Summary of Consolidated Financial Results for the Year Ended March 31, 2011 (Unaudited)

May 11, 2011

Company Name: DAINIPPON SUMITOMO PHARMA CO., LTD.
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Stock Exchange Listings: Tokyo, Osaka
Security Code number: 4506 (URL:http://www.ds-pharma.co.jp)
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Date of Annual Shareholders' Meeting: June 24, 2011
Starting date of dividend payments: June 27, 2011
Filing date of Financial Report: June 24, 2011

The accompanying consolidated financial statements are prepared in accordance with Japanese GAAP. Certain accounting principles and practices generally accepted in Japan are different from International Financial Reporting Standards. The translation of consolidated financial statements into English from Japanese is solely for the convenience of readers outside Japan.

(Note : All amounts are rounded down to the nearest million yen)

1. Consolidated Financial Results for the Year Ended March 31, 2011 （April 1, 2010 to March 31, 2011）

(1) Results of Operations

(% represents changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31, 2011	379,513	28.1	30,951	(13.1)	28,616	(15.4)	16,796	(19.9)
Year ended March 31, 2010	296,261	12.2	35,624	14.3	33,837	7.8	20,958	4.9

Note: Comprehensive income
Year ended March 31, 2011 : (12,065)
Year ended March 31, 2010 : 27,148

	Earnings per share	Earnings per share (diluted)	Net income / Shareholders' equity (ROE)	Ordinary income / Total assets	Operating income / Net sales
Year ended March 31, 2011	¥42.27	―	5.0%	4.7%	8.2%
Year ended March 31, 2010	¥52.75	―	6.3%	6.6%	12.0%

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates
Year ended March 31, 2011 : 443
Year ended March 31, 2010 : ―

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2011	589,868	323,983	54.9%	¥815.44
As of March 31, 2010	626,743	343,483	54.8%	¥864.51

Reference: Shareholders' Equity (millions of yen)
As of March 31, 2011 : 323,983
As of March 31, 2010 : 343,483

(3) Cash Flows

(Millions of yen)

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at the end of period
Year ended March 31, 2011	55,041	(6,567)	(20,335)	82,868
Year ended March 31, 2010	26,682	(151,838)	131,929	58,139

2. Dividends

	Dividends per share					Dividends paid for the year (million)	Payout ratio	Dividends to net assets ratio
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual			
Year ended March 31, 2010	—	¥9.00	—	¥9.00	¥18.00	¥7,151	34.1%	2.1%
Year ended March 31, 2011	—	¥9.00	—	¥9.00	¥18.00	¥7,151	42.6%	2.1%
Year ending March 31, 2012 (Forecast)	—	¥9.00	—	¥9.00	¥18.00		—	

3. Consolidated Financial Forecast for the Year Ending March 31, 2012 （April 1, 2011 to March 31, 2012）

(% represents changes from the corresponding period of the previous year)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Six months ending September 30, 2011	179,700	(4.7)	8,900	(40.4)	8,400	(41.6)	4,800	(44.5)	¥12.08
Year ending March 31, 2012	362,000	(4.6)	17,000	(45.1)	15,500	(45.8)	8,500	(49.4)	¥21.39

4. Other

(1) Shift of significant subsidiaries during the period (shift of specified subsidiaries accompanied by changes in scope of consolidation) : None

(2) Changes in accounting principles, procedures, disclosure methods for preparing consolidated financial statements

① Changes due to adoption of new accounting standards: Yes

② Other changes: None

(Note) Refer to (7) Changes in Significant Basic Items for Preparing Consolidated Financial Statements, on page 30, for details.

(3) Number of shares outstanding (Common stock) at the end of period

① Number of shares outstanding (Including treasury stock)

March 31, 2011 : 397,900,154 shares

March 31, 2010 : 397,900,154 shares

② Number of treasury stock

March 31, 2011 : 587,168 shares

March 31, 2010 : 584,644 shares

③ Average number of shares during the period
March 31, 2011 : 397,314,369 shares
March 31, 2010 : 397,317,188 shares

(Reference)

1. Non-consolidated Financial Results for the year ending March 31, 2011 (April 1, 2010 to March 31, 2011)

(1) Results of Operations

(% represents changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31,2011	229,756	(7.6)	43,464	21.8	41,155	19.5	26,756	27.8
Year ended March 31,2010	248,697	0.1	35,690	16.7	34,426	11.4	20,932	6.1

	Earnings per share	Earnings per share (diluted)
Year ended March 31,2011	¥67.34	—
Year ended March 31,2010	¥52.68	—

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2011	561,568	349,421	62.2%	¥879.46
As of March 31, 2010	569,445	339,614	59.6%	¥854.77

Reference: Shareholders' Equity (millions of yen)
As of March 31, 2011 : 349,421
As of March 31, 2010 : 339,614

Indication of audit procedure implementation status:
This summary of financial results is exempt from audit procedure based upon the Financial Instruments and Exchange Act. It is under the audit procedure process at the time of disclosure of this report.

Explanation for Appropriate Use of Forecasts and Other Notes:
This document contains forward-looking statements based on management's assumptions and beliefs in light of the information currently available, and involves risks and uncertainties. Actual financial results may differ materially depending on a number of factors, including economic conditions.

The Company holds an earnings presentation for institutional investors and analysts on Thursday, May 12, 2011. The documents distributed at the presentation are scheduled to be posted on our website.

【Attachment Documents】

1. Operating Results

(1) Analysis of Operating Results

(i) Overview of overall operating results

During the current consolidated fiscal year, the Japanese economy progressed under increasing uncertainty over the future, with a downside risk of the economy having been aggravated primarily due to the Great East Japan Earthquake, which caused unprecedented damage, under an ongoing severe employment and deflationary situation, although signs of recovery in the economy were seen in connection with the improvement in corporate profits.

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 revisions in April 2010, in the face of the global movement toward drastic reform of healthcare systems.

Under such circumstances, the DSP Group has actively engaged in business development based on the understanding that the current consolidated fiscal year is extremely important as the starting year for the second mid-term business plan ("MTBP") under the theme "Creation and Transformation Toward a New Stage of Globalization," aggressively working on the tasks to achieve our mid- to long-term vision.

During the current consolidated fiscal year, the marketing approval of LATUDA® (generic name: lurasidone hydrochloride), an antipsychotic, being the Group's global strategic product, 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, efforts were made to establish the systems for overseas business expansion, such as the conclusion of a contract for a development and sales alliance with Takeda Pharmaceutical Company Limited in March 2011, with a view to launching the said product in the European market at an early date and maximizing product values. Furthermore, efforts were made to continuously create globally competitive products and actively promote in-licensing and alliances for expansion of the drug pipeline.

As for business results of the current consolidated fiscal year, partly due to the contributions made by the U.S. subsidiaries, net sales amounted to 379,513 million yen (a 28.1% increase over the previous consolidated fiscal year). Operating income amounted to 30,951 million yen (a 13.1% decrease from the previous consolidated fiscal year) and ordinary income amounted to 28,616 million yen (a 15.4% decrease from the previous consolidated fiscal year). In addition, due to the posting of extraordinary losses associated with impairment loss and loss on valuation of investment securities, net income for the current fiscal year amounted to 16,796 million yen (a 19.9% decrease from the previous consolidated fiscal year).

(ii) Status of each business segment

[Japan (Pharmaceuticals) segment]

DSP has continued its intensive infusions of operating resources into its strategic products, such as AVAPRO®, a therapeutic agent for hypertension drug, LONASEN®, an atypical antipsychotic, and PRORENAL®, a vasodilator, as well as its new products, such as TRERIEF®, a Parkinson's disease drug, MIRIPLA®, a therapeutic agent for hepatocellular carcinoma, and METGLUCO®, a biguanide oral hypoglycemic, thereby working to maximize earnings. As a result, net sales amounted to 211,349 million yen and operating income amounted to 43,314 million yen.

[United States segment]

Due to the business performance of the U.S. subsidiaries led by Sunovion Pharmaceuticals Inc. (hereinafter, "Sunovion"; the trade name was changed from Sepracor Inc. in October 2010), net sales amounted to 117,647 million yen, which is primarily attributable to LUNESTA®, a sedative hypnotic drug and XOPENEX®, a short-acting beta-agonist. The results of operating activities were operating loss of 11,620 million yen primarily due to the depreciation cost burden of patent rights, goodwill.

[China segment]

Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., sells MEROPEN® (sold in China as MEPEM®), a carbapenem antibiotic preparation, and the like, and net sales amounted to 5,589 million yen and operating income amounted to 780 million yen.

In addition to the above-mentioned reporting segments, the Group has been marketing food ingredients, food additives, chemical product materials, veterinary drugs, diagnostic products, etc. and net sales of these products amounted to 44,927 million yen and operating income amounted to 1,917 million yen.

(iii) Status of research and development activities

The DSP Group has positioned the central nervous system (CNS) field as its key strategic area, and designated the specialty field (where unmet medical needs are strong and sophisticated expertise is required in the areas of research, development and marketing, such as carcinoma and immune system disease) as the frontier therapeutic area, thereby aiming to create innovative pharmaceutical products.

In the early research stage, along with implementing measures to increase the efficiency of research and development by taking advantage of genomics, proteomics, metabolomics, and so forth, which are the advanced technologies held by the Company, the Group has proactively promoted the formation of alliances with research institutes and the like, including domestic and foreign universities. In March 2011, aiming to develop a unique antineoplastic drug that controls malignant transformation of carcinoma, the Group started “Laboratory for Malignancy Control Research”, a collaborative research with Kyoto University, a national university corporation (DSK Project), and furthermore, entered into a joint research agreement with the Center for iPS Cell Research and Application (CiRA) of Kyoto University for the purpose of establishing therapeutic methods for rare intractable diseases. In addition, with regard to nucleic acid drugs and antibody drugs, the Group has been conducting research with designated specialized research groups.

In late research stages and during development, the Group has set up “Global Portfolio Management Committee” to discuss R&D strategy from a global view point and optimized the DSP Group's R&D portfolio. In addition, in order to maximize product values, the Group has taken a proactive approach to product life-cycle management with the development of dosage formulations.

The status of major development progress during the current consolidated fiscal year is as follows:

In Japan, approvals were granted for applications with respect to SUREPOST®, a rapid insulin secretagogue (generic name: repaglinide) in January 2011, and with respect to MEROPEN® for partial change of indication and dosage (change of the maximum daily dose for life-threatening or intractable infections) in March 2011. In addition, approvals were granted for additional formulations with respect to AMLODIN®, a treatment for hypertension and angina pectoris for the 10 mg formulation in July 2010 and with respect to DOPS®, a neural function ameliorant for OD tablet (orally disintegrating tablet) in January 2011. Furthermore, the Group started the clinical studies on carcinoma peptide vaccine, WT4869 in collaboration with Chugai Pharmaceutical Co., Ltd.

Outside of Japan, during the current consolidated fiscal year, Sunovion obtained the marketing approval of lurasidone hydrochloride, an atypical antipsychotic, for the indication of schizophrenia from the FDA in October 2010, and is currently engaged in global phase III clinical trials for depression from bipolar disorder. In addition, as for sales expansion of the above product to Europe, the Group aims to apply for and obtain the marketing approval at an early stage by joint development with Takeda Pharmaceutical Company Limited. In addition, application for approval of HFA formulation (existing formulation is OMNARIS®, nasal spray) of ciclesonide (generic name), which has been under development in the United States was made to the FDA in March 2011, and furthermore, clinical studies of a depression drug, DSP-1053, were kicked off and clinical studies of DSP-8658, which has been under development as a treatment for diabetes, were newly started focusing on Alzheimer’s disease.

