Annual Report 2005

For the year ended March 31, 2005

DAINIPPON PHARMACEUTICAL CO., LTD.

Corporate Profile

Dainippon Pharmaceutical Co., Ltd., as one of the pioneers of the modern pharmaceutical industry in Japan, has continuously striven to contribute to society with its research and development of better pharmaceuticals and in the supply of those products to the health care world.
Since its foundation in 1897, the Company has used its novel perspectives and insights toward the creation of ever more useful pharmaceuticals. Many of our quality products have won firm confidence and an enviable reputation in the health care profession.

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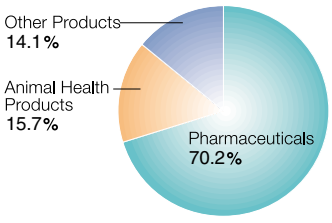
Financial Highlights

	Millions of Yen		Percent Change	Thousands of U.S. Dollars (Note)
	2005	2004	2005/2004	**2005**
For the Year:				
Net sales	**¥ 173,900**	¥ 170,842	1.8%	**$ 1,625,234**
Operating income	**10,397**	9,283	12.0	**97,168**
Net income	**6,924**	7,968	-13.1	**64,710**
R&D costs	**17,444**	15,929	9.5	**163,028**
Capital expenditures	**3,064**	4,294	-28.6	**28,636**
Depreciation and amortization	**5,233**	5,821	-10.1	**48,907**
At Year-End:				
Total assets	**201,431**	193,238	4.2	**1,882,533**
Shareholders' equity	**134,649**	129,569	3.9	**1,258,402**
	Yen			U.S. Dollars (Note)
Per Share Data:				
Net income	**¥ 41.76**	¥ 48.05	-13.1	**$ 0.39**
Cash dividends	**10.00**	10.00		**0.09**
	Percent			
Key Ratios:				
Return on equity (ROE)	**5.2%**	6.5%		
Return on assets (ROA)	**3.5**	4.2		

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥107 to US$1 prevailing on March 31, 2005.

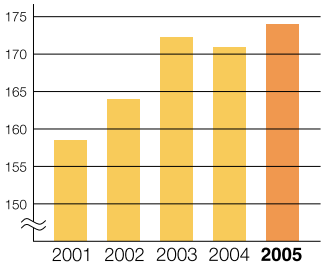
2005 Composition of Sales by Business Segment



FY2005

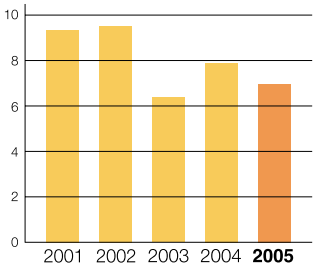
Net Sales

(Billions of yen)



Net Income

(Billions of yen)



Message from the Management

Kenjiro Miyatake
Chairman and President

Overview

This report covers the performance of Dainippon Pharmaceutical Co., Ltd. and its consolidated subsidiaries (the Dainippon Pharmaceutical Group) for fiscal 2005, the year ended March 31, 2005.

Dainippon Pharmaceutical strives to make broad contributions to society through value creation based on continual research and development for the betterment of healthcare and fuller lives for people worldwide. In line with its management principles of customer satisfaction, human resource development and expanding the trust of society, Dainippon Pharmaceutical has aimed for sustainable growth through aggressive business development in the fields of human and animal health and constant adaptation to a rapidly changing business environment.

However, the operating environment in the Japanese pharmaceutical industry continues to become increasingly more challenging with each year. To achieve sustained growth under these conditions, it is necessary to secure a solid earnings base in the domestic pharmaceuticals business and leverage that stable cash flow to enhance the quality and quantity of research and development, thereby accelerating product development and allowing global expansion of operations in the medium to long term.

As part of the Company's management strategy to achieve these goals, a merger agreement effective October 1, 2005 was concluded with Sumitomo Pharmaceuticals Co., Ltd. on April 28, 2005. The resulting company, Dainippon Sumitomo Pharma Co., Ltd., will have the capacity to operate on the scale of other leading domestic pharmaceutical companies, with 1,500 medical representatives and domestic sales of ethical pharmaceuticals in the top ten. In addition, the New Company will have a solid earnings base as a specialized, advanced pharmaceutical company with strong presence and benefit from synergies across a variety of activities, including sales, research and development.

Results

In fiscal 2005, the year ended March 31, 2005, competition intensified in our core pharmaceuticals business due to the effect of measures to restrain health care costs, including an average 4.2 percent reduction in National Health Insurance (NHI) drug prices at the beginning of the term.

Under these conditions and pursuing the Dainippon Group's basic aim from the Phase II 5-Year Management Plan of the "realization of qualitative operations," the Research, Development and Marketing Divisions have collaborated in a positive and efficient manner, while promoting strategies for maximizing product potential. As a result, net sales increased 1.8 percent year-on-year to ¥173.9 billion. Operating income increased 12.0 percent to ¥10.4 billion, reflecting growth in sales of core pharmaceutical products. Net income decreased 13.1 percent year-on-year to ¥6.9 billion due to a reduction in other income and the occurrence of other expenses, including losses associated with business reorganization and expenses related to the merger.

By business segment, sales in the pharmaceuticals business increased 3.0 percent year-on-year to ¥122.1 billion due to concentrated investment of management resources on leading products, including GASMOTIN®, a gastroprokinetic agent; PRORENAL®, an agent for the improvement of peripheral circulation; and QVAR™, an inhaled steroid asthma treatment. In the animal health products business, despite concentration on sales of VICTAS®, an antibiotic developed in-house, and other animal health products, sales decreased 4.8 percent year-on-year to ¥27.3 billion due to expiration of a co-marketing agreement with an alliance partner at the end of December 2004.

Outlook

In fiscal 2006, Dainippon Pharmaceutical will work towards further growth by prioritizing investment of management resources in products that contribute the most to profitability, particularly GASMOTIN®, a gastroprokinetic agent, and PRORENAL®, for the improvement of peripheral circulation. Furthermore, through the merger with Sumitomo Pharmaceuticals Co., Ltd., the sales of that company's products—such as AMLODIN®, a therapeutic agent for hypertension and angina pectoris, and MEROPEN®, a carbapenem antibiotic—will contribute to sales of the merged company from the second half of the 2006 fiscal year, increasing net sales significantly.

In regards to cash outflows, the Company will continue to invest aggressively in research and development to enhance the pipeline of new products and shorten development leads, in addition to making effective investments in sales activities, including promotions for achieving further growth through maximization of current product potential. There are also foreseeable temporary additional costs and investment expenses associated with the merger, including the name change of the company, system development and consolidation of operating bases.

The New Company, Dainippon Sumitomo Pharma Co., Ltd., will begin operations in October 2005 under the corporate philosophy, "Contributing broadly to society through value creation based on research and development for the betterment of healthcare and fuller lives for people worldwide" and will work swiftly to fuse the corporate cultures of the two companies into a vigorous new one.

Kenjiro Miyatake
Chairman and President

Merger with Sumitomo Pharmaceuticals Co., Ltd.

Dainippon Pharmaceutical Co., Ltd. and Sumitomo Pharmaceuticals Co., Ltd. concluded an agreement to merge, effective October 1, 2005, at respective meetings of their Board of Directors on April 28, 2005.

