

Financial Results for FY2006 (ended March 31, 2007)

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Financial Results



Financial Highlights

- Predicted sales results
- Increase in operating and recurring income due to COGs ratio improvement and saving of selling and R&D expenses
- Net income resulted in the predicted level due to unplanned extraordinary expenses

Financial Results

Billions of Yen

Comparison with the forecasts

	FY2006		Change
	Forecasts	Results	
Net Sales	260.0	261.2	1.2
Operating income	42.0	45.6	3.6
Recurring income	40.5	43.2	2.7
Net income	22.0	22.6	0.6

Comparison with FY2005

FY2005 results	Change	Ratio
245.8	15.4	6.3%
28.9	16.7	57.7%
27.2	15.9	58.5%
15.4	7.2	47.0%

Notes

- All values are rounded to the nearest billion yen.
- The numerical value of Sumitomo Pharmaceuticals Co., Ltd. prior to the merger is not included in FY2005 results.

Financial Position

Billions of yen

	As of March 31, 2006	As of March 31, 2007	Change
ASSETS	393.0	382.5	- 10.4
Current assets	249.7	234.3	- 15.4
Fixed assets	143.2	148.2	5.0
LIABILITIES	104.3	76.5	- 27.8
Current liabilities	80.1	56.0	- 24.0
Fixed liabilities	24.3	20.5	- 3.8
NET ASSETS (※)	288.6	306.0	17.4
(shareholders' equity ratio)	73.2%	79.8%	

(※) past year's results have been restated to conform to the FY2006

(ASSETS)

·Decrease in notes and accounts receivable - 25.7 billion yen

(LIABILITIES)

·Decrease in notes and accounts payable - 20.7 billion yen

Cash Flows

Billions of yen

I	Cash flows from operating activities	+ 37.9
	▪ Income before income taxes and minority interests	+ 38.4
	▪ Decrease in notes and accounts receivable	+ 25.7
	▪ Decrease in notes and accounts payable	– 20.7
	▪ Income taxes paid	– 12.2
II	Cash flows from investing activities	– 19.7
	▪ Net increase in time deposits	– 5.0
	▪ Purchases of tangible fixed assets	– 7.4
	▪ Purchases of investment securities	– 5.3
III	Cash flows from financing activities	– 7.8
	▪ Net decrease in borrowings	– 2.1
	▪ Dividends paid	– 5.6

Cash and cash equivalents, end of fiscal year : 81.7 billion yen (+10.4 billion yen)

Financial Results

Comparison with FY2005 Results

Financial Highlights

- Decrease in sales due to NHI drug price reduction, expiration of marketing agreement, and decrease in industrial property revenues
- Slight increase in operating and recurring income due to decrease in SG&A costs achieved mainly by cost synergies
- Net income declined due to extraordinary expenses

Financial Results

(comparison with FY2005 results)

Billions of yen

	FY05 results	FY06 results	Change	
			Value	Ratio
Net sales	318.2	261.2	− 57.0	− 17.9%
Operating income	44.7	45.6	0.9	2.0%
Recurring income	42.2	43.2	1.0	2.3%
Net income	25.3	22.6	− 2.7	− 10.5%

Notes:

- All values are rounded to the nearest billion yen.
- FY2005 results are simple combination of two former companies' 2005 figures.

Increase and Decrease Factors of Net Sales

Billions of yen

	FY05 results	FY06 results	Change	
			Value	Ratio
Net sales	318.2	261.2	− 57.0	− 17.9%

(Negatives)

- Expiration of cooperative marketing agreement with Abbott Japan Co., Ltd.
- Decrease in industrial property revenues
- NHI drug price reduction

(Positives)

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

Domestic Sales of 4 Strategic Products

Billions of yen

	FY05 results	FY06 results	Changes	
			Value	Ratio
AMLODIN [®]	56.8	59.2	2.3	4.1%
GASMOTIN [®]	16.3	18.5	2.1	13.1%
PRORENAL [®]	12.6	13.8	1.2	9.4%
MEROPEN [®]	14.1	14.3	0.2	1.2%
Total	99.9	105.7	5.8	5.8%

FY06 forecasts
59.0
19.0
14.0
14.5
106.5

Cost of Sales and Selling, General & Administrative Expenses

Billions of yen

	FY05 results		FY06 results		Changes
		% of net sales		% of net sales	
Net sales	318.2	—	261.2	—	— 57.0
Cost of sales	152.1	47.8%	99.3	38.0%	— 52.8
Gross profit	166.1	52.2%	161.9	62.0%	— 4.2
SG&A expenses	121.4	38.2%	116.3	44.6%	— 5.1
SG&A expenses	79.6	25.0%	75.4	29.0%	— 4.1
R&D expenses	41.8	13.1%	40.9	15.6%	— 1.0
Operating income	44.7	14.0%	45.6	17.4%	0.9

Note: Cost of sales includes provision for (reversal of) reserve for sales returns

(Cost of sales)

- Improvement of cost-to-sales ratio due to change of product mix

(SG&A expenses)