The Group has also been actively involved in in-licensing of developed products from outside the Group. In September 2010, the Group entered into an exclusive development and distributorship option agreement on SB623, a treatment for cerebral infarction with SanBio Inc. (U.S.A.) with its territory being the United States and Canada. Furthermore, in March 2011, in addition to concluding an exclusive license agreement on the development, manufacturing and sales of INT-747, a treatment for hepatic disease in Japan and China with Intercept Pharmaceuticals, Inc. (U.S.A.), the Group entered into an exclusive option agreement on the development and distributorship of BBI608, an antineoplastic agent, with its territory being Japan with Boston Biomedical Inc. (U.S.A.) and entered into an exclusive license agreement on the development, manufacturing and sales of ceftaroline fosamil (generic name), injectable cephem antibiotics in Japan with Takeda Pharmaceutical Company Limited.

In addition to the above-mentioned pharmaceuticals area, the Group has implemented research and development for food ingredients, food additives, chemical product materials, veterinary drugs, etc.

(iv) Forecasts for the year ending March 31, 2012

(Millions of yen)

	Fiscal 2010 Results	Fiscal 2011 Forecasts	Change	Change %
Net sales	379,513	362,000	(17,513)	(4.6)
Operating income	30,951	17,000	(13,951)	(45.1)
Ordinary income	28,616	15,500	(13,116)	(45.8)
Net income	16,796	8,500	(8,296)	(49.4)

<Net sales>

In the domestic pharmaceutical business, the Company strives to raise the sales of its strategic products and new products, but a slight decrease is expected due to the influence of generics etc. In the U.S. our new product LATUDA is penetrating the market and expanding sales. However, in comparison to the previous financial year, because of the appreciation of the Yen and the decrease in sales of existing products, a slight decrease is expected. Moreover, because of the income from the upfront payment calculated in the previous fiscal year, a decrease to 362 billion yen (17.5 billion yen down compared with the previous fiscal year.) is expected.

<Incomes>

Although the DSP Group continues to endeavor for efficient management by reducing expenses, in addition to a decrease in gross profit due to a drop in net sales, we expect an increase in selling costs in the U.S.

As a result, we expect that operating income will be 17 billion yen (14 billion yen down compared to the previous fiscal year), ordinary income will be 15.5 billion yen (13.1 billion yen down compared to the previous fiscal year), and net income will be 8.5 billion yen (8.3 billion yen down compared to the previous fiscal year).

<Prior condition>

Foreign currency exchange rate used for the forecasts 1 USD = 85 yen, 1 RMB = 13 yen

(2) Analysis of Financial Condition

(i) Analysis of the status of assets, liabilities, net assets, and cash flows

(a) Summary of assets, liabilities, and net assets

- Assets

Total assets decreased 36,874 million yen from the previous consolidated fiscal year-end to 589,868 million yen primarily due to the fact that intangible fixed assets, such as goodwill and patent rights, and investment securities decreased, even though notes and accounts receivable, and marketable securities increased.

- Liabilities

Total liabilities decreased 17,375 million yen from the previous consolidated fiscal year-end to 265,884 million yen primarily because interest-bearing debt decreased.

- Net assets

Net assets decreased 19,499 million yen from the previous consolidated fiscal year-end to 323,983 million yen primarily due to the fact that foreign currency translation adjustments swung into the minus range due to the stronger yen even though retained earnings increased. In addition, shareholders' equity ratio as of the present consolidated fiscal year-end amounted to 54.9%.

(b) Status of cash flows

- Net cash provided by operating activities

Net cash amounted to 55,041 million yen (an increase of 28,359 million yen compared with the previous consolidated fiscal year), as the amount of net income before taxes and minority interests, depreciation and amortization, etc., exceeded the increase in notes and accounts receivable and the payment of corporate tax etc.

- Net cash used in investing activities

Net cash for investment amounted to 6,567 million yen (an increase of 145,270 million yen compared with the previous consolidated fiscal year) primarily due to the acquisition of tangible fixed assets.

- Net cash used in financing activities

Net cash for financing amounted to 20,335 million yen (a decrease of 152,264 million yen compared with the previous consolidated fiscal year) primarily due to the decrease in short-term borrowing and dividends paid, even though long-term borrowing and corporate bonds increased. As a result of the foregoing, cash and cash equivalents as of the present consolidated fiscal year-end rose 24,728 million yen compared with the previous consolidated fiscal year to 82,868 million yen.

(Reference) Trend of cash flow indicators

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Shareholder's equity ratio	79.8%	79.6%	82.9%	54.8%	54.9%
Shareholder's equity ratio (market value basis)	130.8%	90.6%	83.1%	54.3%	52.2%
Ratio of interest-bearing debt cash flow	18.1%	17.5%	8.5%	431.2%	218.4%
Interest coverage ratio [times]	960.4	748.5	648.1	42.7	37.4

Shareholders' equity ratio: Shareholders' equity / total assets
Shareholders' equity ratio (market value basis): total market capitalization / total assets
Ratio of interest-bearing debt to cash flow: interest-bearing debt / operating cash flow
Interest coverage ratio: operating cash flow / interest paid

(Notes) 1. Each indicator is calculated on a consolidated basis.
2. Total market capitalization is calculated based on the number of shares outstanding, less treasury stock.

3. Operating cash flow is based on the net cash provided by operating activities in the consolidated statements of cash flows less the amounts of “interest paid” and “income taxes paid”.
4. Interest-bearing debt includes all consolidated balance sheet liabilities which are subject to an interest payment. Interest paid equal to the “interest paid” of the consolidated statements of cash flows.

(3) Fundamental Profit and Dividend Distribution Policy for the Current Term and the Next Term

The allocation of the Company’s profits in a customarily appropriate manner to its shareholders is one of the Company’s fundamental management policies.

The Company’s basic policy is to make dividends payments twice each year from retained earnings, including an interim dividend, as determined by the Company’s Board of Directors; and a year-end dividend, as determined by the general meeting of shareholders.

In addition to stressing the distribution of surplus in a manner that reflects the Company’s performance, the Company intends to make decisions on distribution from a comprehensive standpoint, while actively investing in its future growth, ensuring a solid management base and enhancing its financial condition to further increase its enterprise value. The Company believes that it is important to allocate profits to its shareholders in a consistent manner.

The Company plans to declare a cash dividend of ¥9 per share for the Current Term, which is equal to the interim cash dividend for the Current Term, resulting in a total dividend of ¥18 per share for the Current Term.

The Company further plans to declare a cash dividend of ¥18 per share for the Next Term (the same amount as declared for the Current Term) in order to continue to provide regular dividends to the Company’s shareholders.

(4) Business Risks

Below is a discussion of the most significant risks that could negatively impact the operating results and financial position of the DSP Group.

Forward-looking statements in the discussion of risks discussed below reflect the judgment of the Group as of March 31, 2011.

(i) Risk relating to Research and Development of New Products

The 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.

(ii) Problems Concerning Adverse Events

The Group conducts rigorous safety testing of its pharmaceutical products at different stages of development, with products receiving approval only after rigorous screening by the competent authorities in all the countries. 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.

(iii) Healthcare System Reforms in Japan

The precipitous decline in Japan's birthrate and the rapid rise in the country's elderly population are the prime factors causing the financial state of Japan's healthcare insurance system to deteriorate. In this climate, measures continue to emerge aimed at curbing healthcare costs, 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 price revisions, could ultimately have a significant and negative impact on the Group's operating results and financial position. In addition, pharmaceutical products are subject to various kinds of regulations in foreign countries and, therefore, have a possibility that they might be significantly affected depending on the way administrative measures are implemented.

(iv) Risk relating to the sale of products

The Group can envision scenarios in which sales of its pharmaceutical products are threatened to decrease due to a competition with the products of the same area of other manufacturers or a launching of generic products following the expiration of a patent period or otherwise. Such cases could have a significant and negative impact on the Group's financial position and operating results.

(v) Risk relating to Intellectual Property Rights

The 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.

(vi) Termination of Partnerships

The 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.

(vii) Prerequisites for Primary Business Activities

The Group's core business is the ethical pharmaceutical products business. Accordingly, the Group requires licenses and other certifications 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. The Company has obtained licenses and other certifications, including Type 1 and Type 2 Pharmaceuticals Manufacturing and Sales Business licenses (both valid for five years). In addition, in order to engage in the ethical pharmaceutical products business in overseas countries, the Group also has obtained licenses as needed under laws and regulations related to pharmaceuticals of those countries. These licenses and other certifications will cease to be valid unless gone through procedures as 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 Group may be ordered to suspend part of or all of its operations for a fixed period of time or be subject to other measures in the event that the Group violates these laws and regulations. The Group currently has no knowledge of any facts that would warrant the revocation of its licenses or other certifications.

However, an order to revoke the Group's licenses or other certifications could have a significant and negative impact on the Group's operating results and financial position.

(viii) Risk relating to Litigation

There is a possibility that a suit may be brought to court in terms of an adverse effect of a pharmaceutical product, product liability, labor issues, fair trade, etc., relating to the business activities of the Group. Depending on the development thereof, such cases could have a significant and negative impact on the Group's operating results and financial position.

(ix) Closedown or shutdown of a plant

The Group can envision scenarios in which the Group's plant is closed down or shut down due to technical problems, stoppage of supply of raw materials, fire, earthquake, or any other disaster where the supply of products is delayed or halted. Such cases could have a significant and negative impact on the Group's operating results and financial position.

(x) Impact of financial market situation and foreign exchange fluctuations

A sluggish equity market will give rise to a loss on valuation or sale of shares held, and the interest rate trend may increase interest expenses on borrowings etc., and the deterioration of financial market situation will cause the retirement benefit obligations to increase. All these factors could have a significant and negative impact on the Group's operating results and financial position. Furthermore, foreign exchange fluctuations may have a material impact on importing and exporting transactions and the conversion of operating results of consolidated subsidiaries into yen.

(xi) Impact of impairment of fixed assets

The Group owns various types of tangible and intangible fixed assets, such as business assets and goodwill. In the future, in the event of substantial deterioration of operating results or reduction in values, the need to treat the impairment will arise, which could have a significant and negative impact on the Group's operating results and financial position.

(xii) 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 we also made short-term loans to our 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.

(xiii) Risk relating to Business Activities of Sunovion Pharmaceuticals Inc.

Sunovion Pharmaceuticals Inc., a consolidated subsidiary, plays an important role in the Group's business expansion in North America; however, there is a possibility that the original business plan cannot be achieved due to the changes in business environment and competitive situation, which could have a significant and negative impact on the Group's operating results and financial position.

The Group also faces risks other than those discussed above.

2. Summary of the Business of the Group

The Group consists of the Company, the parent company, 20 subsidiaries (13 consolidated subsidiaries and 7 non-consolidated subsidiaries), and 5 affiliated companies as of March 31, 2011. The description of the main business of the Group, the summary of the positioning relating to the relevant business of each company being part of the Group and its relationship with business segments are as follows:

(1) Japan (Pharmaceuticals)

The Company manufactures, purchases, and sells ethical pharmaceuticals. In addition, the Company's affiliate company, Kyoto Pharmaceutical Industries, Ltd., is engaged in the manufacture and sales of ethical pharmaceuticals and non-prescription drugs.