President Kenjiro Miyatake of Dainippon Pharmaceutical (left) and President Yasuo Okamoto of Sumitomo Pharmaceuticals (right) shake hands on November 25, 2004 upon concluding the basic merger agreement

As the surviving company, Dainippon Pharmaceutical will change its name to become Dainippon Sumitomo Pharma Co., Ltd., thereby respecting the traditions associated with each company's name. The New Company aims to contribute to the betterment of healthcare and fuller lives for all people worldwide, while striving to be a leading research-driven pharmaceutical company with an ever increasing presence in the domestic Japanese market and pursuing further development of global operations.

Merger Background and Purpose

The operating environment in the Japanese pharmaceutical industry continues to become increasingly more challenging due to factors such as the implementation of measures to restrain health care costs, rising research and development investment costs, competition from major U.S. and European pharmaceutical companies and restructuring in the industry. In such an operating environment, for mid-to-large size domestic pharmaceutical companies to continue contributing to society and achieve stable growth, it has become necessary to aggressively invest in research and development for discovery of innovative drugs and to secure a solid business foundation in Japan. Furthermore, to achieve future global development, there is a necessity to pursue well laid out strategies backed by considerable investment. With a mutual understanding of these realities, Dainippon Pharmaceutical and Sumitomo Pharmaceuticals concluded a merger agreement to further strengthen their base of operations in their core domestic market and establish a basis for further global business development.

By integrating the management of both companies, the merged company will aim to further enhance profitability and competitiveness through pursuit of a basic strategy of "Selection and Focus".

Dainippon Pharmaceutical, Sumitomo Pharmaceuticals and Sumitomo Chemical Co., Ltd. have agreed to continue listing the New Company after the merger, as a consolidated subsidiary of Sumitomo Chemical, which will hold 50.1 percent of its outstanding shares.

Expected Benefits of the Merger

1. Strengthened Domestic Base of Operations

- The resulting company, Dainippon Sumitomo Pharma Co., Ltd., will rank among the top ten in terms of domestic ethical pharmaceutical sales, with 1,500 medical representatives (MRs) and operations on the scale of leading domestic pharmaceutical companies. Concentration on four core products of the two companies—AMLODIN®, GASMOTIN®, PRORENAL® and MEROPEN®—will allow the New Company to solidify its profit base.
- The increased number of MRs will facilitate effective, high-quality promotional activities through various initiatives, including introduction of a specialist MR system.

2. Strengthened Research and Development

- With an annual budget of approximately ¥45.0 billion for research and development investment, the New Company will have the capacity to accelerate development in its target areas.
- The numerous commonalities in target areas for research and development of both companies will provide synergies to further strengthen the base of research and development activities.
- With both companies having a rich pipeline of drugs, including anticipated blockbusters, in the diabetes and central nervous system fields, the New Company will promote business growth by centering efforts on these areas in the medium to long term.
- By its increased presence in the domestic market, the New Company will be better positioned to in-license major products.

3. Achievement of Cost Synergies

- The New Company will seek to optimize operations in various aspects, such as operating expenses, operating locations, organizational structure, and human resources allocation, as well as re-assess the pipeline of products under development and capital investment plans, so as to realize cost synergies.

4. Nurturing of an Enterprising Corporate Culture

- The New Company will undertake fair and equitable personnel management, whichever company one originates from or whatever customary practices were followed in the past, and aims to nurture an enterprising spirit and shared awareness of risk and crisis by fusing the corporate culture of both companies as early as possible.

As financial targets for fiscal 2007, the New Company aims to achieve ¥280.0 billion in total net sales and ¥50.0 billion in operating income and invest ¥45.0 billion in research and development. The merger is expected to yield a specialized, advanced pharmaceutical company with a strong presence that contributes to the health of people worldwide.

Overview of the Merger

Corporate name:
Dainippon Sumitomo Pharma Co., Ltd.

Merger date: October 1, 2005

Merger method:
Dainippon will be the surviving company.

Headquarters:
6-8, Doshomachi 2-chome, Chuo-ku, Osaka

Main businesses:
Production, sale/purchase and export/import of pharmaceuticals, diagnostics, medical devices, animal health products, food additives, industrial chemicals and other chemicals

Allotment of shares:
One Sumitomo Pharmaceuticals share will be exchanged for 1,290 Dainippon Pharmaceutical shares. (On a stock value basis, the ratio between Dainippon Pharmaceutical and Sumitomo Pharmaceuticals will be 41.5:58.5)

Paid-in-capital: ¥22.4 billion

Representatives:
Yasuo Okamoto, Chairman (currently President of Sumitomo Pharmaceuticals)
Kenjiro Miyatake, President (currently Chairman and President of Dainippon Pharmaceutical)

Brand Mark

"Green Prism," the symbol of Dainippon Sumitomo Pharma Co., Ltd. is a motif in the design of the "Sun"—expressing a lively sense of energy, moving on toward tomorrow; "Light"—to convey the potential and hope of the future; and "Flower"—engendering the joyous and liberated sensation of basking in good health.

A design crafted to embody preeminent research and development powers, a thorough support system, the spirit of challenge, and the other stances of Dainippon Sumitomo Pharma—a company bent on supplying all people with the strength to push on toward an even brighter tomorrow.

The symbol color of "DSP Green" plays on the hue of fresh young leaves and other images of healthy and energetic moods, and signs of what the future holds.

Emanating from the symbol, furthermore, is the image of a network, steadily spreading out into the world.

Transfer of the Healthcare Business

In June 2005, Dainippon Pharmaceutical transferred its healthcare business, which handled over-the-counter (OTC) drug operations, and subsidiary Marupi Drug Co., Ltd. to Kowa Company, Ltd. Dainippon Pharmaceutical's core policy has been to strengthen the earnings base of its ethical pharmaceuticals business while aiming to establish full independence for healthcare and other related business fields. However, with the highly competitive operating environment for healthcare, Dainippon Pharmaceutical decided to transfer its operations to Kowa, which is highly motivated towards maintaining and expanding the business. The assets transferred include products currently marketed by Dainippon Pharmaceutical and Marupi, for which Kowa has high expectations.

Launch of GLIMICRON® HA Tablet 20 mg

In July 2004, Dainippon Pharmaceutical launched GLIMICRON® HA Tablet 20 mg *(gliclazide)*, an oral hypoglycemic. Originally invented and developed by French pharmaceutical manufacturer Servier, GLIMICRON® oral hypoglycemic stimulates insulin production and is used in the treatment of patients with Type 2 diabetes. Dainippon Pharmaceutical developed GLIMICRON® domestically and has marketed it in Japan since 1984. Previously available only as a 40-mg tablet, the new product allows for a 20-mg dose without the need to halve a tablet, which has directly led to improved patient compliance. In addition, the new dosage strength has a distinctly different color from the 40-mg tablet, which allows for greater distinguishability. With the addition of this new dosage strength to its lineup, Dainippon Pharmaceutical hopes to be able to further contribute to the treatment of diabetes in Japan.

Oral hypoglycemic GLIMICRON® HA Tablet 20 mg

Inhaled Steroid Asthma Treatment QVAR™ Approved for Pediatric Use

The inhaled steroid asthma treatment QVAR™ *(beclomethasone dipropionate)* was approved for pediatric use in January 2005. Licensed from 3M Pharmaceuticals of the United States, QVAR™ uses an ozone-safe non-CFC propellant for an extra-fine aerosol spray that more effectively delivers medication to the lungs. QVAR™ was launched by Dainippon Pharmaceutical in Japan in August 2002, and is co-marketed with Schering-Plough K.K. With the drug now also approved for pediatric use, both companies anticipate being able to further contribute to the treatment of asthma in all ages of the population.