- Decreased labor costs
- Decreased promotional costs and transport costs

Non-operating Income & Expenses and Extraordinary Income & Expenses

Billions of yen

	FY05 results	FY06 results	Change
Operating income	44.7	45.6	0.9
Non-operating income and expenses	- 2.5	- 2.4	0.1
Finance income and expenses including dividend income	0.5	0.9	0.4
Contribution	- 2.0	- 1.9	0.2
Others	- 0.9	- 1.4	- 0.5
Recurring income	42.2	43.2	1.0
Extraordinary income and expenses	- 0.9	- 4.8	- 3.9
Gains on sales of investment securities	1.9		- 1.9
Gains on sales of fixed assets	1.8		- 1.8
Gains on transfer of substitutional portion of the government pension program	0.8		- 0.8
Gains on transfer of business	4.5		- 4.5
Additional retirement expenses for employees	- 0.6	- 2.9	- 2.3
Expenses related to litigation		- 1.0	- 1.0
Loss on reform of retirement benefits plan		- 0.6	- 0.6
Loss on impairment of fixed assets		- 0.2	- 0.2
Expenses related to merger	- 8.2		8.2
Losses on business restructuring	- 1.0		1.0
Income taxes and minority interests	- 16.1	- 15.8	0.2
Net income	25.3	22.6	- 2.7

Financial Forecasts for FY2007



Financial Forecasts for FY2007

Billions of yen

	FY06	FY07		FY09
	results	forecasts	change	(target)
Net sales	261.2	273.0	11.8	295.0
Operating income	45.6	46.0	0.4	50.0
Recurring income	43.2	44.0	0.8	—
Net income	22.6	26.0	3.4	30.0
R&D expenses	40.9	48.0	7.1	55.0

Cost of Sales and Selling, General & Administrative Expenses

Billions of yen

	FY06 results	% of net sales	FY07 forecasts	% of net sales	Change
Net sales	261.2	—	273.0	—	11.8
Cost of sales	99.3	38.0%	102.0	37.4%	2.7
Gross profit	161.9	62.0%	171.0	62.6%	9.1
SG&A expenses	116.3	44.6%	125.0	45.8%	8.7
SG&A expenses	75.4	29.0%	77.0	28.2%	1.6
R&D costs	40.9	15.6%	48.0	17.6%	7.1
Operating income	45.6	17.4%	46.0	16.8%	0.4

Note: Cost of sales includes provision for (reversal of) reserve for sales returns

(Net sales)

- Sales growth of 4 strategic products and other priority products

(SG&A expenses)

- Measures for corporate brand recognition (TV commercial, etc.), proactive sales support including e-detailing
- Strategic investment on R&D including clinical development of lurasidone in US/EU

Start of Mid-term Business Plan



Mid-term Business Plan, Basic Strategies

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

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

Strengthening Our Domestic Business Foundation (1)

- Concentrate our resources to 4 strategic products

Billions of yen

	FY05 results	FY06 results	FY07 forecasts	FY09 (target)
AMLODIN®	56.8	59.2	66.0	58.0
GASMOTIN®	16.3	18.5	21.0	28.0
PRORENAL®	12.6	13.8	16.0	18.0
MEROPEN®	14.1	14.3	15.5	16.0
Total	99.9	105.7	118.5	120.0

Strengthening Our Domestic Business Foundation (2)

- Maximization of newly-launched products
 - AmBisome: Early establishment of a position of standard anti-fungal drug
 - SEIBULE: Foundation for maximization of sales through cooperation with Sanwa Kagaku
 - Increase in CNS-specialized MRs for newly launching products
- Utilization of IT for expanding capability of information providing tools
 - Actively use e-detailing: GASMOTIN, AMLODIN, QVAR
 - Enriching and utilizing healthcare professional website
 - Start establishing Integrated Call Center (tentative name)
- Increase corporate brand recognition
 - Continue measures for brand recognition

Strengthen Our R&D Capability to Create New Compounds

- Enhance number of discovery targets
 - Encourage researchers to generate drug discovery program
 - Reinforced partnering with external research organization
 - Collaboration with biotech companies and academia exploring possibility in three focused research areas
 - Investment into “Apposite Healthcare Fund”, a bio-venture fund
- Improvement of R&D efficiency
 - Concentrate resources to priority programs
 - Reinforcement of proprietary and platform technology
 - Promotion of Research Project Team
- Cultivate and activate human capital that achieves generation of internationally-competitive drugs
 - Newly organized office for Human Capital Management

R&D Pipeline

Pre-registration	Phase III	Phase II		Phase I
Schizophrenia AD-5423 (blonanserin)	Febrile neutropenia MEROPEN	Diabetic neuropathy AS-3201 (ranirestat)	Diabetes SMP-508 (repaglinide)	Bronchial asthma (US) SMP-028
Hypertension (irbesartan)	Diabetic neuropathy (US/Canada) AS-3201 (ranirestat)	Hepatocellular carcinoma SM-11355 (miriplatin)	Diabetes SMP-862 (metformin)	
Parkinson's disease AD-810N (zonisamide)		Schizophrenia SM-13496 (lurasidone)	Dementia AC-3933	
Compensated cirrhosis associated with chronic hepatitis C SUMIFERON		Rheumatoid arthritis SMP-114	Cervical spondylosis PRORENAL	
Intravenous injection EPHEDRINE NAGAI		Schizophrenia (US) SM-13496 (lurasidone)	Schizophrenia (US/EU) AD-5423 (blonanserin)	
		Dementia (EU/US) AC-3933	Over-active bladder syndrome (US/EU) SMP-986	
		Rheumatoid arthritis (EU) SMP-114		

 Development in Japan (New Chemical Entity)

 Development in Japan for new indications etc.