(2) The United States

Under the initiative of the consolidated subsidiary and holding company, Dainippon Sumitomo Pharma America Holdings, Inc., a consolidated subsidiary, Sunovion Pharmaceuticals Inc., manufactures, purchases, and sells ethical pharmaceutical products. (In addition, the company changed its trade name from Sepracor Inc. to Sunovion Pharmaceuticals Inc. as in October 2010.) Its seven consolidated subsidiaries manufacture, sell, and develop ethical pharmaceuticals. In addition, a consolidated subsidiary, Dainippon Sumitomo Pharma America, Inc., which had been developing the Company's products, merged with Sepracor Inc. (currently, Sunovion Pharmaceuticals Inc.), which is a surviving company and ceased to exist in April 2010.

(3) China

In China, a consolidated subsidiary, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., manufactures (subdivide packaging) and sells ethical pharmaceuticals. In addition, a non-consolidated subsidiary, Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd., which was preparing to start manufacturing ethical pharmaceuticals, merged with Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., a surviving company that ceased to exist in November 2010. In addition, a non-consolidated subsidiary, Sumiyaku China Co., Ltd., which had sold ethical pharmaceuticals, suspended operations and is scheduled to be liquidated in the future.

(4) Other

In July 2010, the Company's animal science business was transferred to the newly established DS Pharma Animal Health Co., Ltd., and the Company's foods and specialty business was transferred to Gokyo Trading Co., Ltd. (In addition, the company changed its trade name to DSP Gokyo Food & Chemical Co., Ltd., concurrently with the transfer.)

A consolidated subsidiary, DSP Gokyo Food & Chemical Co., Ltd., manufactures, purchases, and sells food ingredients, food additives and chemical product materials, part of which is supplied to the Company.

A consolidated subsidiary, DS Pharma Animal Health Co., Ltd., manufactures, purchases, and sells veterinary drugs, etc.

Clinical diagnostic products, machinery, and equipment for research and testing are manufactured, purchased, and sold by a consolidated subsidiary, DS Pharma Biomedical Co., Ltd., from which part of diagnostic products are purchased and sold by the Company.

In Europe, a non-consolidated subsidiary, Dainippon Sumitomo Pharma Europe Ltd., develops the Company's products.

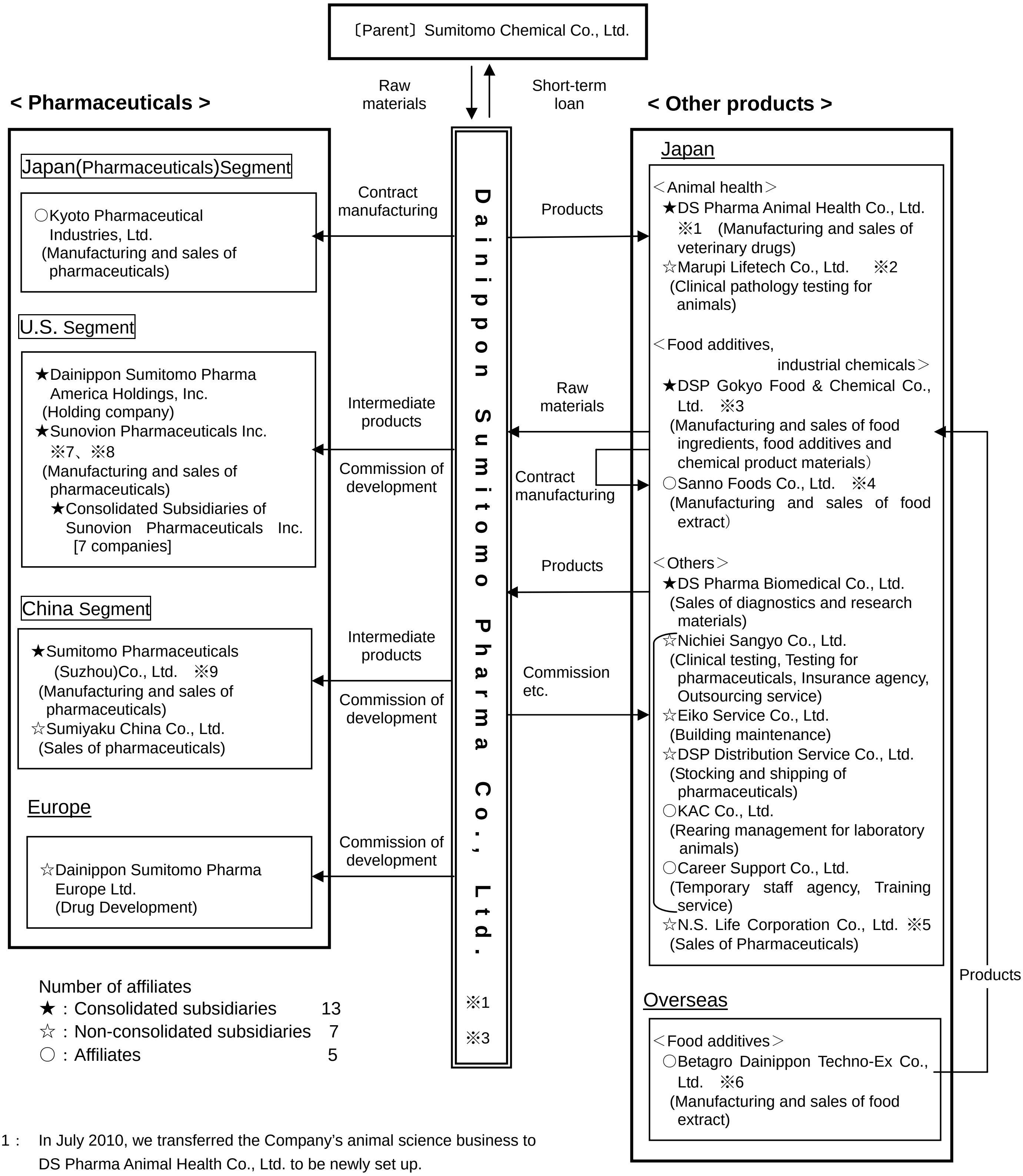
A non-consolidated subsidiary, Marupi Lifetech Co., Ltd., is engaged in clinical pathology testing operations for animals.

An affiliated company, Sanno Foods Co., Ltd., manufactures food extract products and provides them to

DSP Gokyo Food & Chemical Co., Ltd.

In Thailand, an affiliated company, Betagro Dainippon Techno-Ex Co., Ltd., manufactures food extract products and provides them to DSP Gokyo Food & Chemical Co., Ltd.

In addition to the above, the Group has four non-consolidated subsidiaries and two affiliated companies that provide various services, such as storage, delivery, clinical lab tests, and examinations and tests of pharmaceutical products.



※1 : In July 2010, we transferred the Company's animal science business to DS Pharma Animal Health Co., Ltd. to be newly set up.

※2 : Marupi Lifetech Co., Ltd. is a subsidiary company of DS Pharma Animal Health Co. Ltd.

※3 : In July 2010, we transferred the Company's foods and specialty business to Gokyo Trading Co., Ltd. At the same time, the company's name was changed to "DSP Gokyo Food & Chemical Co., Ltd."

※4 : Sanno Foods Co., Ltd. is an affiliate company of DSP Gokyo Food & Chemical Co., Ltd.

※5 : NS Life Corporation Co., Ltd. is a subsidiary company of Nichiei Sangyo Co., Ltd.

※6 : Betagro Dainippon Techno-Ex Co., Ltd. is an affiliate company of DSP Gokyo Food & Chemical Co., Ltd.

※7 : In April 2010, Dainippon Sumitomo Pharma America, Inc. was absorbed by Sepracor Inc. (currently, Sunovion Pharmaceuticals Inc.)

※8 : In October 2010, Sepracor Inc. changed its trade name to Sunovion pharmaceuticals Inc.

※9 : In November 2010, Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd. was absorbed by Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.

3. Management Policy

(1) Fundamental Management Policy of the Company

We have set our 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” and in order to accomplish this corporate mission, we are striving to conduct business activities based on the following management missions:

■ 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

By fulfilling these management missions, we sincerely hope to enhance our presence in Japan by living up to the expectations of patients and their family members, medical personnel, our shareholders, business partners, employees, and stakeholders of the local communities to become a highly advanced R&D-oriented pharmaceutical company capable of global business expansion.

(2) Medium-to-Long-Term Management Strategy and Outstanding Issues

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 increased new drug development expenses, and in part due to the global movement toward strict new drug approval screening and drastic reform of healthcare systems. Furthermore, we are faced with concern about the possible impact that the devastating Great East Japan Earthquake of March 2011 will have on the future economic activities.

The DSP Group adopted a mid- to long-term vision plan in 2007, aiming to achieve the principal goals by 2022 to “become an internationally competitive R&D-oriented pharmaceutical company and have two solid streams of revenue, the first from domestic operations and the second from international operations,” and for the next ten years, in defining its corporate identity, the Group has set the targets of establishing a solid foundation for our domestic business, expanding our international business operations, and enriching our R&D product pipeline.

Furthermore, based on the big progress made in terms of globalization due to the acquisition of Sunovion in the first MTBP, the Group drew up the second five-year MTBP starting with fiscal year 2010 and announced it in February 2010. In this Plan, the Group has put up a slogan, “Creation and Transformation Toward a New Stage of Globalization.” The Group will strive to achieve the mid- to long-term vision, proceeding to a new stage of significant leap forward by raising its creative capabilities and further transforming itself.

The following five goals were established as basic policies of the second MTBP:

(i) Transform the earnings structure in Japan

(ii) Expand overseas operations and maximize earnings

(iii) Expand the pipeline for continuous new drug creation

(iv) Promote corporate social responsibility (CSR) management and continuous increases in management efficiency

(v) Establish a challenging corporate culture and cultivate human resources

Through implementation of the goals discussed above, the Group aims to achieve net sales of 420 billion yen and operating income of 70 billion yen in the fiscal year ending March 2015 as the management goals of the second MTBP (See Notes below).

During the fiscal year ending March 2011, which was the starting year for the second MTBP, the reinforcement of the business foundation was promoted in a steady manner by achieving the biggest goal of obtaining approval for and launching LATUDA® and producing results in terms of acquisition of the pipeline including the specialty field and the efforts made for low-cost management. During the fiscal year ending March 2012, the Group intends to conduct business activities to achieve the mid- to long-term vision, by setting transforming the revenue source structure in Japan, expanding overseas operations and maximizing earnings, and expanding the drug pipeline for the future growth as the most important tasks.

1) Transform the earnings structure in Japan

The Company aims to promote the DSP Ambition, which is the action guidelines for sales activities formulated to achieve the patient-oriented marketing that would be appreciated by our customers and establish the business system that is community-based and enables immediate response to environmental changes by firmly establishing the Regional Division System. Furthermore, the Company will concentrate its business resources on its strategic products, such as AVAPRO®, LONASEN®, and PRORENAL®, and new products, such as TRERIEF®, MIRIPLA®, METGLUCO® and SUREPOST®.

In the CNS Sales & Marketing which was established in April 2011, the Company promotes marketing activity in CNS field in a strategic and efficient manner by integrating marketing and sales operation of CNS products and clarifying responsibility of profit. On the other hand, the Group will continue to pursue low-cost operations and work to transform the revenue source structure of its pharmaceutical business in Japan.