Inhaled steroid asthma treatment QVAR™

Licensing Agreements on Research and Development in the Diabetes Field

Dainippon Pharmaceutical has vascular diseases as one of its priority research fields, and focuses particularly on the treatment of diabetes. The Company entered into an agreement with Kyorin Pharmaceutical Co., Ltd. in March 2005 for the joint development in Japan of AS-3201, an agent invented in-house to treat complications from diabetes and that is currently in Phase III clinical trials in the United States and Canada. Also in March, the Company entered into a licensing agreement for the right to develop and market in Japan KGA-2727, a novel agent for the treatment of diabetes discovered by Kissei Pharmaceutical Co., Ltd. In addition, the Company concluded a joint research agreement with drug discovery venture, ZOEGENE Corporation, to create and develop drugs with a novel mechanism of action to treat diabetes and obesity, and is conducting in-house R&D into creative and innovative, new drugs.

D Dainippon and Eisai Conclude Agreement for Anti-Epileptic Agent, *Zonisamide*

In March 2005, Dainippon Pharmaceutical concluded an agreement giving Eisai Co., Ltd. the exclusive right to develop, manufacture and market *zonisamide* in 14 Asian countries, including China and Taiwan. *Zonisamide* is an anti-epileptic agent created by Dainippon Pharmaceutical and is characterized by a wide anti-seizure spectrum, which is effective against even intractable epilepsy. The drug was introduced in Japan in 1989 under the brand name EXEGRAN®.

In the U.S., where the product is steadily penetrating the market, Eisai Inc. currently markets the drug under the brand name ZONEGRAN®. In Europe, Eisai Ltd. obtained marketing authorization for ZONEGRAN® from the European Commission in March, and plans to expand the business throughout the EU market. Dainippon Pharmaceutical and Eisai Co., Ltd. expect that, through this territorial expansion agreement, Eisai will be able to leverage the marketing expertise it has accumulated with its experience in the U.S. and Europe to fulfill patients' needs and bring the benefits of this drug to a greater number of the patients in the Asian region.

C Completion of New East Wing of the Research Laboratories

In September 2004, Dainippon Pharmaceutical completed construction of a new wing of the Research Laboratories that is expected to improve the efficiency of drug discovery. The new wing has consolidated chemical synthesis divisions into one facility, allowing for tighter collaboration and more rapid drug research. Construction of the new wing was undertaken with particular concern for the environment, as well as the health and safety of employees, incorporating a seismically-isolated structure and including state-of-the-art ventilation and drainage systems, hazardous materials recovery facilities, and advanced energy conservation equipment.

New East Wing of the Research Laboratories

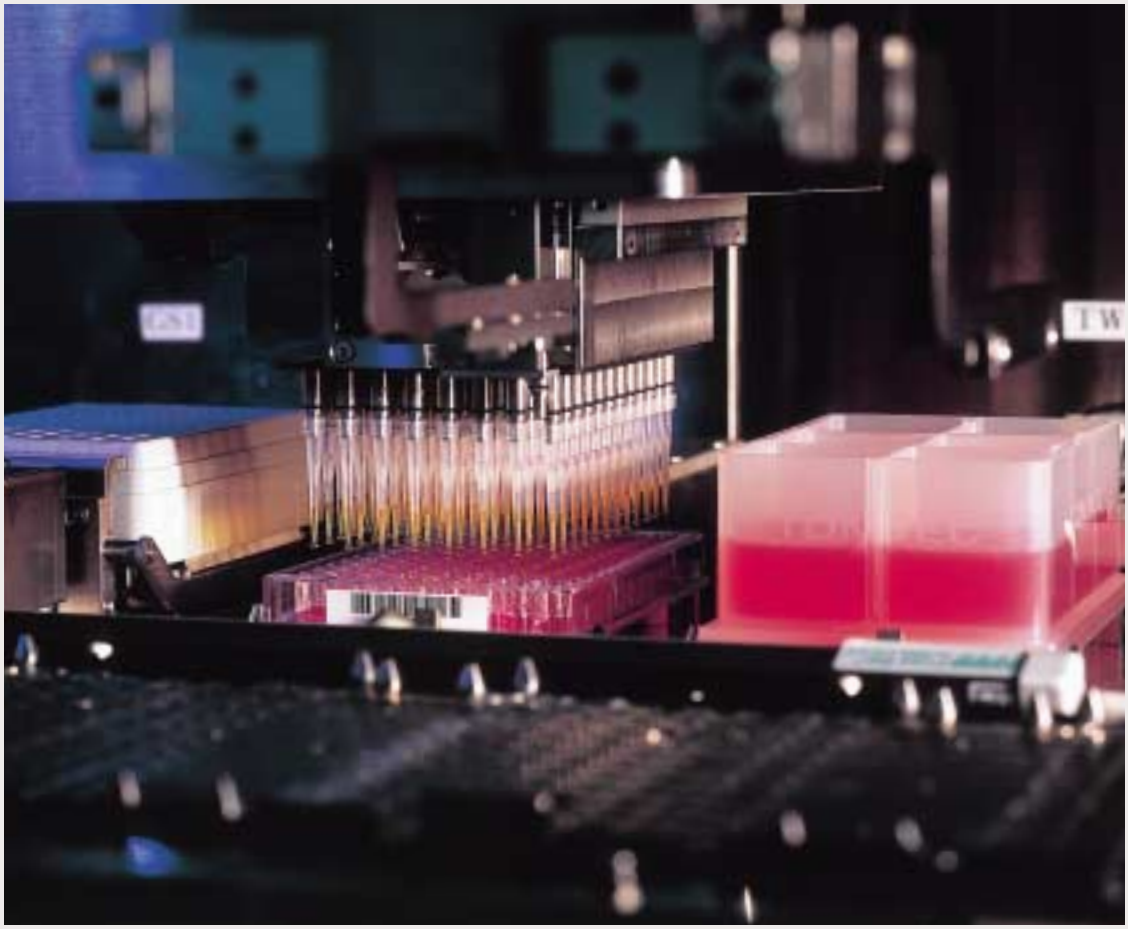
F Five New Animal Health Products Introduced

In April 2004, Dainippon Pharmaceutical began handling three animal health products—two eye treatments and a treatment for otitis externa—manufactured by Senju Pharmaceutical Co., Ltd. Together with one other product it already sells, Dainippon Pharmaceutical now has exclusive access to Senju's entire line of animal health products.

In January 2005, Dainippon Pharmaceutical launched APINAC Tablets®, an agent for canine chronic heart failure that was developed in-house. Then in March 2005, the Company began co-marketing with Bayer Medical Ltd. of ADVANTAGE HEART, a topical solution to not only prevent canine heartworm disease but eliminate fleas.

APINAC Tablets® are a veterinary version of CETAPRIL®, an ACE inhibitor hypotensive agent developed by Dainippon Pharmaceutical that contains the same active ingredient, *alacepril*. ADVANTAGE HEART has a dual action mechanism to both prevent canine heartworm disease and eliminate fleas with an easy monthly administration from a pre-filled applicator. Dainippon ceased the sale of two products—ENACARD®, a treatment for canine heart failure, and CARDOMEC®, a preventative for canine heartworm disease—at the end of 2004, following contract expiration with the licensee.

Research and Development



With the rapid evolution in life sciences, the pharmaceutical research and development process has been required to become ever more sophisticated in order to harness the benefits. Reflecting the needs of this exciting environment, Dainippon Pharmaceutical has established both a separate Drug Research Division and a Drug Development Division, thereby establishing and clarifying their independent roles and responsibilities.

A lateral "project system" has also been introduced that allows the Research and Development Divisions to more effectively collaborate together, while creating synergies from their independent strengths. The "project system" encourages all personnel related to a project—from those involved in basic research to those involved in post-marketing—to increase the speed and efficiency of development through the use of project teams.

