Subtotal	Other business	Total
Net sales						
Sales to customers	**$2,546,373**	**$1,417,434**	**$67,338**	**$4,031,145**	**$541,301**	**$4,572,446**
Intersegment sales and transfers	**77,723**	**51,458**	**6,277**	**135,458**	**687**	**136,145**
Total	**2,624,096**	**1,468,892**	**73,615**	**4,166,603**	**541,988**	**4,708,591**
Income (loss) of segment	**521,867**	**(140,012)**	**9,410**	**391,265**	**23,108**	**414,373**
Assets	**2,582,952**	**2,914,976**	**54,602**	**5,552,530**	**336,783**	**5,889,313**
Others						
Depreciation and amortization	**123,241**	**349,024**	**2,663**	**474,928**	**2,048**	**476,976**
Amortization of goodwill	**—**	**48,639**	**—**	**48,639**	**—**	**48,639**
Impairment loss	**12,855**	**26,253**	**—**	**39,108**	**—**	**39,108**
Increase in property, plant and equipment and intangible assets	**83,590**	**14,651**	**1,783**	**100,024**	**4,349**	**104,373**
Balance of goodwill	**$ —**	**$ 847,831**	**$ —**	**$847,831**	**$ —**	**$ 847,831**

4) Reconciliation of differences between totals of reportable segments and the amounts on the consolidated financial statements

Net sales	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Reportable segments total	**¥345,828**	¥239,884	**$4,166,603**
Net sales of "Other Business"	**44,985**	59,506	**541,988**
Elimination of intersegment transactions	**(11,300)**	(3,128)	**(136,145)**
Net sales on consolidated statements of income	**¥379,513**	¥296,262	**$4,572,446**

Income	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Reportable segments total	**¥32,475**	¥33,057	**$391,265**
Income of "Other Business"	**1,918**	2,611	**23,108**
Elimination of intersegment transactions	**(3,441)**	(43)	**(41,457)**
Operating income on consolidated statements of income	**¥30,952**	¥35,625	**$372,916**

Assets	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Reportable segments total	**¥460,860**	¥499,594	**$5,552,530**
Assets of "Other Business"	**27,953**	22,922	**336,783**
Corporate assets	**107,434**	105,764	**1,294,386**
Elimination of intersegment transactions	**(6,379)**	(1,537)	**(76,856)**
Total assets on consolidated balance sheets	**¥589,868**	¥626,743	**$7,106,843**

5) Relative information

Sales information by product and services for the Group for the years ended March 31, 2011 and 2010 was as follows:

Sales to customers	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Pharmaceuticals	**¥334,586**	¥236,756	**$4,031,157**
Other products	**44,927**	59,506	**541,289**
Total	**¥379,513**	¥296,262	**$4,572,446**

Geographical segment information for the Group for the years ended March 31, 2011 and 2010 was as follows:

Net sales	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Japan	**¥227,287**	¥243,247	**$2,738,398**
U.S.	**115,404**	28,947	**1,390,410**
Other regions	**36,822**	24,068	**443,638**
Total	**¥379,513**	¥296,262	**$4,572,446**

Property, plant and equipment	Millions of yen		Thousands of U.S. dollars
	2011	2010	**2011**
Japan	**¥62,132**	¥65,848	**$748,578**
Other regions	**7,662**	8,236	**92,313**
Total	**¥69,794**	¥74,084	**$840,891**

Sales information by major customer for the Group for the years ended March 31, 2011 and 2010 was as follows:

Net sales	Millions of yen		Thousands of U.S. dollars
Name of major customer and related segment	**2011**	2010	**2011**
McKesson Corporation / U.S.	**¥44,188**	¥13,045	**$532,386**
Mediceo Corporation / Japan (Pharmaceuticals)	**38,983**	41,029	**469,675**
Alfresa Corporation / Japan (Pharmaceuticals)	**38,192**	39,914	**460,145**

17. CONTINGENT LIABILITIES

Contingent liabilities for guarantees of indebtedness of an affiliate and employees' housing loans guaranteed at March 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars
Guarantees of indebtedness	**¥277**	**$3,337**
Loans guaranteed	**152**	**1,831**

18. LITIGATION

In April 2007, Dey, L.P. and Dey, Inc. (together, "Dey") filed a lawsuit in the U.S. District Court for the Southern District of New York against Sunovion, alleging that the manufacture and sale of BROVANA® Inhalation Solution infringes or will induce infringement of a single United States patent owned by Dey. Sunovion is currently litigating this matter.

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Dainippon Sumitomo Pharma Co., Ltd. (the "Company") and its consolidated subsidiaries as of March 31, 2011 and 2010, and the related consolidated statements of income, comprehensive income (loss), changes in net assets and cash flows for the years 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.

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 financial position of Dainippon Sumitomo Pharma Co., Ltd. and its consolidated subsidiaries as of March 31, 2011 and 2010, and the results of their operations and their cash flows for the years 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, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, the translation was made on the basis described in Note 1 to the Notes to Consolidated Financial Statements.