2) Expand overseas operations and maximize earnings

In the United States, the Group will make it a top priority to achieve market penetration and sales expansion of LATUDA®, the Group's global strategic product at an early stage and strive to maintain the sales volume of the existing products such as LUNESTA® and XOPENEX® through effective and efficient promotion activities. The Group will actively infuse its management resources into LATUDA® to additionally meet the indications for future sales expansion. In the meantime, in China, in the light of the ever-growing Chinese pharmaceuticals market, the Group will reinforce the business foundation, including the increase in number of sales representatives of Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., and strive for further sales volume. In addition, the Group will work to achieve the management targets by ensuring global-level compliance risk management and further business development and promoting the construction and establishing of the global governance system and pursuing further improvement in management efficiency.

3) Expand the drug pipeline for the future growth

In research and development activities, the Group aims to develop the next-generation strategic candidate products that should follow LATUDA® and continue creating internationally competitive products by implementing global-level portfolio management primarily in the CNS field, which has been designated as the key therapeutic area, and the specialty field, such as the carcinoma field, designated as the frontier therapeutic area. In the meantime, the Group will work to proactively address in-licensing and alliances of chemical compounds in the late development stage that can contribute to the business performance at an early stage and are expected to have a synergistic effect on existing products and of the products that underpin the Group's continued growth.

The Group will strive to promote creation and transformations for a new stage by the concerted effort of all the entire DSP Group to achieve the goals set out in the second MTBP, and further accomplish the mid- to long-term vision.

In addition, aiming to be "a company that achieves its mission" that has lofty spirit and strong willingness, the Group makes it a top priority among its business activities to ensure corporate ethics and will continue to work on rigorous ensuring of compliance, strengthening of risk management and CSR activities including social service activities. With respect to the unprecedented disasters caused by the Great East Japan Earthquake, the Group will work to provide support services for reconstruction of the areas hit by the Earthquake primarily through the Earthquake Disaster Reconstruction Support Office newly established in May 2011.

On the other hand, the Group will work to improve management efficiency through job streamlining and transformation and to transform the business structure on a global level, and to encourage new challenges and establish a corporate culture of speedy response, and to cultivate and energize diverse human resources.

Notes: The sales amount has been changed to 420 billion yen from 440 billion yen released at the time of announcement of the MTBP. This reduction derived from spin-off of the Company's animal health products business and has no impact on operating income. The target operating income of 70 billion yen has no change from the time of announcement of MTBP.

However, the figures of management targets are those deemed to be appropriate as of the end of the current consolidated fiscal year and may vary to a substantial degree depending on various factors in the future.

(3) Other: Significant Matters Management Issues

(Lawsuits)

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.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2010	As of March 31, 2011
Assets		
Current assets:		
Cash and time deposits	13,823	14,938
Notes and accounts receivable	93,961	107,803
Marketable securities	51,184	90,921
Merchandise and finished goods	46,707	38,442
Work-in-process	3,348	2,388
Raw materials and supplies	15,174	15,140
Deferred tax assets	32,447	33,489
Short-term loans	25,000	25,000
Others	6,079	4,998
Allowance for doubtful receivables	(172)	(122)
Total current assets	287,555	332,999
Fixed assets:		
Property, plant and equipment:		
Buildings and structures	89,108	91,227
Accumulated depreciation and impairment loss	(46,125)	(49,497)
Buildings and structures, net	42,983	41,730
Machinery, equipment and carriers	74,327	77,089
Accumulated depreciation and impairment loss	(61,566)	(65,030)
Machinery, equipment and carriers, net	12,761	12,058
Land	10,332	10,291
Construction in progress	2,691	941
Others	26,865	27,529
Accumulated depreciation and impairment loss	(21,549)	(22,758)
Others, net	5,315	4,771
Total property, plant and equipment	74,083	69,793
Intangible assets:		
Goodwill	83,564	70,369
Patent rights	*4 104,018	*4 60,984
Others	11,899	11,912
Total intangible assets	199,482	143,266
Investments and other assets:		
Investment securities	*1,*2 53,171	*1,*2 27,922
Deferred tax assets	2,389	7,023
Others	*2 10,158	*2 8,961
Allowance for doubtful receivables	(97)	(99)
Total investments and other assets	65,621	43,807
Total fixed assets	339,188	256,868
Total assets	626,743	589,868

(Millions of yen)

	As of March 31, 2010	As of March 31, 2011
Liabilities		
Current liabilities:		
Notes and accounts payable	*1 16,878	*1 15,647
Short-term loans payable	165,800	50,000
Current portion of long-term loans payable	—	10,600
Income taxes payable	8,571	7,678
Reserve for bonuses	7,408	7,431
Reserve for sales returns	2,700	2,289
Reserve for sales rebates	15,709	15,875
Accounts payable-other	33,395	33,849
Others	14,536	13,831
Total current liabilities	264,999	157,203
Long-term liabilities:		
Bonds payable	—	50,000
Long-term loans payable	—	43,000
Liability for retirement benefits	9,797	10,266
Liability for directors' retirement benefits	50	6
Others	8,412	5,407
Total long-term liabilities	18,260	108,680
Total liabilities	283,259	265,884
Net assets		
Shareholders' equity:		
Common stock	22,400	22,400
Capital surplus	15,860	15,860
Retained earnings	294,701	304,186
Treasury stock	(646)	(648)
Total shareholders' equity	332,315	341,798
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities, net of tax	7,945	5,413
Foreign currency translation adjustment	3,222	(23,228)
Total accumulated other comprehensive income	11,167	(17,814)
Total net assets	343,483	323,983
Total liabilities and net assets	626,743	589,868

(2) Consolidated Statements of (Comprehensive) Income

Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2010	Year ended March 31, 2011
Net sales	296,261	379,513
Cost of sales	*1 112,297	*1 110,047
Gross profit	183,964	269,466
Reversal of reserve for sales returns	34	16
Gross profit-net	183,998	269,482
Selling, general and administrative expenses		
Provision for allowance for doubtful receivables	14	—
Salaries	20,647	34,634
Provision for reserve for bonuses	4,832	4,957
Provision for liability for directors' retirement benefits	12	3
Depreciation and amortization	—	31,120
Research and development costs	*2 51,371	*2 68,159
Others	71,496	99,655
Total selling, general and administrative expenses	148,374	238,531
Operating income	35,624	30,951
Non-operating income		
Interest income	635	494
Dividend income	592	753
Equity in earnings of affiliates	—	443
Real estate rent	226	—
Insurance income	—	399
Reversal of allowance for doubtful accounts	234	—
Others	563	1,213
Total non-operating income	2,251	3,304
Non-operating expenses		
Interest expense	1,016	1,919
Contribution	1,767	1,835
Loss on disposal of fixed assets	472	—
Others	782	1,884
Total non-operating expenses	4,039	5,639
Ordinary income	33,837	28,616
Extraordinary loss		
Impairment loss	—	*3 3,246
Loss on valuation of investment securities	843	320
Compensation for revision of personnel system	*3 1,570	—
Total extraordinary loss	2,413	3,566
Income before income taxes and minority interests	31,423	25,049
Income taxes-current	13,999	13,988
Income taxes-deferred	(3,540)	(5,735)
Income taxes	10,458	8,253
Income before minority interests	—	16,796
Minority interests in net income	6	—
Net income	20,958	16,796

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2010	Year ended March 31, 2011
Income before minority interests	−	16,796
Other comprehensive income		
Unrealized gains on available-for-sale securities, net of tax	−	(2,531)
Foreign currency translation adjustment	−	(26,330)
Total other comprehensive income	−	*2 (28,862)
Comprehensive income	−	*1 (12,065)
Comprehensive income attributable to		
Comprehensive income attributable to parent company	−	(12,065)
Comprehensive income attributable to minority interests	−	−

(3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Year ended March 31, 2010	Year ended March 31, 2011
Shareholders' equity		
Common stock		
Balance at the end of previous period	22,400	22,400
Changes in items during the period		
Total changes in items during the period	—	—
Balance at the end of current period	22,400	22,400
Capital surplus		
Balance at the end of previous period	15,860	15,860
Changes in items during the period		
Total changes in items during the period	—	—
Balance at the end of current period	15,860	15,860
Retained earnings		
Balance at the end of previous period	281,628	294,701
Changes in items during the period		
Cash dividends	(7,151)	(7,151)
Net income	20,958	16,796
Sales of treasury stock	(0)	(0)
Changes in scope of consolidation	(733)	(159)
Total changes in items during the period	13,073	9,484
Balance at the end of current period	294,701	304,186
Treasury stock		
Balance at the end of previous period	(643)	(646)
Changes in items during the period		
Purchases of treasury stock	(3)	(2)
Sales of treasury stock	0	0
Total changes in items during the period	(3)	(1)
Balance at the end of current period	(646)	(648)
Total shareholders' equity		
Balance at the end of previous period	319,245	332,315
Changes in items during the period		
Cash dividends	(7,151)	(7,151)
Net income	20,958	16,796
Purchases of treasury stock	(3)	(2)
Sales of treasury stock	0	0
Changes in scope of consolidation	(733)	(159)
Total changes in items during the period	13,069	9,482
Balance at the end of current period	332,315	341,798

(Millions of yen)

	Year ended March 31, 2010	Year ended March 31, 2011
Accumulated other comprehensive income		
Unrealized gains on available-for-sale securities, net of tax		
Balance at the end of previous period	5,162	7,945
Changes in items during the period		
Net changes in items other than shareholders' equity	2,782	(2,531)
Total changes in items during the period	2,782	(2,531)
Balance at the end of current period	7,945	5,413
Foreign currency translation adjustment		
Balance at the end of previous period	―	3,222
Changes in items during the period		
Changes in scope of consolidation	―	(120)
Net changes in items other than shareholders' equity	3,222	(26,330)
Total changes in items during the period	3,222	(26,451)
Balance at the end of current period	3,222	(23,228)
Total accumulated other comprehensive income		
Balance at the end of previous period	5,162	11,167
Changes in items during the period		
Changes in scope of consolidation	―	(120)
Net changes in items other than shareholders' equity	6,005	(28,862)
Total changes in items during the period	6,005	(28,982)
Balance at the end of current period	11,167	(17,814)
Minority interests		
Balance at the end of previous period	87	―
Changes in items during the period		
Net changes in items other than shareholders' equity	(87)	―
Total changes in items during the period	(87)	―
Balance at the end of current period	―	―
Total net assets		
Balance at the end of previous period	324,495	343,483
Changes in items during the period		
Cash dividends	(7,151)	(7,151)
Net income	20,958	16,796
Purchases of treasury stock	(3)	(2)
Sales of treasury stock	0	0
Changes in scope of consolidation	(733)	(280)
Net changes in items other than shareholders' equity	5,917	(28,862)
Total changes in items during the period	18,987	(19,499)
Balance at the end of current period	343,483	323,983

(4) Consolidated Statements of Cash Flows

(Millions of yen)