These teams have strengthened the lateral ties between the research, clinical development and marketing divisions, while also promoting the professional development of team members through practical experience in multidiscipline R&D. To support this project system, an electronic R&D Project Support System was also introduced. This electronic system enables centralized management of information on schedules, project progress and resource uses, as well as facilitating the easy sharing of information among project members, thus raising the efficiency of both research and development.

Drug Research Division

Basic Aims

Global R&D investment for new drug development has nearly doubled in the past ten years, but the number of new drugs launched has fallen by roughly 50 percent. Pharmaceutical companies are being forced to make drastic changes to their drug development strategies in the face of such fierce competition.

The primary aim of the Drug Research Division is to increase the speed and success of global drug discovery activities. As anticipated, with the Company's separated research and development functions, the discovery research operations of the Division have become more streamlined while continuing to ensure strict observance of both domestic and international regulations involving quality assurance.

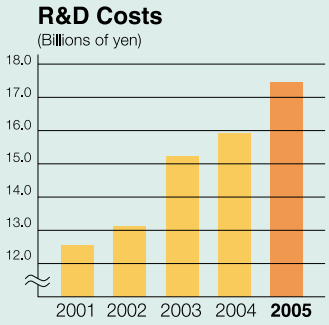
Dainippon Pharmaceutical's research organization is comprised of four laboratory facilities—the Chemistry Research Laboratories, the Pharmacology & Microbiology Research Laboratories, the Safety Research Laboratories and the Pharmacokinetics Research Laboratories. This organizational structure has served to clarify each laboratory's roles and responsibilities regarding the selection of new candidates and the focus of resources in the development of new drugs.

Areas of Exploratory Research

Dainippon Pharmaceutical is concentrating on exploratory research in its four selected areas of vascular, psychic and neurologic, immuno-inflammatory, and infectious diseases, with particular focus on Diabetes. Clear definition of research priorities within the exploratory research stage and the introduction of a research team system have helped to enhance the speed and efficiency of research activities. Early-stage evaluation using early ADME/TOX screening has also assured an improved success rate.

Genomic Drug Discovery

The introduction of high throughput screening (HTS) and automated combinatorial chemistry systems in the 1990's resulted in a quantitative change in drug discovery research activities. The announcement of the mapping of the human genome sequence in 2001 represents an even greater qualitative change in the process. In response, Dainippon Pharmaceutical established the Advanced Pharmacology Group within the Pharmacology & Microbiology Research Laboratories to conduct genetic research and the Structural Chemistry Group within the Chemistry Research Laboratories to analyze protein expression and structure. Both Groups are working to identify and validate drug targets using genomics, proteomics and bioinformatics. Also considerable progress has been made on the development of necessary skills for in-house HTS of new targets.



Dainippon Pharmaceutical also plans to make use of genome technology and information for predicting pharmacokinetics and drug safety for humans, not only for use in exploring drug targets but also to improve the likelihood of success in research. We are continually challenging to improve our know-how of leading-edge technologies by actively participating in various projects with external research institutions and the conduct of joint research.

Drug Development Division

Basic Aims

The first basic aim of the Drug Development Division is to shorten the development period. Currently, the target period from the start of clinical trials to application for approval is five years. A key strategy for reducing this timeframe is to concentrate development resources on high-priority candidates. The Division is also making effective use of external resources, such as clinical research organizations (CRO) and site management organizations (SMO) in clinical trials. The second basic aim is prompt rapid assessment of product characteristics. To this end, the Division conducts clinical studies from Phase I to the proof-of-concept (POC) study, wherever the quickest development is possible, whether it be in Japan or overseas. The third basic aim is value-added development. Through a unified development strategy from Phase I clinical trials to post-marketing activities, the Division is also able to generate quality product information during clinical development to better support post-marketing activities.

The Drug Development Division is comprised of Development Management, Clinical Development, International Clinical Development, Biostatistics, Post Marketing Surveillance and GCP Assurance. Development Management is responsible for project management, regulatory affairs, and resource management, Clinical Development handles clinical studies in Japan and International Clinical Development is in charge of clinical development outside Japan.

Globalization of Development

For development candidates identified by Dainippon Pharmaceutical, the Company generally conducts clinical trials up to the POC study stage either in Japan or overseas, and then searches for a licensee to further develop the product overseas. In the case of candidates, such as AC-5216, where a licensee company expressed interest at a very early stage, a licensing agreement may be finalized at that time.

With the slow pace of clinical trials long being a problem in Japan, Dainippon Pharmaceutical leverages the results of clinical trials completed overseas to shorten the time to approval and launch in Japan. Overseas clinical trials are managed by International Clinical Development in cooperation with Dainippon Pharmaceutical U.S.A. Corporation and the London office, and performed using local CROs. At present, AS-3201 is undergoing Phase III trials in the U.S. and Canada, and AC-3933 is preparing for Phase II trials in the U.S. Overseas clinical trials being conducted by licensees include Phase II trials for AC-5216 by Novartis Pharma AG. In addition, during fiscal 2005 Eisai Co., Ltd. received European Marketing Authorization for *zonisamide* and licensed the rights to develop, manufacture, and market *zonisamide* in various Asian markets.

Summary of Major Development Candidates

Blonanserin

Blonanserin has a novel chemical structure that is completely different from existing antipsychotic agents. The results of recently completed clinical trials have proven that this serotonin-2 (5-HT_2) and dopamine-2 receptor antagonist has efficacy on both the positive and negative symptoms of schizophrenia, and suggest that *blonanserin* causes fewer extrapyramidal adverse reactions compared to older agents. In addition, the undesirable side effects, such as weight gain and elevated blood sugar levels that are associated with other new antipsychotics were not observed. Phase III trials have been completed in Japan and Dainippon Pharmaceutical is preparing to submit the Japanese NDA, with development in Phase II in Europe and the U.S.

AS-3201

In diabetic patients, glucose—which cannot be metabolized in the usual manner—is metabolized by aldose reductase into sorbitol, which accumulates in cells, causing complications such as nerve and blood vessel damage, kidney disease, and retinopathy. AS-3201, discovered by Dainippon Pharmaceutical, is an aldose reductase inhibitor (ARI) that prevents complications due to the accumulation of sorbitol in the cells of diabetic patients. Due to its strong enzyme-inhibiting activity and long-acting effects, AS-3201 is expected to demonstrate clear clinical efficacy compared with similar agents on the market or under development. Dainippon Pharmaceutical completed a Phase II trial in the U.S. and Canada during fiscal 2005, which showed that AS-3201 inhibits the polyol pathway in sural nerve, improves nerve function, and tends to improve some clinical measures.

Zonisamide

Zonisamide is an antiepileptic agent developed by Dainippon Pharmaceutical that has been marketed in Japan under the brand name EXCEGRAN® since 1989. At the Neurology Department of the University of Tokyo, when epilepsy patients with Parkinson's symptoms were given *zonisamide*, their Parkinson's symptoms improved significantly. These findings attracted a great deal of attention when they were reported at the Annual Meeting of the Japanese Society of Neurology held in May 2001. Parkinson's disease is currently treated with L-dopa, which becomes less effective as the disease progresses. However, *zonisamide* produces a beneficial effect through a completely different mechanism of action, and there are high expectations for its clinical efficacy. Dainippon Pharmaceutical has completed Phase IIb/Phase III trials for the additional indication of *zonisamide* as a treatment for Parkinson's disease and is preparing a submission for marketing approval.

