

For immediate release

November 25, 2004

**Dainippon Pharmaceutical and Sumitomo Pharmaceuticals Enter into  
a Basic Agreement to Merge on October 1, 2005**

Dainippon Pharmaceutical Co., Ltd.  
Sumitomo Pharmaceuticals Co., Ltd.

Dainippon Pharmaceutical Co., Ltd. (President: Kenjiro Miyatake, “Dainippon Pharmaceutical”) and Sumitomo Pharmaceuticals Co., Ltd. (President: Yasuo Okamoto, “Sumitomo Pharmaceuticals”) today announced that the two companies, along with Sumitomo Pharmaceuticals’ parent, Sumitomo Chemical Co., Ltd. (President: Hiromasa Yonekura, “Sumitomo Chemical”), reached a basic agreement for the merger of Dainippon Pharmaceutical and Sumitomo Pharmaceuticals, effective October 1, 2005, with resolutions passed by each of the respective company’s Board of Directors in board meetings held during the day.

The new company to be established by the merger (“New Company”) will rank among Japan’s top 10 pharmaceutical companies in terms of domestic ethical pharmaceutical sales. With a combined sales force of approximately 1,500 medical representatives (MRs), a number comparable to that of the leading Japanese pharmaceutical companies, the New Company will be able to further strengthen its solid earnings base from its domestic pharmaceutical operations. Leveraging a stable cash flow, the New Company will enhance R&D efforts, both qualitatively and quantitatively, and accelerate the speed of drug development, thereby allowing the potential for global expansion in the medium to long term. As there are numerous commonalities in the direction and fields of research and development of the two companies, the merger is expected to generate substantial synergies in their R&D activities.

Based on the ideal of contributing to the betterment of health and fuller lives for all people worldwide, while striving to be a leading research-driven pharmaceutical company with an increasing presence in the domestic Japanese market and pursuing further development of global operations, the New Company will implement the following strategies based on the concept of “Selection and Focus”.

- (1) The New Company will seek to maximize synergies in sales by focusing on the 4 major products of Amlodin, Gasmotin, Prorenal, and Meropen.
- (2) The New Company will accelerate the speed of drug development through “Selection and Focus” by prioritizing the development of products.
- (3) The New Company will vigorously pursue cost synergies in all areas of operations in the short to medium term.
- (4) The New Company will work to swiftly fuse the corporate cultures of the two companies, in conjunction with fair and equitable personnel management, thereby nurturing a corporate culture imbued with an enterprising spirit unique to the New Company.

Dainippon Pharmaceutical, Sumitomo Pharmaceuticals and Sumitomo Chemical have agreed that the New Company will become a consolidated subsidiary of Sumitomo Chemical, that Sumitomo Chemical will acquire 50.1% of the voting stocks of the New Company, and that the three companies will collaborate to achieve these objectives.

It was further agreed that basically Sumitomo Chemical will maintain its holding of voting stocks in the New Company at a level no greater than 50.1% for 10 years after the merger is effected and that it will cooperate with the New Company in their continued listing on the stock exchange and render support toward the long-term growth of the New Company as a publicly traded corporation.

The key highlights of the merger are as follows.

### **1. Background and objectives of the merger**

The business environment in which the Japanese pharmaceutical industry operates has become increasingly challenging due to various factors, such as the government’s continuing initiatives to restrain medication expenditure through periodical drug price cutting and other measures, the soaring R&D spending of drug discovery, the intensifying competition with U.S. and European mega pharmaceutical companies, and the ongoing restructuring of the pharmaceutical industry. Given these circumstances, for a medium-to-large size company to achieve stable growth while contributing to society, it is essential that it aggressively invest in R&D towards the discovery of

innovative drugs, meanwhile, securing a robust domestic business base to sustain the growing size and duration of investments needed for successful development. Moreover, global business operations, a prerequisite for a pharmaceutical company to grow, requires thorough planning of business strategies and substantial investments.

Based on such common understanding, Dainippon Pharmaceutical and Sumitomo Pharmaceuticals had been investigating the possibility of a merger of the two companies to further fortify their business foundations in their most important operational base, Japan, and to also establish the potential for further global business development, which has culminated in today's basic agreement.

With this merger, the New Company aims to further enhance profitability and competitiveness by combining the management resources of Dainippon Pharmaceutical and Sumitomo Pharmaceuticals and through the implementation of basic strategies based on the concept of "Selection and Focus".

## 2. Outline of the merger

### (1) Schedule

Board meetings for approval of Basic Agreement	November 25, 2004
Signing of Basic Agreement	November 25, 2004
Board meetings for approval of Merger Agreement	April 2005 (schedule)
Signing of Merger Agreement	April 2005 (schedule)
Shareholders meetings for approval of Merger Agreement	Late June 2005 (schedule)
Effective date of Merger	October 1, 2005 (schedule)

The above schedule is subject to change based upon discussions between Dainippon Pharmaceutical and Sumitomo Pharmaceutical, should any significant issues arise as the transaction proceeds.