		Year ended March 31, 2010		Year ended March 31, 2011
Net cash provided by operating activities:				
Income before income taxes and minority interests		31,423		25,049
Depreciation and amortization	*1	17,782	*1	40,590
Impairment loss		—		3,246
Amortization of goodwill		866		4,037
Provision for liability for retirement benefits, less payments		1,526		368
Provision for other liabilities		(2,957)		2,343
Interest and dividend income		(1,228)		(1,248)
Interest expense		1,016		1,919
Equity in (earnings) losses of affiliates		—		(443)
Loss (gain) on valuation of investment securities		843		320
Loss on disposal of property, plant and equipment		230		266
Decrease (increase) in notes and accounts receivable		1,805		(15,531)
Decrease (increase) in inventories		2,871		8,160
Increase (decrease) in notes and accounts payable		(1,722)		(1,203)
Increase (decrease) in accounts payable-other		(13,093)		2,715
Other-net		(1,453)		(259)
Subtotal		37,912		70,332
Interest and dividend received		1,462		1,577
Interest paid		(921)		(1,925)
Income taxes paid		(11,770)		(14,943)
Net cash provided by operating activities		26,682		55,041
Net cash used in investing activities:				
Decrease in time deposits		5,000		—
Purchases of marketable securities		(757)		(11,577)
Proceeds from sales of marketable securities		19,432		647
Proceeds from redemption of marketable securities		6,128		10,216
Purchases of property, plant and equipment		(5,240)		(7,134)
Purchases of intangible assets		(889)		(2,012)
Proceeds from sales of intangible assets		—		1,097
Purchases of investment securities		(1,078)		(2,524)
Proceeds from sales of investment securities		—		3,581
Proceeds from redemption of investment securities		2,006		1,623
Decrease (increase) in short-term loans receivable		25,000		—
Purchase of investments in subsidiaries resulting in change in scope of consolidation	*3	(200,649)		—
Other-net		(790)		(485)
Net cash used in investing activities		(151,838)		(6,567)

(Millions of yen)

	Year ended March 31, 2010	Year ended March 31, 2011
Net cash used in financing activities:		
Net increase (decrease) in short-term loans payable	164,900	(115,500)
Proceeds from long-term loans payable	―	58,000
Repayment of long-term debt	―	(5,300)
Proceeds from issuance of bonds	―	49,763
Redemption of bonds	(25,795)	(74)
Net decrease (increase) in treasury stock	(3)	(1)
Dividends paid	(7,149)	(7,149)
Dividends paid to minority shareholders	(0)	―
Other-net	(21)	(73)
Net cash used in financing activities	131,929	(20,335)
Effect of exchange rate changes on cash and cash equivalents	429	(3,796)
Net increase (decrease) in cash and cash equivalents	7,203	24,341
Cash and cash equivalents at the beginning of period	49,481	58,139
Increase in cash and cash equivalents related to change in scope of consolidation	1,454	386
Cash and cash equivalents at the end of period	*2 58,139	*2 82,868

(5) Notes on Premise of Going Concern

Not applicable.

(6) Significant Basic Items for Preparing Consolidated Financial Statements

	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
1. Scope of consolidation	Of our 22 subsidiaries, 13 companies are consolidated subsidiaries. The names of the major consolidated subsidiaries are omitted as they are set out in the "2. Status of the group." As a result of the acquisition of Sepracor Inc., its 7 subsidiaries and the 2 U.S. subsidiaries that were previously non-consolidated are newly consolidated. In addition, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., is included in the scope of consolidation as its importance has increased. Our 9 non-consolidated companies have been excluded from the scope of consolidation because they are small companies and their exclusion would not have a material impact on our consolidated financial statements.	Of our 20 subsidiaries, 13 companies are consolidated subsidiaries. The names of the major consolidated subsidiaries are omitted as they are set out in the "2. Summary of the Business of the group." DS Pharma Animal Health Co., Ltd., which was newly established by means of corporate separation, is included in the scope of consolidation. In addition, Dainippon Sumitomo Pharma America, Inc., is excluded from the scope of consolidation as it was merged by Sunovion. Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd. that was non-consolidated is included in the scope of consolidation as it was merged by Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. Our 7 non-consolidated companies have been excluded from the scope of consolidation because they are small companies and their exclusion would not have a material impact on our consolidated financial statements.
2. Application of the equity method	As their exclusion from the scope of the application of the equity method would not have a material impact on our consolidated financial statements, our 9 non-consolidated companies and 5 affiliated companies have been excluded from the scope of the application of the equity method. In addition, as a result of the acquisition of Sepracor Inc., one of its affiliated companies has become the Company's affiliated company. It is evaluated by adopting the fair value option of the U.S.GAAP.	As their exclusion from the scope of the application of the equity method would not have a material impact on our consolidated financial statements, our 7 non-consolidated companies and 5 affiliated companies have been excluded from the scope of the application of the equity method. Biosphere medical Inc. that was equity method affiliate is excluded from the scope of consolidation because Sunovion sold off all shares of the company.
3. Fiscal year of consolidated subsidiaries	There are 11 consolidated overseas subsidiaries. All of fiscal year-end of the 11 companies are December 31, and the Company uses the financial statements as of December 31 in preparing the Company's consolidated financial statements. For significant transactions occurred during the period between the fiscal year-end and March 31, necessary adjustments have been made for the consolidated financial statements.	There are 10 consolidated overseas subsidiaries. All of fiscal year-end of the 10 companies are December 31, and the Company uses the financial statements as of December 31 in preparing the Company's consolidated financial statements. For significant transactions occurred during the period between the fiscal year-end and March 31, necessary adjustments have been made for the consolidated financial statements.

	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
4. Accounting policies and methods	(1) Valuation standards and methods of significant assets (i) Securities Held-to-maturity securities Amortized cost method (straight-line method) Available-for-sale securities With market values Market value method based on the market price as of the last day of the consolidated fiscal period (All valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated according to the moving-average method.) Without market values Cost method based on the moving-average method (ii) Inventories Inventories held for sale in the regular course of business Weighted average cost method (Book values have been calculated according to the lower of cost or market method based on decreased profitability) Certain consolidated subsidiaries are subject to the lower of cost or market method based on the FIFO (first-in, first-out) method.	(1) Valuation standards and methods of significant assets (i) Securities Held-to-maturity securities Same as on the left Available-for-sale securities With market values Same as on the left Without market values Same as on the left (ii) Inventories Inventories held for sale in the regular course of business Same as on the left
	(2) Depreciation and amortization of significant depreciable assets (i) Tangible fixed assets (excluding lease assets) Buildings: straight-line method Other tangible fixed assets: declining-balance method As certain subsidiaries, all tangible fixed assets are depreciated according to the straight-line method. The useful life of each asset is as follows: Buildings and structures: 3 to 60 years Machinery, equipment and carriers: 2 to 17 years (ii) Intangible assets (excluding lease assets) Straight-line method The useful life or each asset is as follows: Software for internal use: Internally usable period (5 years) Patent rights: 1 to 10 years	(2) Depreciation and amortization of significant depreciable assets (i) Tangible fixed assets (excluding lease assets) Same as on the left (ii) Intangible assets (excluding lease assets) Same as on the left

	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
	(iii) Lease assets Lease assets related to finance lease transactions do not transfer ownership Straight-line method where the lease period is taken as the useful life and the residual value should be zero. Among finance lease transactions do not transfer ownership, those that started on or prior to March 31, 2008, are accounted for in the same manner as ordinary operating lease transactions.	(iii) Lease assets Same as on the left
	(3) Standards for posting important reserves (i) Allowance for doubtful receivables In order to provide for losses arising from uncollectable notes receivable and other bad debts, we accrue provisions for the amounts that we estimate will be unrecoverable, by use of the loan loss ratio for general claims, or by way of investigating the collectability on an individual basis of particular loans, such as those with higher probability of default. (ii) Reserve for bonuses In order to provide for the payment of employee bonuses, the amounts that we estimate will be paid are accrued. (iii) Reserve for sales returns In order to provide for losses from returned products, the sales profits corresponding to all of the expected products returned are accrued. In certain consolidated subsidiaries, in order to provide for losses from returned products, the estimated losses corresponding to all of the expected products returned are accrued. (iv) Reserve for sales rebates In order to provide for the disbursement of sales rebates to public programs, wholesalers, other contracts, etc., the estimated amount thereof is accrued.	(3) Standards for posting important reserves (i) Allowance for doubtful receivables Same as on the left (ii) Reserve for bonuses Same as on the left (iii) Reserve for sales returns Same as on the left (iv) Reserve for sales rebates Same as on the left

	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
	(v) Liability for retirement benefits In order to provide for the retirement benefits of employees, amounts are accrued based on the projected benefit obligations and estimated value of pension assets as of the end of the consolidated fiscal year. Unrealized prior service cost is treated as an expense and recognized according to the straight-line method based on a specific number of years (fifteen years) within the average remaining service years of employees when incurred. Unrealized actuarial gains and losses are treated as an expense and recognized from the following consolidated fiscal year according to the straight-line method based on a specific number of years (fifteen years) within the average remaining service years of employees when incurred.	(v) Liability for retirement benefits Same as on the left
	(Change in accounting policies) We have adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)," (ASBJ Statement No.19, July 31, 2008) from this consolidated fiscal year. This change will have no impact on income.	—
	(vi) Liability for directors' retirement benefits Prescribed amounts as calculated pursuant to internal rules are accrued by certain consolidated subsidiaries at the end of the consolidated fiscal year in order to provide for directors' retirement benefits.	(vi) Liability for directors' retirement benefits Same as on the left

	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
	(4) Foreign currency translation Monetary receivables and payables denominated in foreign currencies are translated into yen at the spot exchange rate of the last day of the consolidated fiscal year and foreign exchange gain or loss is charged to income. Assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rate in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the period into yen. Differences arising from translations have been reported in foreign currency translation adjustment in net asset section.	(4) Foreign currency translation Same as on the left
	(5) Important hedge accounting (i) Hedge accounting method In principle, the deferred hedge accounting is adopted. Foreign exchange forward contracts are subject to a method whereby gains and losses on foreign monetary rights or obligations are recognized at a preset price as the contracts satisfy the conditions. (ii) Hedging instruments and hedged items - Hedging instruments Foreign exchange forward contracts - Hedged items Monetary assets and liabilities denominated in foreign currencies and anticipated transactions denominated in foreign currencies. (iii) Hedging policy Foreign exchange forward contracts are concluded pursuant to internal regulations in order to hedge foreign currency risks. (iv) Method of evaluating the effectiveness of hedges The effectiveness has been evaluated by comparing the accumulated changes in market value of hedged items with the accumulated changes in market value of hedging instruments. With regard to foreign exchange forward contracts, as important conditions for hedged items and hedging instruments are the same, the effectiveness of such contracts has not been evaluated.	(5) Important hedge accounting (i) Hedge accounting method Same as on the left (ii) Hedging instruments and hedged items Same as on the left (iii) Hedging policy Same as on the left (iv) Method of evaluating the effectiveness of hedges Same as on the left

	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
	(6) Amortization of goodwill and negative goodwill Goodwill accrued with the acquisition of Sepracor Inc. has been amortized on a straight-line basis over a period of (20 years) during which the effect thereof is expected to develop.	(6) Amortization of goodwill Goodwill accrued with the acquisition of Sunovion has been amortized on a straight-line basis over a period of (20 years) during which the effect thereof is expected to develop.
	(7) Cash and cash equivalents in the consolidated statements of cash flows Cash and cash equivalents in the consolidated statements of cash flows represents cash and deposits (excluding the time deposits with a term longer than three months), and short-term investment maturing within three months from the acquisition date.	(7) Cash and cash equivalents in the consolidated statements of cash flows Same as on the left
	(8) Other significant accounting policies Accounting for consumption taxes Consumption taxes are subject to the net of tax method.	(8) Other significant accounting policies Accounting for consumption taxes Same as on the left

(7) Changes in Significant Basic Items for Preparing Consolidated Financial Statements

Changes in accounting policies

Year ended March 31, 2010 (April 1,2009 to March 31, 2010)	Year ended March 31, 2011 (April 1,2010 to March 31, 2011)
(Application of accounting standards etc. for business combination) With regard to the "Accounting Standards for Business Combination" (ASBJ Statement No. 21 dated December 26, 2008), the "Accounting Standards for Consolidated Financial Statements" (ASBJ Statement No. 22 dated December 26, 2008), the "Partial Amendment of the Accounting Standards for Research & Development Expenses etc." (ASBJ Statement No. 23 dated December 26, 2008), the "Accounting Standards for Business Divestiture etc." (ASBJ Statement No. 7 dated December 26, 2008), the "Accounting Standards for the Equity Method" (ASBJ Statement No. 16 promulgated on December 26, 2008), and the "Accounting Standards for Business Combination and the Implementation Guidance for the Accounting Standards for Business Divestiture etc." (Implementation Guidance No. 10 of ASBJ Statement dated December 26, 2008), as all these standards have become applicable to business combinations, business divestitures, etc., implemented for the first time in the consolidated fiscal year that commences on or after April 1, 2009, we have adopted these accounting standards from the present consolidated fiscal year.	——
——	(Application of "Accounting Standard for Asset Retirement Obligations") Effective from the year ended March 31, 2011, "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No.18 of March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No.21 of March 31, 2008) have been applied. Consequently, operating income, ordinary income and net income before taxes have each been reduced by 310 million yen respectively.