AC-3933

The nursing of elderly patients with Alzheimer's dementia and cerebrovascular dementia has become a major social issue, and treatments for senile dementia, have become increasingly important. AC-3933 is a benzodiazepine receptor inverse agonist with a novel mechanism of action that is expected to improve memory loss, one of the core symptoms of senile dementia. Compared with antidementia agents already marketed, it is expected that AC-3933 will demonstrate better efficacy for improving memory deficit by enhancement of the cholinergic function through the allosteric reduction of GABA activity, as well as by enhancement of the glutamatergic function. At present, preparations are being made for Phase II trials in the U.S.

AC-5216

Dainippon Pharmaceutical's discovery research team for neuropsychiatric agents has concentrated for many years on benzodiazepine receptors. AC-3933 and AC-5216 are two drugs of this class with novel mechanisms of action that have gained wide attention in the expanding market for anxiety and depression treatments. AC-5216 is an antianxiety/antidepressant drug with an innovative mechanism that is different from existing benzodiazepine type antianxiety agents. Unlike most of the currently available antianxiety agents that belong to the benzodiazepine type, AC-5216 is an agonist for mitochondrial benzodiazepine receptors and promotes the production of neurosteroids, which act on the $GABA_A$ receptors.

Dainippon Pharmaceutical is conducting Phase I trials in Japan. In February 2002, Novartis Pharma AG received exclusive rights to develop and market AC-5216 globally, excluding east Asia, and is currently conducting Phase II trials in the U.S. and Canada.

New Drugs in the R&D Pipeline

(As of June 30, 2005)

Stage	Brand name	Generic name	Formulation	Category	Remarks
Approved	EBASTEL® *New Formulation	*ebastin*	Orally Disintegrating Tablet	Antiallergic	Licensed from Almirall
Stage	Brand name	Generic name	Formulation	Category	Remarks
NDA filed	EPHEDRINE NAGAI® *New Administration Route: intravenous injection	*ephedrine hydrochloride*	Injection	Hypotension during anesthesia	Co-developed with 2 other companies
Stage	Brand name (Code name)	Generic name	Formulation	Category	Remarks
Preparation for NDA filing	LONASEN® (AD-5423)	*blonanserin*	Tablet Powder	Antipsychotic	Developed in-house
	TREMODE® *New Indication *New Trade Name	*zonisamide*	Tablet	Anti-parkinson disease	Developed in-house EXCEGRAN® for Epilepsy
Stage	Code name	Generic name	Formulation	Category	Remarks
Phase III	AS-3201	Not determined	Tablet	Aldose reductase inhibitor	Developed in-house Phase III trials under way in the U.S. and Canada Phase IIa trials under way in Japan
Stage	Brand name (Code name)	Generic name	Formulation	Category	Remarks
Phase II	AC-3933	Not determined	Tablet	Antidementia	Developed in-house Phase IIa trials completed in Europe Under preparation for phase IIa trials in the U.S. Phase I trials under way in Japan
	GASMOTIN® *New Indication	*mosapride citrate*	Tablet	Post-gastrectomy syndrome	Developed in-house
Stage	Code name	Generic name	Formulation	Category	Remarks
Phase I	AC-5216	Not determined	Tablet	Antianxiety & Antidepressant	Developed in-house

Business Development

Being a research-driven pharmaceutical company, Dainippon Pharmaceutical's primary aim is to bring the best medicines to the marketplace to help those people who need them most. At the same time, Dainippon Pharmaceutical is constantly challenging to improve its strategy for growth in the pursuit of ever-superior performance. While promoting these ideals, Dainippon Pharmaceutical continues to expand its business and research base by developing opportunities and by establishing productive relationships with other companies, thereby realizing synergies through combined philosophies, capabilities and assets.

During the fiscal year under review, Dainippon Pharmaceutical entered into two agreements with other companies, establishing new collaborations that will maximize the potential of our mutual activities and fulfill potential opportunities.

In March 2005, Dainippon Pharmaceutical finalized and concluded an agreement with Kyorin Pharmaceutical Co., Ltd., following a preliminary agreement concluded in November 2002, to co-develop and co-market AS-3201 in the Japanese market. AS-3201 is an Aldose Reductase Inhibitor, which was discovered by Dainippon Pharmaceutical and is under clinical development for the treatment of diabetic complications. Dainippon Pharmaceutical expects this agreement will accelerate the speed of the development and will amplify the market potential of the product.

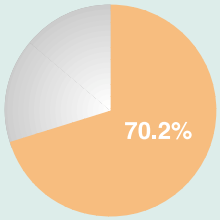
Also in March 2005, Dainippon Pharmaceutical announced that it had signed a license agreement with Kissei Pharmaceutical Co., Ltd. to develop KGA-2727. KGA-2727 is a novel agent for the treatment of diabetes discovered by Kissei. Under this agreement, Dainippon Pharmaceutical obtains the rights for the development and marketing of KGA-2727 in Japan. In the future, Dainippon Pharmaceutical will conduct clinical development and marketing in Japan, while Kissei will continue to conduct non-clinical studies and reserves the right to participate in the clinical development as well as the right to co-market the agent.

Dainippon Pharmaceutical (left) and Kissei Pharmaceutical (right) signing an agreement for KGA-2727

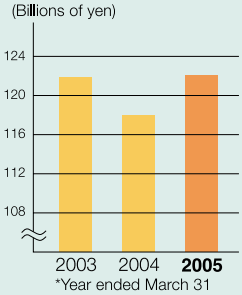
Dainippon Pharmaceutical believes that these strategic alliances will allow both Dainippon Pharmaceutical and its partnering companies to continuously activate our mutual pipelines in these collaborative fields and promote us to stronger positions in the marketplace.

Pharmaceuticals

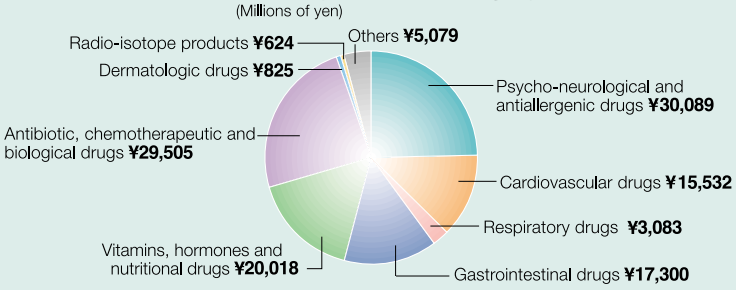
2005 Composition of Sales



Sales



Sales by Product Category



The pharmaceuticals business, Dainippon Pharmaceutical's core field of operations, focuses on ethical pharmaceuticals in addition to offering diagnostics products. In the ethical pharmaceuticals business, Dainippon Pharmaceutical is promoting strategic and effective marketing with an area team marketing system. This system is designed to respond to the shift toward the localized, self-contained health care systems of secondary healthcare zones, which are the future of healthcare provision, as well as other changes in the pharmaceutical industry, such as the separation of the medical prescription and dispensing functions. In fiscal 2005, pharmaceuticals sales totaled ¥122,055 million, accounting for 70.2 percent of total sales.

Ethical Pharmaceuticals

■ Domestic Operations

Dainippon Pharmaceutical is progressing positively with its efforts to increase productivity in its sales operations. These initiatives include an ongoing organizational restructuring of the medical representative (MR) system, which now emphasizes solutions-based marketing activities, as well as efforts to improve both the skills and efficiency of MRs. Furthermore, the number of product managers was increased to strengthen product-specific marketing, and the project system implemented in the Research and Development Divisions was also introduced in the Sales Division to nurture existing product lines and strengthen product life-cycle management.