### (2) Merger structure

The merger will be effected with Dainippon Pharmaceutical being the surviving entity.

### (3) Merger Ratio

Company	Dainippon Pharmaceutical	Sumitomo Pharmaceuticals
Merger Ratio	1	1,290

a. Allotment of shares

One Sumitomo Pharmaceuticals share will be exchanged for 1,290 Dainippon Pharmaceutical shares.

(On an equity value basis, the ratio between Dainippon Pharmaceutical and Sumitomo Pharmaceuticals is 41.5:58.5)

b. Basis for the Merger Ratio calculation

Dainippon Pharmaceutical engaged the services of J.P. Morgan Securities Asia Pte. Limited and Sumitomo Pharmaceuticals engaged the services of Nikko Citigroup as independent financial advisors with respect to the determination of the Merger Ratio. The merging companies, through negotiation and discussion, determined the agreed upon Merger Ratio with the advice of their respective independent financial advisors. Both Dainippon Pharmaceutical and Sumitomo Pharmaceuticals have received opinions from their respective advisors that the above Merger Ratio is fair from financial point of view as of today.

It should be noted that should any material change in the conditions used as a basis for the Merger Ratio calculation occur, the Merger Ratio is subject to change through discussions between the two merging companies.

c. Number of newly issued shares (anticipated)

Common stock 232,716,000 shares

(4) Cash payment upon merger

No cash payment is to be made to the shareholders of Dainippon Pharmaceutical and Sumitomo Pharmaceuticals under the merger, except for the instance in which cash payment is made upon merger in place of Sumitomo Pharmaceuticals' interim dividend for fiscal year 2005.

(5) Anticipated benefits from the merger

a. Enhancement of domestic operations

- The New Company will rank among the top 10 companies in Japan in terms of domestic ethical pharmaceutical sales, and its total sales force of approximately 1,500 MRs will be comparable to that of the leading Japanese pharmaceutical firms. With combined doctor visits by MRs numbering 5 million per year, the New Company will be able to further strengthen its solid earnings base by focusing on the

4 major products of Amlodin, Gasmotin, Prorenal, and Meropen.

- With the increased number of MRs, the New Company will be able to undertake promotion activities with enhanced effectiveness and quality by incorporating various measures, including the introduction of a specialist MR system where MRs operate in specialized fields such as the central nervous system.

b. Enhancement of R&D capability

- The New Company's annual R&D expenditure will be approximately 45 billion yen, which, when combined with the efforts to prioritize projects, will enable the New Company to accelerate the speed of drug development in selected fields.
- With numerous commonalities in the direction and fields of R&D of Dainippon Pharmaceutical and Sumitomo Pharmaceuticals, such as diabetes, the central nervous system (CNS) and immunology and allergy, the New Company will be able to establish a further enhanced R&D base in these fields.
- In the fields of diabetes and CNS in particular, Dainippon Pharmaceutical and Sumitomo Pharmaceuticals respectively have a rich portfolio of products in the pipeline, including anticipated blockbusters. The New Company aims to promote business growth in the medium to long term, centering on these therapeutic fields.
- By its increased presence in the domestic market, the New Company will be better positioned to in-license blockbuster products from other companies or organizations.

c. Realization of cost synergies

The New Company will seek to optimize operations in various aspects, such as operating expenses, operating locations, organizational structure, and human resources allocation, as well as re-assess the pipeline of products under development and capital investment plans, so as to realize cost synergies. (The New Company expects to yield cost reduction synergies exceeding 10 billion yen in fiscal year 2007, as compared with the simple sum of cost reductions potentially realizable by the two companies independently.)

d. Nurturing of an Enterprising Corporate Culture

The New Company will undertake fair and equitable personnel management, whichever

company one comes from or whatever customary practices were followed in the past, and aims to nurture an enterprising spirit and shared awareness of risk and crisis by fusing the corporate culture of both companies as early as possible.

(6) Financial targets in fiscal year 2007

The New Company has the following medium-term targets for fiscal year 2007:

Total Net Sales	280 Billion yen
(incl. Ethical Drug Sales	230 Billion yen)
Operating Income	45 Billion yen
R&D Expenditure	45 Billion yen

(7) Merger Committee

Dainippon Pharmaceutical and Sumitomo Pharmaceuticals will jointly establish a Merger Committee, led by the Presidents of both companies, to proceed with the merger smoothly and promptly.