Additional information

Year ended March 31, 2010 (April 1,2009 to March 31, 2010)	Year ended March 31, 2011 (April 1,2010 to March 31, 2011)
——	(Additional information) Effective from the year ended March 31, 2011, "Accounting Standard for Presentation of Comprehensive Income" (ASBJ Statement No.25 June 30, 2010) has been applied. However, the amount of "Accumulated other comprehensive income" and "Total accumulated other comprehensive income" in the previous consolidated fiscal year are shown with the amount of "Valuation and translation adjustments" and "Total valuation and translation adjustments".

(8) Notes to Consolidated Financial Statements

(Notes to consolidated balance sheets)

(Millions of yen)

As of March 31, 2010	As of March 31, 2011
* 1. Assets pledged as collateral are as follows: Investment securities 62 Secured liabilities are as follows: Accounts payable 219	* 1. Assets pledged as collateral are as follows: Investment securities 60 Secured liabilities are as follows: Accounts payable 168
* 2. Investment in non-consolidated subsidiaries and affiliates are as follows:, Investment securities (stock) 2,034 Investments in capital (included in "Others" under "Investments and other assets") 1,717	* 2. Investment in non-consolidated subsidiaries and affiliates are as follows:, Investment securities (stock) 772 Investments in capital (included in "Others" under "Investments and other assets") 200
3. Contingent liabilities (1) Debt guarantees have been applied to amounts borrowed from financial institutions by non-consolidated companies: Kyowa Hakko Pharmaceuticals (Suzhou) Co., Ltd. 300 Sanno Food Co., Ltd. 491 Total 791	3. Contingent liabilities (1) Debt guarantees have been applied to amounts borrowed from financial institutions by non-consolidated companies: Sanno Food Co., Ltd. 277
(2) Debt guarantees have been applied to amounts of housing funds borrowed from financial institutions by employees: 212	(2) Debt guarantees have been applied to amounts of housing funds borrowed from financial institutions by employees: 152
* 4. Patent rights include distributorship, etc.	* 4. Same as on the left

(Notes to consolidated statements of income)

(Millions of yen)

<table>
<tr><th>Year ended March 31, 2010
（April 1,2009 to March 31, 2010）</th><th>Year ended March 31, 2011
（April 1,2010 to March 31, 2011）</th></tr>
<tr><td>* 1. Inventory at March 31, 2010 is stated at value after devaluation corresponding to reduced profitability, the following loss on valuation of inventories is included in the “Cost of sales”:
94

* 2. The total amount of research and development costs equals 51,371 million yen and has been included in “Selling, general and administrative expenses.”

* 3. Compensation for revision of personnel system corresponds to the amount of temporary compensation for the annual salary difference caused by revision of personnel system.</td>
<td>* 1. Inventory at March 31, 2011 is stated at value after devaluation corresponding to reduced profitability, the following loss on valuation of inventories is included in the “Cost of sales”:
613

* 2. The total amount of research and development costs equals 68,159 million yen and has been included in “Selling, general and administrative expenses.”

* 3. Extraordinary loss
Among the fixed assets owned by the Group, business assets are grouped by segment, with individual assets constituting the smallest grouping unit for idle assets, patents, and other such assets.
In the year ended March 31, 2011, the Group posted impairment losses with respect to the following assets.
<table>
<tr><th>Usage for</th><th>Item</th><th>Location</th><th>Impairment loss amount</th></tr>
<tr><td>Exclusive rights with respect to pharmaceuticals</td><td>Patents</td><td>U.S.</td><td>2,179</td></tr>
<tr><td rowspan="2">Idle assets</td><td>Buildings, machinery and equipment etc.</td><td>Osaka</td><td>274</td></tr>
<tr><td>Buildings, machinery and equipment etc.</td><td>Suzuka ,Mie</td><td>792</td></tr>
<tr><td colspan="3">Total</td><td>3,246</td></tr>
</table>
The recoverability of patents deemed to be lacking in future profitability was assessed at zero, and their unamortized balance has been posted as impairment losses.
The book values of idle assets that are not expected to be used in the future owing to review of the production system and the unification of research facilities were diminished to recoverable amounts and the diminished amount has been posted as impairment losses. While the recoverable amounts of idle assets are normally measured according to the net sales prices, these idle assets were assessed according to their memorandum prices in light of the low likelihood that they could be sold.</td></tr>
</table>

(Consolidated Statements of Comprehensive Income)

Year ended March 31, 2011（April 1,2010 to March 31, 2011）

*1 Comprehensive income for the year ended March 31,2010

	(Millions of yen)
Comprehensive income attributable to parent company	27,142
Comprehensive income attributable to minority interests	5
Total	27,148

*2 Other comprehensive income for the year ended March 31,2010

	(Millions of yen)
Unrealized gains on available-for-sale securities, net of tax	2,782
Foreign currency translation adjustment	3,400
Total	6,183

(Notes to consolidated statements of changes in Net Assets)

Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)

1. Type and total number of issued shares and treasury stock

(thousands of shares)

	Number of shares as of March 31, 2009	Increase during the period	Decrease during the period	Number of shares as of March 31, 2010
Issued shares				
Common stock	397,900	—	—	397,900
Total	397,900	—	—	397,900
Treasury stock				
Common stock	580	4	0	584
Total	580	4	0	584

(Notes)
1. The increase of 4 thousand shares of treasury stock was a result of purchasing fractional shares.
2. The decrease of 0 thousand shares of treasury stock was a result of a request for purchase of fractional shares.

2. Dividends

(1) Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Record date	Effective date of distribution
June 26, 2009 Annual shareholders' meeting	Common stock	3,575 million yen	9.00 yen	March 31, 2009	June 29, 2009
October 29, 2009 Meeting of the Board of Directors	Common stock	3,575 million yen	9.00 yen	September 30, 2009	December 1, 2009

(2) Dividends for which the base date belongs to the current consolidated fiscal year and for which the effective date of distribution falls in the following consolidated fiscal year

Resolution	Type of share	Total dividend amount	Source of funds for dividend distribution	Dividend amount per share	Record date	Effective date of distribution
June 25, 2010 Annual shareholders' meeting	Common stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2010	June 28, 2010

Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)

1. Type and total number of issued shares and treasury stock

(thousands of shares)

	Number of shares as of March 31, 2010	Increase during the period	Decrease during the period	Number of shares as of March 31, 2011
Issued shares				
Common stock	397,900	—	—	397,900
Total	397,900	—	—	397,900
Treasury stock				
Common stock	584	2	0	587
Total	584	2	0	587

(Notes)
1. The increase of 2 thousand shares of treasury stock was a result of purchasing fractional shares.
2. The decrease of 0 thousand shares of treasury stock was a result of a request for purchase of fractional shares.

2. Dividends

(1) Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Record date	Effective date of distribution
June 25, 2010 Annual shareholders' meeting	Common stock	3,575 million yen	9.00 yen	March 31, 2010	June 28, 2010
October 29, 2010 Meeting of the Board of Directors	Common stock	3,575 million yen	9.00 yen	September 30, 2010	December 1, 2010

(2) Dividends for which the base date belongs to the current consolidated fiscal year and for which the effective date of distribution falls in the following consolidated fiscal year

Resolution schedule	Type of share	Total dividend amount	Source of funds for dividend distribution	Dividend amount per share	Record date	Effective date of distribution
June 24, 2011 Annual shareholders' meeting	Common stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2011	June 27, 2011

(Consolidated statements of cash flows)

(Millions of yen)

<table>
<tr><th>Year ended March 31, 2010
(April 1,2009 to March 31, 2010)</th><th>Year ended March 31, 2011
(April 1,2010 to March 31, 2011)</th></tr>
<tr><td>* 1. “Depreciation and amortization” includes 806 million yen, amortized amount of long-term prepaid expenses.

* 2. Reconciliation of balance of “cash and cash equivalents at the end of period” and the amounts of items stated in the consolidated balance sheet is as follows:
(March 31, 2010)
Cash and time deposit accounts 13,823
Short-term investments with a maturity within 3 months from acquisition date (marketable securities) 44,316
Cash and cash equivalent 58,139

* 3. Assets and liabilities of companies newly consolidated through acquisition of shares
The assets, liabilities, acquisition cost and net acquisition cost of Sepracor Inc. upon consolidation due to acquisition of shares are as follows.
Current assets 93,392
Fixed assets 143,446
Goodwill 82,986
Current liabilities △83,182
Noncurrent liabilities △9,028
Purchase price of shares of Sepracor 227,614
Cash and cash equivalents of Sepracor △26,965
Purchase of investments in subsidiaries resulting in change in scope of consolidation 200,649</td><td>* 1. “Depreciation and amortization” includes 1,001 million yen, amortized amount of long-term prepaid expenses.

* 2. Reconciliation of balance of “cash and cash equivalents at the end of period” and the amounts of items stated in the consolidated balance sheet is as follows:
(March 31, 2011)
Cash and time deposit accounts 14,938
Short-term investments with a maturity within 3 months from acquisition date (marketable securities) 67,929
Cash and cash equivalent 82,868

——</td></tr>
</table>

(Segment information)

[Business segment information]

Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)

(Millions of yen)

	Pharmaceuticals	Other products	Total	Eliminations/ Corporate	Consolidated
Ⅰ Net sales and operating income					
Net sales					
(1) Sales to customers	236,755	59,506	296,261	—	296,261
(2) Intersegment sales and transfers	—	—	—	—	—
Total	236,755	59,506	296,261	—	296,261
Operating expenses	203,741	56,895	260,636	—	260,636
Operating income	33,014	2,610	35,624	—	35,624
Ⅱ Assets, depreciation and amortization, and capital expenditures					
Assets	498,057	22,922	520,979	105,763	626,743
Depreciation and amortization	17,670	172	17,843	—	17,843
Capital expenditures	6,321	149	6,470	—	6,470

(Notes) 1. Business segments are divided into “Pharmaceuticals” and “Other products” based on natures of products and businesses.