Following the merger with Sumitomo Pharmaceuticals, the current sales force of

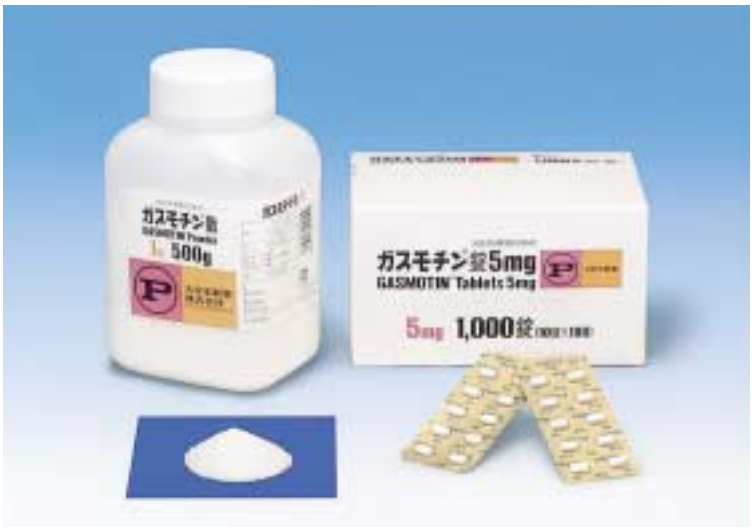
700 MRs will more than double to 1,500, substantially increasing the Company's sales ability. This increased presence will allow for full coverage of the domestic market, enabling MRs to provide more in-depth information. At the same time, efforts will be made to promote the continuous improvement of MR's skills.

During fiscal 2005, in an environment of intensifying market competition, net sales increased 3.0 percent year-on-year to ¥122.1 billion. A brief overview highlighting the performance of major pharmaceutical products follows below.

The gastroprokinetic GASMOTIN® *(mosapride citrate)* was independently developed by Dainippon Pharmaceutical, and promotional efforts since its launch have established it as one of the Company's flagship products, with sales in fiscal 2005 totaling ¥15.6 billion. The world's first selective serotonin 5-HT_4 receptor agonist, GASMOTIN® promotes gastrointestinal motility, and because GASMOTIN® does not block dopamine D_2 receptors, there is a reduced likelihood of extrapyramidal adverse reactions or prolonged QT intervals. Naturally, GASMOTIN® has earned a reputation as an extremely effective agent. Through efforts to increase awareness of functional dyspepsia and establish evidence in the treatment of this disease, the Company plans to further cement its position as a mainstay product.

Sales of PRORENAL® *(limaprost alfadex)*—an orally administered prostaglandin agent for the improvement of peripheral circulation, which was jointly developed with Ono Pharmaceutical Co., Ltd.—increased 21.2 percent year-on-year to ¥10.0 billion. Sales of PRORENAL® have grown rapidly since 2001, when it was approved for the additional indication of lumbar spinal canal stenosis. Although lumbar spinal canal stenosis occurs in many elderly people, its importance and the need for treatment are not yet well recognized. Therefore, to further grow the market for PRORENAL®, Dainippon Pharmaceutical will concentrate its efforts to better educate about this disease.

Sales of the inhaled steroid asthma treatment QVAR™ *(beclomethasone dipropionate)*, launched in August 2002, were ¥3.0 billion, an increase of 94.5 percent from the previous fiscal year. Licensed from 3M Pharmaceuticals, QVAR™ is an MDI that uses an ozone-safe non-CFC propellant. Because it is an extrafine aerosol, it is as effective as previous products at only half the dosage. Reflecting the asthma prevention guidelines enacted in Japan in 1998, the market for inhaled steroid medications is expected to continue to expand further. Additionally, QVAR™ was approved for pediatric use in January 2005, and expansion of this market is expected in the future. Dainippon Pharmaceutical co-markets QVAR™ in Japan with Schering-Plough K.K.



GASMOTIN®, a gastroprokinetic agent

The antiepileptic agent EXCEGRAN® *(zonisamide)*, developed in-house, is highly valued by specialists for its broad spectrum of activity and superior efficacy in refractory cases. In fiscal 2005, sales of EXCEGRAN®, including exports, increased 7.7 percent year-on-year to ¥6.3 billion. Dainippon Pharmaceutical intends to further expand the potential of this product, with therapeutic trials for the additional indication of Parkinson's disease now under way.

Sales of EBASTEL® *(ebastine)*, an antiallergy drug licensed from Almirall Prodesfarma, S.A., increased 0.5 percent year-on-year to ¥10.3 billion. Although competition has increased, EBASTEL® exhibits potent antihistamine action and superior efficacy with a single daily dose, in combination with a low incidence of undesirable effects, such as drowsiness. By promoting greater awareness of EBASTEL®'s advantages, the Company will work to maintain its current market share, while strengthening its market position with the launch of an orally disintegrating tablet, which is scheduled for fiscal 2006.

The macrolide antibiotic KLARICID® *(clarithromycin)*, the enteral nutrition product ENSURE LIQUID®, and the humanized monoclonal antibody for prevention of respiratory syncytial virus (RSV) infection SYNAGIS® *(palivizumab)*, which were developed by Dainabot Co., Ltd. (now Abbott Japan Co., Ltd.), posted sales of ¥19.1 billion, ¥13.9 billion, and ¥7.5 billion, respectively.

Sales of the oral hypoglycemic GLIMICRON® *(gliclazide)* totaled ¥5.0 billion, with the introduction of an additional 20-mg tablet to the existing 40-mg tablet.

■ Overseas Operations

In its overseas operations, Dainippon Pharmaceutical currently out-licenses the rights for developing, manufacturing and marketing its ethical pharmaceuticals to a local licensee, and exports the active pharmaceutical ingredients or intermediate products to these companies. Principal exports in fiscal 2005 were an antiepileptic agent, *zonisamide*, and a gastroprokinetic agent, *mosapride citrate*. These two products accounted for export sales of ¥2.8 billion and ¥0.5 billion, representing year-on-year increases of 10.3 percent and 4.2 percent, respectively.

U.S. sales of *zonisamide* began in April 2000 under the brand name ZONEGRAN®. Although originally marketed in the U.S. by Elan Corporation, plc.—as the licensee of this product for both North America and the EU—the license was transferred to Eisai Co., Ltd. for Elan's portfolio management reasons, and from April 2004, U.S. marketing of ZONEGRAN® has been performed by Eisai Inc., the U.S. subsidiary of Eisai Co., Ltd. In Europe, Eisai Ltd., the U.K. subsidiary of Eisai Co., Ltd., received marketing authorization in March 2005 and expects to begin staged rollouts of ZONEGRAN® in Europe from mid-2005 through its local subsidiaries. Dainippon Pharmaceutical also signed an agreement with Eisai in March 2005 granting a license to market *zonisamide* in Asia, in addition to North America and Europe, with the aim of fulfilling the needs of patients with epilepsy throughout the Asian region.

Mosapride citrate, a gastroprokinetic agent introduced in Japan in 1998, was launched in South Korea in April 2002 by a local licensee, Daewoong Pharmaceutical Co., Ltd., one of the leading Korean pharmaceutical companies and a dominant player in the gastrointestinal market. By June 2004, *mosapride citrate* had

Zonisamide is marketed in the U.S. under the trade name of ZONEGRAN®

achieved the leading share in the South Korean market for gastroprokinetic agents, and the export of *mosapride* drug substance continue to grow steadily. In China, the product was launched through a local licensing partner in June 2001. Dainippon Pharmaceutical will focus its efforts on supporting its licensees to further increase sales in South Korea and China, while working towards the product's launch in Taiwan during 2005.