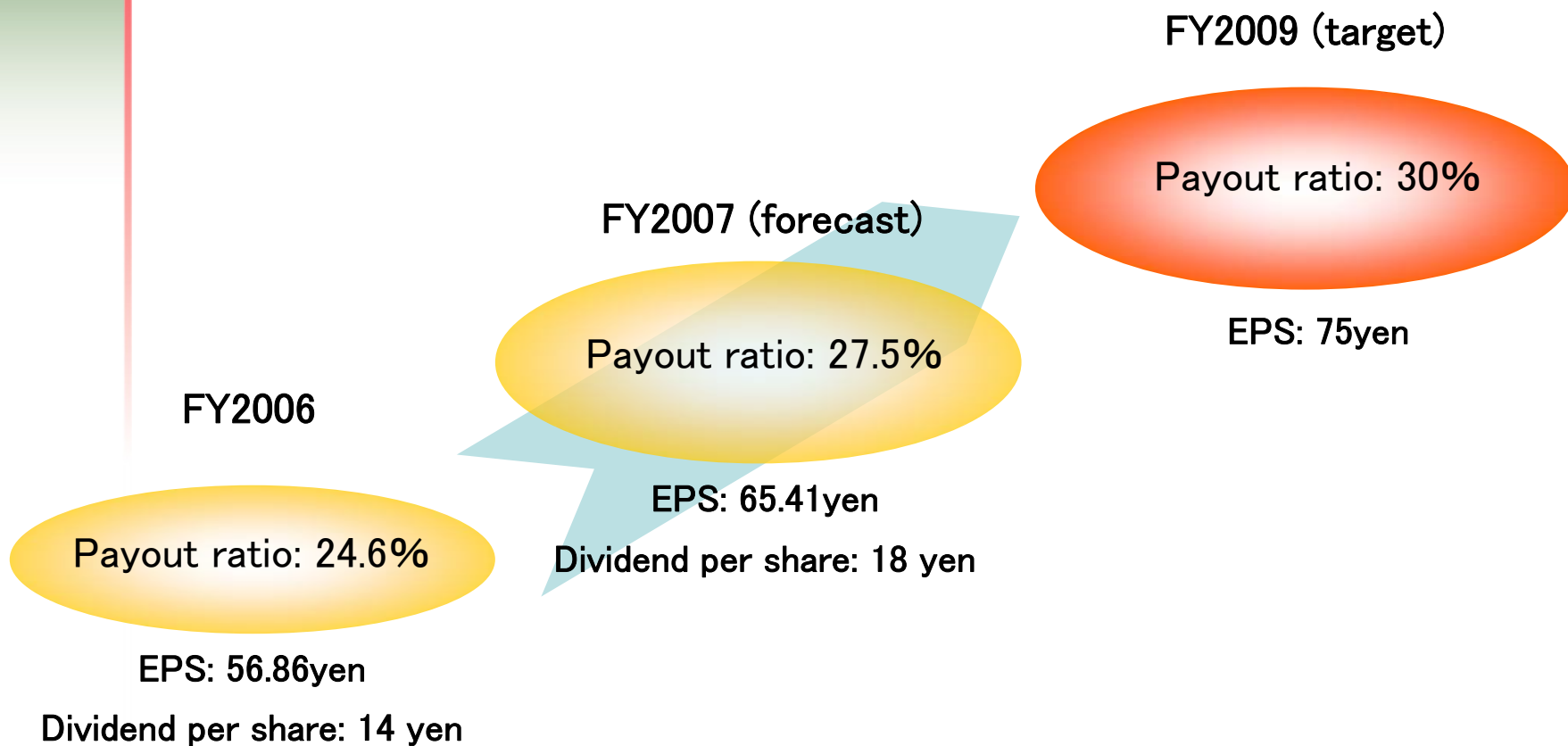
 Overseas development

Strengthening US/EU Clinical Development Infrastructure

- Clinical development of lurasidone in US/EU
 - Phase III studies in US/EU in preparation
- Expanding facilities and personnel of US/EU subsidiaries
 - Increase staff at DSPA (New Jersey), DSPE (London)
 - from the current 70 to 100
 - Organize “lurasidone team” mainly at DSPA

Return to Shareholders

Towards the achievement of payout ratio of 30%



Disclaimer Regarding Forward-looking Statements

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

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

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