2. The major products in each of the business segment are as follows:

Business segment	Major products
Pharmaceuticals	Ethical pharmaceuticals
Other products	Animal health products, feeds and feed additives, food additives, diagnostics, and other products

3. Amounts and main contents included in “Elimination/Corporate” are as follows:

(Millions of yen)

	Year ended March 31,2010	Main contents
Amount of corporate assets included in eliminations/corporate	105,763	Surplus funds (cash, deposits and marketable securities) and long-term investment funds (investment securities) in the Company

[Geographical segment information]

Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)

(Millions of yen)

	Japan	North America	China	Total	Eliminations/ Corporate	Consolidated
Ⅰ Net sales and operating income Net sales (1) Sales to customers (2) Intersegment sales and transfers	 263,467 1,361	 28,647 1,304	 4,146 463	 296,261 3,129	 — (3,129)	 296,261 —
Total	264,828	29,952	4,610	299,391	(3,129)	296,261
Operating expenses	227,873	32,111	3,738	263,723	(3,086)	260,636
Operating income	36,955	(2,159)	871	35,667	(43)	35,624
Ⅱ Assets	575,500	281,046	2,851	859,398	(232,655)	626,743

(Notes) 1. Country and regional segments are based on geographic proximity.
2. Main countries and regions included in each segment
North America: United States, Canada

[Overseas sales]

Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)

(Millions of yen)

	North America	Europe	Asia and Others	Total
Ⅰ Overseas sales	28,946	17,059	7,009	53,015
Ⅱ Consolidated net sales	—	—	—	296,261
Ⅲ Overseas sales as a percentage of consolidated net sales	9.8%	5.7%	2.4%	17.9%

(Notes) 1. Country and regional segments are based on geographic proximity.
2. Main countries and regions included in each segment
(1) North America: United States, Canada
(2) Europe: United Kingdom and others
(3) Asia and Others: China, South Korea, Taiwan and others
3. Overseas sales consist of sales earned by the Company and its consolidated subsidiaries in countries or regions outside of Japan.
4. “North America” which was included in “Other countries” before was separately distinguished from this consolidated fiscal year because net sales in North America increased associated with consolidation of Sepracor due to the acquisition.
Overseas sales of “North America” included in “Other countries” in previous consolidated fiscal year were 280 million yen.

[Segment information]

- Additional Information -

From this consolidated fiscal year, the Group applies the "Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No. 17 of March 27, 2009) and "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 of March 21, 2008).

1. Outline of reportable segments

The Company'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 their performance, and for which discrete financial information is available.

The Group purchases, manufactures, and sells mainly ethical pharmaceuticals. In Japan, the Company, and outside Japan, primarily in the U.S., a consolidated subsidiary, Sunovion, and in China, a consolidated subsidiary, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., are conducting business activities, respectively. These local 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 and income (loss), identifiable assets, and other items by reportable segments

Accounting method for business segment reported is the same as presentations on "Significant Basic Items for Preparing Consolidated Financial Statements." Income by reportable segments is calculated based on operating income. Intersegment sales and internal return are calculated based on current market prices.

3. Information on sales and income (loss) by reportable segment

Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)

(Millions of yen)

	Reportable Segments				Other Business	Total
	Japan (Pharmaceuticals)	U.S.	China	Subtotal		
Net sales						
Sales to customers	203,960	28,647	4,146	236,755	59,506	296,261
Intersegment sales and transfers	1,361	1,304	463	3,129	—	3,129
Total	205,322	29,952	4,610	239,884	59,506	299,391
Income (loss) of segment	34,344	(2,159)	871	33,057	2,610	35,667
Assets	215,696	281,046	2,851	499,594	22,922	522,516
Others						
Depreciation and amortization	10,302	6,384	116	16,803	172	16,976
Amortization of Goodwill	2	864	—	866	—	866
Increase of property, plant and equipment and intangible assets	6,176	118	26	6,321	149	6,470

Note: The "Other Business" category incorporates operations not included in reportable segments, including food additives, animal health products, diagnostics and other products.

Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)

(Millions of yen)

	Reportable Segments				Other Business	Total
	Japan (Pharmaceuticals)	U.S.	China	Subtotal		
Net sales						
Sales to customers	211,349	117,647	5,589	334,586	44,927	379,513
Intersegment sales and transfers	6,450	4,271	520	11,242	56	11,299
Total	217,800	121,918	6,110	345,828	44,984	390,813
Income (loss) of segment	43,314	(11,620)	780	32,475	1,917	34,392
Assets	214,384	241,942	4,531	460,859	27,953	488,813
Others						
Depreciation and amortization	10,228	28,968	221	39,418	170	39,588
Amortization of Goodwill	—	4,037	—	4,037	—	4,037
Increase of property, plant and equipment and intangible assets	6,938	1,215	148	8,302	360	8,663

Note: The “Other Business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, diagnostics and other products.

4. Difference between total of the income (loss) of the reportable segments and the amount on consolidated statements of income, and main contents of the difference (adjustment of difference)

(Millions of yen)

Net sales	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
Reportable segments total	239,884	345,828
Net sales of "Other Business" category	59,506	44,984
Elimination of intersegment transaction	(3,129)	(11,299)
Net sales on consolidated statements of income	296,261	379,513

(Millions of yen)

Income	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
Reportable segments total	33,057	32,475
Income of "Other Business" category	2,610	1,917
Elimination of intersegment transaction	(43)	(3,441)
Operating income on consolidated statements of income	35,624	30,951

(Millions of yen)

Assets	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
Reportable segments total	499,594	460,859
Assets of "Other Business" category	22,922	27,953
Corporate assets	105,763	107,433
Elimination of intersegment transaction	(1,537)	(6,378)
Total assets on consolidated financial statements	626,743	589,868

Note: Corporate assets such as surplus funds (cash, deposits and marketable securities) and long-term investment funds (investment securities) in the Company are not belonging to the reportable segments.

(Millions of yen)

Other items	Reportable segments total		Other Business		Adjustment		Amount recorded on consolidated financial statements	
	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2011	Year ended March 31, 2010	Year ended March 31, 2011
Depreciation and amortization	16,803	39,418	172	170	—	—	16,976	39,588
Amortization of goodwill	866	4,037	—	—	—	—	866	4,037
Increase of property, plant and equipment and intangible assets	6,321	8,302	149	360	—	—	6,470	8,663

[Relative information]

Year ended March 31, 2011(April 1, 2010 to March 31, 2011)

1. Products and services information

(Millions of yen)

	Pharmaceuticals	Other products	Total
Sales to customers	334,586	44,927	379,513

2. Geographic segment information

(1) Net sales

(Millions of yen)

Japan	U.S.	Others	Total
227,287	115,404	36,821	379,513

(2) Tangible fixed assets

(Millions of yen)

Japan	Others	Total
62,131	7,662	69,793

3. Information by major clients

(Millions of yen)

Name of customer	Net sales	Name of relative segment
McKesson Corporation	44,188	U.S.
Mediceo Corporation	38,982	Japan(Pharmaceuticals)
Alfresa Corporation	38,192	Japan(Pharmaceuticals)

[Information on impairment loss in noncurrent assets by reportable segment]

Year ended March 31, 2011(April 1, 2010 to March 31, 2011)

(Millions of yen)

	Reportable Segments				Other business	Eliminations/Corporate	Total
	Japan (Pharmaceuticals)	U.S.	China	Total			
Impairment loss	1,066	2,179	—	3,246	—	—	3,246

[Information on amortization of goodwill and unamortized balance by reportable segment]

Year ended March 31, 2011(April 1, 2010 to March 31, 2011)

(Millions of yen)

	Reportable Segments				Other business	Eliminations/Corporate	Total
	Japan (Pharmaceuticals)	U.S.	China	Total			
Amortization	—	4,037	—	4,037	—	—	4,037
Balance at end of period	—	70,369	—	70,369	—	—	70,369

[Information on negative goodwill by reportable segment]

Year ended March 31, 2011(April 1, 2010 to March 31, 2011)

Not applicable

(Information of affiliated parties)

Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)

Transactions between company submitting consolidated financial statements and affiliated parties

Parent company, major shareholders (limited to cases in which shareholder is a company, etc.) of the company submitting consolidated financial statements

Type: Parent company
Name of company, etc.: Sumitomo Chemical Co., Ltd.
Location: Chuo-ku, Tokyo
Capital or amount invested: 89,699 million yen
Business contents or employment: Production and sales of chemical products
Parent company ownership of voting rights, etc.: Direct 50.22%
Relationship with affiliated party:

- Purchase of raw materials
- Leasing of land, etc.
- Purchase of plant services, etc.
- Lending of funds

Contents of transactions: Lending of funds
Amount of transactions: 25,000 million yen
Items on balance sheet: Short-term loans
End-of-term balance: 25,000 million yen

Transaction conditions and policy, etc., for determining transaction conditions

Where funds are lent, applicable interest rates are rationally determined upon taking into account the market rate of interest.

Year ended March 31, 2011(April 1, 2010 to March 31, 2011)

Transactions between company submitting consolidated financial statements and affiliated parties

Parent company, major shareholders (limited to cases in which shareholder is a company, etc.) of the company submitting consolidated financial statements

Type: Parent company
Name of company, etc.: Sumitomo Chemical Co., Ltd.
Location: Chuo-ku, Tokyo
Capital or amount invested: 89,699 million yen
Business contents or employment: Production and sales of chemical products
Parent company ownership of voting rights, etc.: Direct 50.22%
Relationship with affiliated party:

- Purchase of raw materials
- Leasing of land, etc.
- Purchase of plant services, etc.
- Lending of funds

Contents of transactions: Lending of funds
Amount of transactions: 25,000 million yen
Items on balance sheet: Short-term loans
End-of-term balance: 25,000 million yen

Transaction conditions and policy, etc., for determining transaction conditions

Where funds are lent, applicable interest rates are rationally determined upon taking into account the market rate of interest.