Dainippon Pharmaceutical also exports a wide range of other products, from ethical pharmaceuticals—such as quinolone antibacterials, a cardiovascular agent, an intravenous iron preparation and an antiallergic agent—to animal health products, food additives and diagnostic products.

Dainippon Pharmaceutical's overseas bases include Dainippon Pharmaceutical U.S.A. Corporation, which is located in Teaneck, New Jersey, and liaison offices in Beijing and London. These bases mainly provide support for overseas clinical development of Dainippon's new products and collect information on local markets and regulations. After the October 2005 merger with Sumitomo Pharmaceuticals Co., Ltd., the New Company will focus efforts on expanding exports of active pharmaceutical ingredients of its ethical pharmaceutical products, while also further developing a base for overseas operations to pursue increased sales outside Japan.

Diagnostics

Dainippon Pharmaceutical develops and markets in vitro diagnostic products, including kits that diagnose illness by measuring or detecting biochemical markers and kits that measure the blood concentration of given drugs.

The company launched RAPICHECK® H-FABP in 2002 as a point-of-care in vitro diagnostic. Developed jointly with Wakunaga Pharmaceutical Co., Ltd., RAPICHECK® is a reagent that uses immunochromatography to detect human heart fatty acid-binding protein (H-FABP) in whole blood within 15 minutes. Because of its ability to rapidly diagnose early phases of acute myocardial infarction, this product is particularly popular with emergency hospitals and medical practitioners. Dainippon Pharmaceutical also markets MARKIT®-M H-FABP, which measures H-FABP concentration using the enzyme-linked immunosorbent assay (ELISA) method.

Other products in the MARKIT® series include MARKIT®-M PA, which measures prostate-specific antigen (PSA) in blood and is used in the diagnosis of prostate cancer, and MARKIT®-M PSA-ACT, which measures the new diagnostic prostate marker PSA - α_1 -antichymotrypsin complex (PSA-ACT).

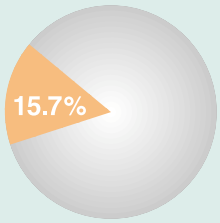
Hyperlipemia diagnostics include MARKIT®-M LPL, which measures lipoprotein lipase (LPL) in post-heparin plasma, and a kit that measures hepatic triglyceride lipase (HTGL) for which approval is pending.

The MARKIT®-M series of diagnostic kits to measure the blood concentration of drugs includes MARKIT®-M Haloperidol II and MARKIT®-M Bromperidol II, which test for the anti-schizophrenic drugs *haloperidol* and *bromperidol*. Introduced in May 2003, the MARKIT®-G series of automated kits also allows for the automated testing for *haloperidol* or *bromperidol*. MARKIT®-M Zonisamide was designed to measure blood levels of the in-house developed antiepileptic drug *zonisamide*. In October 2003, Dainippon Pharmaceutical also launched MARKIT®-M Morphine, a new product to measure the blood concentration of morphine. All of these kits are used for therapeutic drug monitoring (TDM).

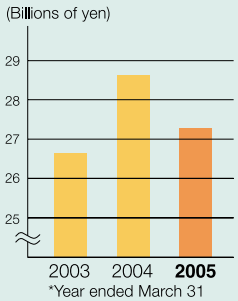
Dainippon Pharmaceutical was the first company in Japan to develop such diagnostic kits and obtain manufacturing approval for their in vitro use. The kits are now widely used in hospitals and clinical assay laboratories throughout Japan.

Animal Health Products

2005 Composition of Sales



Sales



Based on the theme of providing comprehensive healthcare for pets, Dainippon Pharmaceutical's animal health products business focuses marketing on the veterinary market for companion animals. The product lineup consists of pharmaceuticals for the prevention or treatment of various animal diseases, as well as canine and feline nutritional formulas.

The Company is looking to further expand its business activities in the farm animal and aquaculture fields by leveraging the fiscal 2003 transfer of the animal health business of Tanabe Seiyaku Co., Ltd. to Dainippon Pharmaceutical.

In fiscal 2005, sales in the animal health business totaled ¥27,285 million, accounting for 15.7 percent of total sales.

Animal Health Products

Based on the theme of providing comprehensive healthcare for pets, Dainippon Pharmaceutical's animal health business operations focus on the veterinary market for companion animals. The Company has a range of pharmaceuticals used in the prevention or treatment of various animal diseases, including the VICTAS® series of antibacterial preparations that were developed in-house. The product lineup also includes the canine and feline nutritional formulas, PRESCRIPTION DIET® and SCIENCE DIET®, both licensed from Hill's Pet Nutrition, Inc., which are well trusted by veterinarians to meet the dietary needs of companion animals in various states of health. Dainippon Pharmaceutical also organizes the Veterinarians & Maru-P Association (VMA), a membership network of animal hospitals throughout Japan. The Company uses the database it developed to cover VMA members to implement marketing activities in an effective and efficient manner by comprehending the current needs of veterinarians and systematically linking them to products for the prevention and treatment of animal diseases. In addition, Dainippon Pharmaceutical's subsidiary, Marupi Lifetech Co., Ltd., with operations dedicated to clinical lab tests for companion animals, enjoys a strong reputation among veterinarians for its superior testing and diagnostic services in such areas as histopathology, viral tests and immunology.

This quality-based focus on the field of companion animals has made Dainippon Pharmaceutical a leading company in the animal health products business. In order to stay ahead in this competitive market, Dainippon Pharmaceutical acquired the rights to the animal health business for livestock and fish from Tanabe Seiyaku Co., Ltd. in November 2002. Through this business transfer, Dainippon Pharmaceutical not only established a foothold for full-scale entry into the farm animal field—the largest market for animal health products—but further bolstered its marketing capabilities in the field of companion animals by increasing the number of experienced sales and marketing staff.

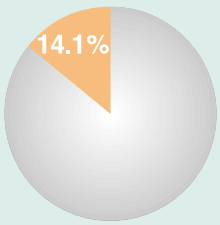
In fiscal 2005, sales of animal health products were ¥27.3 billion, with a number of Dainippon Pharmaceutical's products boasting the top share in their respective sectors of the companion-animal market. Such products include PRESCRIPTION DIET®, in-licensed from Hill's Pet Nutrition, Inc.; the VICTAS®-S series of new quinolone antibacterial preparations containing the active ingredient orbifloxacin, originated and developed by Dainippon Pharmaceutical; and ISOFLU®, an inhaled anesthetic in-licensed from Abbott Laboratories. Moreover, Inactivated Combined Vaccine "BIKEN" for Iridovirus-Streptococcicosis for aquaculture use, which is manufactured by The Research Foundation for Microbial Diseases of Osaka University, holds the top share in the aquaculture vaccine market.

In fiscal 2005, Dainippon Pharmaceutical launched APINAC Tablets®, an agent for canine chronic heart failure developed in-house, as well as three other pharmaceutical products—two eye treatments and a treatment for external ear infections—manufactured by Senju Pharmaceutical Co., Ltd. In addition, the Company began co-marketing with Bayer Medical Ltd. of ADVANTAGE HEART, a topical solution to not only prevent canine heartworm disease but eliminate fleas. Dainippon ceased the sale of two products—ENACARD®, a treatment for canine heart failure, and CARDOMEC®, a canine heartworm preventative—at the end of 2004, following contract expiration with the licensee.