### 3. Outline of Dainippon Pharmaceutical and Sumitomo Pharmaceuticals

(1) Company name	Dainippon Pharmaceutical Co., Ltd.	Sumitomo Pharmaceuticals Co., Ltd.
(2) Business	Manufacture, sale/purchase and export/import of pharmaceuticals, veterinary products, food additives, industrial chemicals and other chemicals	Manufacture and sale of pharmaceuticals, diagnostics and medical equipment.
(3) Date of incorporation	May 1897	February 1984
(4) Location of head office	6-8, Doshomachi 2-chome, Chuo-ku, Osaka, Japan	2-8, Doshomachi, 2-chome Chuo-ku, Osaka, Japan
(5) Representative	Kenjiro Miyatake, President	Yasuo Okamoto, President
(6) Capital	13,444 million yen (as of September 30, 2004)	9,020 million yen (as of September 30, 2004)
(7) Total shares	168,184,154 shares (as of September	180, 400 shares (as of September 30,

outstanding	30, 2004)	2004)
(8) Shareholders' equity	129,620 million yen (as of September 30, 2004, consolidated)	123,345 million yen (as of September 30, 2004, non-consolidated)
(9) Total assets	185,352 million yen (as of September 30, 2004, consolidated)	170,489 million yen (as of September 30, 2004, non-consolidated)
(10) Fiscal year end	March 31	March 31
(11) Employees	2,493 (as of September 30, 2004, consolidated)	2,799 (as of September 30, 2004, non-consolidated)
(12) Major customers and suppliers	Mediceo Holdings Co., Ltd. Alfresa Corporation Toho Pharmaceutical Co., Ltd.	Suzuken Co., Ltd. Mediceo Holdings Co., Ltd. Alfresa Corporation
(13) Major shareholders (%)	-Japan Trustee Services Bank, Ltd. (Trust Account) 9.95 -The Master Trust Bank of Japan, Ltd. (Trust Account) 9.60 -Nippon Life Insurance Co. 6.90 -Japan Trustee Services Bank, Ltd. (Sumitomo Mitsui Banking Corporation Pension Fund Trust Account) 4.16 - Sumitomo Life Insurance Co. 3.43  (As of September 30, 2004)	-Sumitomo Chemical Co., Ltd. 77.83 -Inabata & Co., Ltd. 22.17  (As of September 30, 2004)
(14) Major banks	Sumitomo Mitsui Banking Corporation UFJ Bank Limited	Sumitomo Mitsui Banking Corporation The Norinchukin Bank Sumitomo Trust & Banking Co., Ltd.
(15) Relationship between the two companies	No capital, personnel or trading relationship with the other party	No capital, personnel or trading relationship with the other party

(16) Financial results for the previous three fiscal years and forecast for the current fiscal year (Unit: Millions Yen)								
Company	Dainippon Pharmaceutical (Consolidated)				Sumitomo Pharmaceuticals (Non-consolidated)			
Fiscal year	March 2002	March 2003	March 2004	March 2005	March 2002	March 2003	March 2004	March 2005

	(actual)	(actual)	(actual)	(forecast*)	(actual)	(actual)	(actual)	(forecast*)
Net sales	164,117	172,161	170,842	171,000	143,446	138,282	136,915	138,000
Operating income	17,181	12,876	9,283	8,800	33,574	24,177	21,239	22,000
Recurring income	17,910	12,869	10,155	10,300	32,161	21,106	20,387	20,000
Net income	9,595	6,364	7,967	7,700	17,434	11,168	12,048	12,000
Earnings per share (Yen)	57.06	38.02	48.05	46.45	96,641	61,676	66,555	66,519
Dividend per share (Yen)	10.00	10.00	10.00	10.00	38,000	24,000	26,000	26,000
Shareholders' equity per share (Yen)	689.79	702.09	784.24		570,365	600,806	652,189	

\*All forecasted fiscal-year results are those previously announced in conjunction with the interim results of fiscal 2004.

#### **4. Description of the New Company**

(1) Company name: To be determined

(2) Business

Manufacture, sale/purchase, and export/import of pharmaceuticals, diagnostics, medical equipment, veterinary products, food additives, industrial chemicals and other chemicals.

(3) Location of head office

6-8, Doshomachi 2-chome, Chuo-ku, Osaka, Japan

(4) Representatives (Planned)

Chairman: Yasuo Okamoto (current President of Sumitomo Pharmaceuticals)

President: Kenjiro Miyatake (current President of Dainippon Pharmaceutical)

(5) Management

The Board of Directors, as of the date of the merger, will be composed of 10 Directors and 4 Corporate Auditors, with 5 Directors to be nominated by Dainippon



Pharmaceutical and Sumitomo Pharmaceuticals/Sumitomo Chemical respectively and 2 Corporate Auditors to be nominated by Dainippon Pharmaceutical and Sumitomo Pharmaceuticals/Sumitomo Chemical, respectively.

(6) Capital: To be determined

(7) Total assets: To be determined

(8) Fiscal year end: March 31

(9) Business prospects after the merger

Financial performance after the transaction, organizational structure, among other items, will be announced as such information becomes available through the discussions of the Merger Committee.

*Cautionary Statement*

*This material includes forward-looking statements based on assumptions and beliefs in light of the information currently available to the management of Dainippon Pharmaceutical and Sumitomo Pharmaceuticals and subject to significant risks and uncertainties.*

*Actual financial results may differ materially depending on a number of factors including adverse economic conditions, currency exchange rate fluctuations, adverse legislative and regulatory developments, delays in new product launches, pricing and product initiatives of competitors, the inability of both companies to market existing and new products effectively, interruptions in production, infringement of the intellectual property rights of both companies and any adverse outcome of material litigation.*

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