KPMG AZSA LLC

Osaka, Japan
June 24, 2011

Corporate Data (As of March 31, 2011)

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	7,746 (consolidated), 4,469 (non-consolidated)
Total Number of Shares Issued	397,900,154
Total Number of Shareholders	21,211
Stock Exchange Listings	First Sections of Tokyo and Osaka
Securities Code	4506
Independent Public Accountants	KPMG AZSA LLC
Fiscal Year-end	March 31
Ordinary General Meeting of Shareholders	June

Administrator of Shareholders' Register	The Sumitomo Trust & Banking Co., Ltd.
Lead Managers	(Main) Daiwa Securities Capital Markets Co., Ltd.; (Sub) SMBC Nikko Securities Inc.*
Main Banks	Sumitomo Mitsui Banking Corporation; The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Key Facilities (As of June 24, 2011)	Headquarters (Osaka), Tokyo Office (Tokyo), Osaka Center (Osaka), 22 Branches, 4 Plants (Mie, Osaka, Ehime, Oita), 2 Research Laboratories (Osaka), 2 Distribution Centers (Saitama, Hyogo)
Major Consolidated Subsidiaries	DSP Gokyo Food & Chemical Co., Ltd. DS Pharma Animal Health Co., Ltd. DS Pharma Biomedical Co., Ltd. Sunovion Pharmaceuticals Inc. (U.S.) Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. (China)

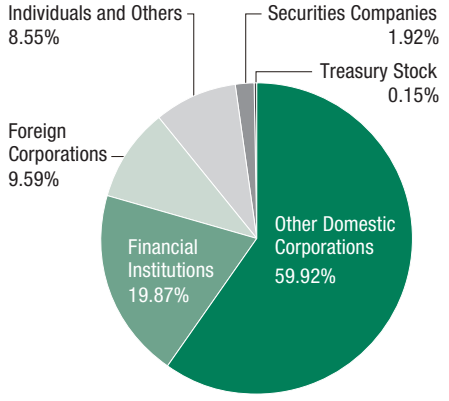
* As of April 1, 2011, Nikko Cordial Securities Inc. changed its name.

Principal Shareholders

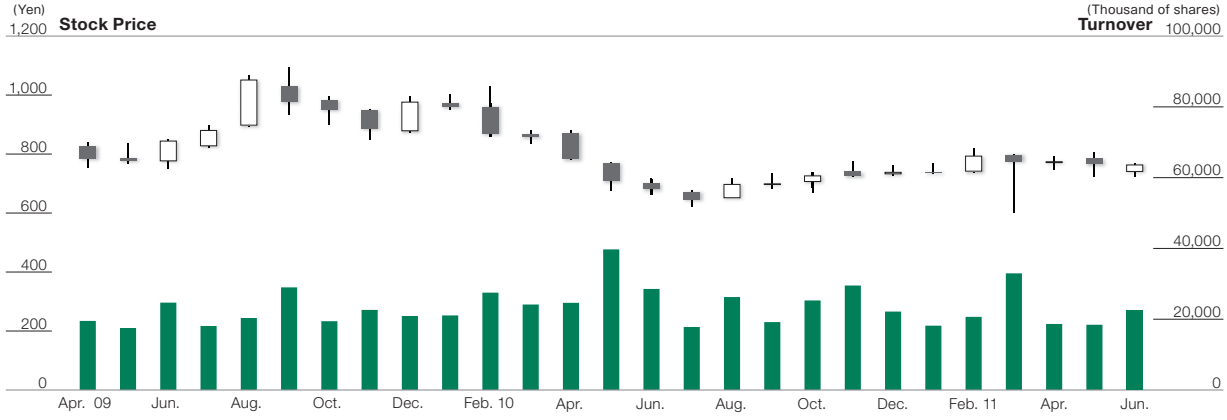
Name	No. of Shares Held (Thousands of Shares)	Percentage of Shareholding
Sumitomo Chemical Co., Ltd.	199,434	50.20
Inabata & Co., Ltd.	27,282	6.87
The Master Trust Bank of Japan, Ltd. (Trust Account)	13,737	3.46
Nippon Life Insurance Company	10,530	2.65
Japan Trustee Services Bank, Ltd. (Trust Account)	10,153	2.56
Japan Trustee Services Bank, Ltd. (Trust Account for Sumitomo Mitsui Banking Corporation's retirement benefits)	7,000	1.76
Sumitomo Life Insurance Company	5,776	1.45
Aioi Nissay Dowa General Insurance Co., Ltd.	4,928	1.24
Dainippon Sumitomo Pharma Employee Shareholding Association	3,875	0.98
JPMorgan Securities Japan Co., Ltd.	3,801	0.96

Note: Percentage of shareholding is calculated excluding treasury stock (587,168 shares).

Composition of Shareholders



Stock Share



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