(Tax effect accounting)

(Millions of yen)

Year ended March 31, 2010 (April 1,2009 to March 31, 2010)		Year ended March 31, 2011 (April 1,2010 to March 31, 2011)	
1. Main components of deferred tax assets and deferred tax liabilities:		1. Main components of deferred tax assets and deferred tax liabilities:	
Deferred tax assets		Deferred tax assets	
Reserve for bonuses	2,966	Reserve for bonuses	2,973
Reserve for sales rebates	5,931	Reserve for sales rebates	5,881
Accrued enterprise tax	798	Accrued enterprise tax	782
Liability for employees' retirement benefits	3,016	Liability for employees' retirement benefits	3,015
Loss on valuation of investment securities	1,264	Loss on valuation of investment securities	594
Prepaid R&D expenses	13,143	Prepaid R&D expenses	11,093
Stored goods	2,638	Stored goods	2,660
Net operating loss carried forward	22,109	Net operating loss carried forward	13,252
Amortization of intangible assets	13,140	Amortization of intangible assets	10,909
Tax credit for R&D expenses of overseas subsidiaries	9,513	Tax credit for R&D expenses of overseas subsidiaries	7,968
Others	12,183	Others	14,436
Subtotal of deferred tax assets	86,706	Subtotal of deferred tax assets	73,567
Amount of valuation allowance	(5,191)	Amount of valuation allowance	(4,307)
Total of deferred tax assets	81,514	Total of deferred tax assets	69,259
Deferred tax liabilities		Deferred tax liabilities	
Unrealized gains on available-for-sale securities, net of tax	(5,043)	Unrealized gains on available-for-sale securities, net of tax	(3,587)
Reserve for advanced depreciation of fixed assets	(663)	Reserve for advanced depreciation of fixed assets	(632)
Amortization intangible assets	(40,633)	Amortization intangible assets	(24,923)
Others	(1,091)	Others	—
Total deferred tax liabilities	(47,431)	Total deferred tax liabilities	(29,143)
Net amount of deferred tax assets	34,082	Net amount of deferred tax assets	40,116
(Note):Net amount of deferred tax assets is included the following consolidated balance sheet items:		(Note):Net amount of deferred tax assets is included the following consolidated balance sheet items:	
Current assets – deferred tax assets	32,447	Current assets – deferred tax assets	33,489
Fixed assets – deferred tax assets	2,389	Fixed assets – deferred tax assets	7,023
Current liabilities – deferred tax liabilities	—	Current liabilities – deferred tax liabilities	—
Fixed liabilities – deferred tax liabilities	(753)	Fixed liabilities – deferred tax liabilities	(396)

Year ended March 31, 2010 (April 1,2009 to March 31, 2010)		Year ended March 31, 2011 (April 1,2010 to March 31, 2011)	
2. Main items cause a significant difference between the statutory tax rate and the actual effective tax rate:		2. Main items cause a significant difference between the statutory tax rate and the actual effective tax rate:	
Statutory tax rate	40.6%	Statutory tax rate	40.6%
(Adjustments)		(Adjustments)	
Entertainment expenses and other items that are excluded from nontaxable expenses	4.9%	Entertainment expenses and other items that are excluded from nontaxable expenses	6.5%
Dividend income and other items that are excluded from taxable income	(0.4%)	Dividend income and other items that are excluded from taxable income	(0.8%)
Tax credit for R&D expenses	(11.7%)	Tax credit for R&D expenses	(17.5%)
Residence tax on per-capita basis	0.4%	Residence tax on per-capita basis	0.5%
Amortization of goodwill	1.1%	Amortization of goodwill	6.6%
Change in valuation allowance	(1.5%)	Change in valuation allowance	(2.6%)
Others	(0.1%)	Others	(0.4%)
Actual effective tax rate	33.3%	Actual effective tax rate	32.9%

(Retirement benefit)

Year ended March 31, 2010 (April 1,2009 to March 31, 2010)	Year ended March 31, 2011 (April 1,2010 to March 31, 2011)
1. Outline of adopted retirement benefit plans The Company and certain consolidated subsidiaries have set up a retirement lump-sum grant plan, a defined benefit corporate pension plan and others as defined benefit-type plans. In addition, a defined contribution pension plan has been set up as a defined contribution type plan. A retirement benefit trust has also been set up by the Company.	1. Outline of adopted retirement benefit plans Same as on left

2. Liability for retirement benefits (March 31, 2010) (Millions of yen)		2. Liability for retirement benefits (March 31, 2011) (Millions of yen)	
(a) Liabilities for retirement benefits	(81,790)	(a) Liabilities for retirement benefits	(80,178)
(b) Pension assets (Note 1)	66,078	(b) Pension assets (Note 1)	65,378
(c) Unfunded liability for retirement benefits [(a) + (b)]	(15,712)	(c) Unfunded liability for retirement benefits [(a) + (b)]	(14,800)
(d) Unrecognized actuarial differences	10,102	(d) Unrecognized actuarial differences	8,369
(e) Unrecognized past service liability (reduction in liability)	(1,428)	(e) Unrecognized past service liability (reduction in liability)	(975)
(f) Net retirement benefit obligations [(c) + (d) + (e)]	(7,038)	(f) Net retirement benefit obligations [(c) + (d) + (e)]	(7,406)
(g) Prepaid pension expense	2,759	(g) Prepaid pension expense	2,859
(h) Reserve for retirement benefits [(f) – (g)]	(9,797)	(h) Reserve for retirement benefits [(f) – (g)]	(10,266)
(Note): 1. A pension benefit trust has been set up. 2. In calculating the liability for retirement benefits for certain consolidated subsidiaries, a simplified method has been adopted.		(Note): 1. A pension benefit trust has been set up. 2. In calculating the liability for retirement benefits for certain consolidated subsidiaries, a simplified method has been adopted.	

<table>
<tr><th>Year ended March 31, 2010
(April 1,2009 to March 31, 2010)</th><th>Year ended March 31, 2011
(April 1,2010 to March 31, 2011)</th></tr>
<tr><td>3. Retirement benefit expenses (April 1, 2009 to March 31, 2010)
(Millions of yen)
(a) Service cost (Note 1,2,3) 3,165
(b) Interest expense 1,623
(c) Expected returns on plan assets (1,158)
(d) Amortization of actuarial differences 1,217
(e) Amortization of prior service costs (233)
(f) Retirement benefit expenses [(a) + (b) + (c) + (d) + (e)] 4,613
(g) Others 705
(h) Total [(f) + (g)] 5,319
(Note):
1. Includes retirement funds for received loan employees payable to the originating company.
2. Excludes retirement funds payable by the company to which loan employees are dispatched.
3. Retirement benefit expenses incurred by consolidated subsidiaries that have adopted a simplified method are posted to “(a) Service costs.”
4. “(g) Others” consists of installment payments made to defined contribution pensions</td><td>3. Retirement benefit expenses (April 1, 2010 to March 31, 2011)
(Millions of yen)
(a) Service cost (Note 1,2,3) 3,210
(b) Interest expense 1,627
(c) Expected returns on plan assets (1,235)
(d) Amortization of actuarial differences 945
(e) Amortization of prior service costs (222)
(f) Retirement benefit expenses [(a) + (b) + (c) + (d) + (e)] 4,326
(g) Others 2,604
(h) Total [(f) + (g)] 6,930
(Note):
1. Includes retirement funds for received loan employees payable to the originating company.
2. Excludes retirement funds payable by the company to which loan employees are dispatched.
3. Retirement benefit expenses incurred by consolidated subsidiaries that have adopted a simplified method are posted to “(a) Service costs.”
4. “(g) Others” consists of installment payments made to defined contribution pensions and other payments</td></tr>
<tr><td>4. Basis for calculating the liability for retirement benefits
(a) Period allocation method for estimated retirement benefits: Fixed amount method
(b) Discount rate: 2.0%
(c) Expected returns on plan assets: 2.0%
(d) Amortization period of prior service costs: 15 years
(e) Amortization period of actuarial differences: 15 years</td><td>4. Basis for calculating the liability for retirement benefits
Same as on left.</td></tr>
</table>

(Business combination)

Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)

Business combination through acquisition

1. Name of acquired company, the contents of the business thereof, main reasons for undertaking business combination, date and legal form of business combination, the 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 the contents of the business thereof
      Name of acquired company: Sepracor Inc.
      Contents of business: Research and development into and the production, marketing, and sales of ethical drugs in area 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, facilitate early market penetration for Lurasidone, rapidly maximize sales, significantly expand our overseas operations, and further fortify 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
2. Term of performance of the acquired company included in the consolidated financial statements
   From October 15, 2009 to December 31, 2009
3. Cost of the acquisition of the acquired company and the breakdown thereof
   The acquisition cost 2,506 million US dollars and was with cash.
4. Amount of accrued goodwill, cause of accrual, amortization method, amortization period
   (1) Amount of goodwill: 82,986 million yen
   (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 is calculated on a tentative basis.
5. Amounts of assets accepted and liabilities assumed on the date of business combination and the main components thereof

Current assets	93,392 million yen
Fixed assets	226,432 million yen
Total assets	319,824 million yen
Current liabilities	83,182 million yen
Long-term liabilities	9,028 million yen
Total liabilities	92,210 million yen

6. Amounts of the cost of acquisition allocated to intangible fixed assets other than goodwill and amortization periods by main components

Main components	Amount	Amortization period
Patent rights	108,654 million yen	1 to 10years
In-process Research and development	5,357 million yen	available period

7. Estimated amounts of impact on the consolidated statement of income in the current consolidated fiscal year if it is assumed that the business combination was concluded on April 1, 2009 and the method of calculation:

Sales	96,700 million yen
Ordinary income	(14,700) million yen
Net income	(15,800) million yen

(Method by which estimated amounts were calculated)

The estimated amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on April 1, 2009 and information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of impact have not been subject to a certification of audit.

Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)

Business combinations and other such matters

(1) Corporate separation of our animal science business

(i) The name and the description of the target business, the date of the business combination, the legal form of the business combination, the name of the combined company, and matters pertaining to an outline of the transaction

(a) The name and the description of the target business
Name of business: animal science business of the Company
Description of business: production, processing, buying and selling, and exporting and importing of veterinary medicine, animal medical devices, feed, and feed additives

(b) The date of the business combination
July 1, 2010

(c) The legal form of the business combination
An incorporation-type company split (a simple company split), in which the Company shall be the splitting company and DS Pharma Animal Health Co., Ltd. shall be the succeeding company.

(d) The name of the combined company
DS Pharma Animal Health Co., Ltd. (consolidated subsidiary of the Company)

(e) Matters pertaining to an outline of the transaction
The transaction was undertaken with the aim of maintaining and reinforcing close links with our research and development section, enhancing the degree of managerial freedom, clarifying management responsibilities, accelerating the decision-making process, and improving profitability.

(ii) Outline of accounting treatment as performed
The corporate separation of our animal science business has been processed as an operation under common control pursuant to Accounting Standard for Business Combinations (ASBJ Statement No. 21 of December 26, 2008) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 of December 26, 2008).

(2) Corporate separation of our food and specialty products business

(i) The name and the description of the target business, the date of the business combination, the legal form of the business combination, the name of the combined company, and matters pertaining to an outline of the transaction

(a) The name and the description of the target business
Name of business: food and specialty products business of the Company
Description of business: production, processing, buying and selling, and exporting and importing of food additives, industrial chemicals, and other chemical products

(b) The date of the business combination
July 1, 2010

(c) The legal form of the business combination
An absorption-type company split (a simple company split) in which the Company shall be the splitting company and Gokyo Trading Co., Ltd. shall be the succeeding company.

(d) The name of the combined company
DSP Gokyo Food & Chemical Co., Ltd. (consolidated subsidiary of the Company)

(e) Matters pertaining to an outline of the transaction
The transaction was undertaken with the aim of maximizing the synergy effects to be generated by a company whose structure is based on a completely new model of integrated research, development, and sales in the field of food and chemical products.

(ii) Outline of accounting treatment as performed
The corporate separation of our animal science business has been processed as an operation under common control pursuant to Accounting Standard for Business Combinations (ASBJ Statement No. 21 of December 26, 2008) and Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10 of December 26, 2008).

(Per-share information)

	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
Net assets per share	864.51 yen	815.44 yen
Net income per share	52.75 yen	42.27 yen

(Notes)1. No diluted net income per share is stated as no potential dilution exists.
2. The basis for the calculation of the net income per share is as follows:

	Year ended March 31, 2010 (April 1, 2009 to March 31, 2010)	Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)
Net income per share		
Net income (millions of yen)	20,958	16,796
Amount not belonging to common shareholders (millions of yen)	—	—
Net income related to common stocks (millions of yen)	20,958	16,796
Average number of common stock during the period (thousands of shares)	397,317	397,314

(Significant subsequent event)

Year ended March 31, 2010 (April 1, 2009 to March 31, 2010) and Year ended March 31, 2011 (April 1, 2010 to March 31, 2011)

None