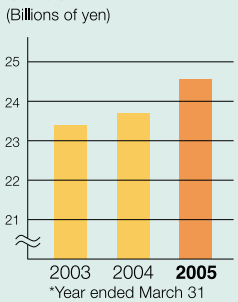
APINAC®, an agent for canine chronic heart failure (left)
VICTAS®series, new quinolone antibacterial (center to right)

Other Products

2005 Composition of Sales



Sales



Other businesses include food science, which focuses on food additives, such as natural thickening agents, stabilizers and seasonings; industrial chemicals; and research materials, including research reagents, cell culture products and measuring equipment for laboratory use. In fiscal 2005, sales of other businesses totaled ¥24,560 million, accounting for 14.1 percent of total sales.

Food and Food Additives

The Food and Food Additives business handles food ingredients, such as natural additives and seasonings. Because these ingredients are used in daily food preparation, high levels of safety, purity and consistent quality are required. By utilizing its technologies for purity control developed as a pharmaceutical manufacturer, Dainippon Pharmaceutical has earned a high reputation in the food industry. Main products currently marketed are GLYLOID®, a natural hydrocolloid used as a thickening and stabilizing agent in *tonkatsu* (pork cutlet) sauce and ice cream, and AJIPOL®, a natural seasoning used in ramen soup and other types of foods.

During fiscal 2005, the business conditions for this segment of the Company's operations and the Japanese food industry overall continued to be severe, as customers' concerns over the issue of food safety

continued to escalate. However, both sales and earnings in this business increased compared to the previous year, due to the strong sales performance of PUREMALT®, a malt extract, and other products.

Dainippon Pharmaceutical has also expanded its overseas operations. In Thailand, Betagro-Dainippon Techno-Ex Co., Ltd., an affiliated extract production company, completed construction of a new factory in February 2003, thereby ensuring a stable supply source for the extracts business from both Japan and Thailand. In China, Kunshan Dafu Food Technology Co., Ltd., an affiliated food ingredient company that has integrated operations covering research and development to production and quality management, completed construction of a manufacturing plant and commenced sales activities in China in March 2004.

Additionally, many of the Company's customers have taken advantage of the Tokyo Techno Center, a research facility in Tokyo that opened in April 2004. The center is equipped for product development together with guests from food processing companies. In pursuit of new business opportunities, Dainippon Pharmaceutical is currently also undertaking new projects related to food ingredients.

Industrial Chemicals

The industrial chemicals business plays an important role in improving the functionality, value and quality of a wide range of products, from sophisticated electronic materials to daily necessities, such as cosmetics, by supplying chemicals used in information technology (IT)-related products, personal care products and dyeing auxiliaries.

In fiscal 2005, sales of the mainstay GARO® series of sensitizers for photoresists increased only slightly despite a strong market for IT-related fields. However, sales of personal care products used in cosmetics and other applications improved significantly, resulting in an overall increase in sales for this business.

Research Materials

Dainippon Pharmaceutical markets research reagents, cell culture products and measuring equipment for laboratory use. The Company offers approximately 5,000 research reagents, including antibody reagents, cytokine-related reagents and genetic reagents, and in April 2004, succeeded in developing and marketing the world's first guinea pig IgE ELISA reagent for use in allergy research. Dainippon Pharmaceutical markets tissue culture materials, supplying Japanese researchers with a variety of animal-derived cells, particularly human-derived cells. In particular, human adipocytes used in diabetes research, rat and mouse nerve cells used in nerve research, as well as mouse embryonic stem (ES) cells and rat mesenchymal stem cells used in regenerative medicine research have been highly evaluated.

Dainippon Pharmaceutical also markets microplate readers to detect absorbance, fluorescence and luminescence, as well as measuring equipment widely used in molecular biology research, including PCR equipment and FLUCLET®, a software system developed in-house that provides fully automated measurement of circulatory dynamics and autonomic nervous system activity. This innovative system performs analysis in a matter of seconds using electrocardiogram and blood pressure waveform data.

In addition, Dainippon Pharmaceutical's newly launched MRI system for small animals has gained attention from universities and pharmaceutical companies as a basic research tool because it permits three-dimensional image measurement of the brain and internal tissues of living rats and mice.

Commitment to Environmental Protection

Principal Directive on Environmental Conservation

"As a company making positive contributions to the well-being of people throughout the world, Dainippon Pharmaceutical endeavors to promote sustainable societies globally with higher quality by actively promoting environmental conservation in all of its operating activities."

Dainippon Pharmaceutical's principal directive on environmental conservation governs all its efforts to protect the environment. Key initiatives include implementation of an environmental management system that encompasses the activities of all divisions; ensured compliance with all laws and regulations; and reduction of environmental impact.

Implementation

Along with the Suzuka Plant and the Research Laboratories, which have already obtained ISO14001 certification, Dainippon Pharmaceutical continues to promote the further implementation of environmental management systems throughout the organization.

Dainippon Pharmaceutical conducts itself in accordance with its principal directive on environmental conservation and is committed to fulfilling its societal and environmental responsibilities as a corporate enterprise and adheres to all environment-related laws and regulations. Not only does the Company fully comply with laws and Prefectural ordinances regarding emissions that affect air and water, but it has also established its own, stricter criteria for self-management of emissions.

Furthermore, Dainippon Pharmaceutical has targeted reductions in carbon dioxide emissions, industrial waste and chemical substance emissions throughout R&D and manufacturing operations as a priority issue, and has established specific policies to achieve these goals. In particular, as a pharmaceutical company, self-management of chemical substances is regarded as an issue of the utmost importance. In addition, Dainippon Pharmaceutical has established an Energy Service Company business at the Research Laboratories as a means of reducing CO_2 emissions, and continues to work towards further energy conservation measures.

Environmental Report 2004

In 2001, Dainippon Pharmaceutical began publishing an annual Environmental Report and established a page on its website devoted to the Company's environmental protection efforts. Dainippon Pharmaceutical's fourth Environmental Report was published in 2004. The Company has been publicly disclosing the results of its environmental accounting since 2003.

Future Direction

In the future, Dainippon Pharmaceutical will consider building a 1,2-dichloroethane and dichloromethane recovery system as a measure to further reduce chemical emissions, and will continue working to reduce its chemical emissions into the environment. In addition, the Company will incorporate a cogeneration system at the Suzuka Plant, as part of its efforts to alleviate global warming. Dainippon Pharmaceutical will also work to reduce the final amount of industrial waste disposed of by promoting thorough waste separation and expanded recycling.

Financial Section

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Six-Year Summary

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries

	Millions of Yen						Thousands of U.S. Dollars
	2005	2004	2003	2002	2001	2000	**2005**
RESULTS OF OPERATIONS:							
Net sales	**¥ 173,900**	¥ 170,842	¥172,162	¥ 164,117	¥ 158,873	¥ 155,497	**$ 1,625,234**
Cost of sales	**111,099**	110,013	108,046	100,073	97,126	97,195	**1,038,309**
Selling, general and administrative expenses	**52,404**	51,546	51,240	46,863	45,597	45,616	**489,757**
Operating income	**10,397**	9,283	12,876	17,181	16,150	12,686	**97,168**
Income before income taxes and minority interests	**11,686**	13,836	12,718	17,863	17,619	13,595	**109,215**
Net income	**6,924**	7,968	6,364	9,596	9,376	6,884	**64,710**
FINANCIAL POSITION:							
Current assets	**131,176**	118,562	116,241	119,247	117,877	117,548	**1,225,944**
Net property, plant and equipment	**32,611**	34,473	35,374	33,637	31,487	31,188	**304,776**
Total assets	**201,431**	193,238	187,416	186,834	187,309	171,064	**1,882,533**
Current liabilities	**49,976**	46,712	61,507	49,784	56,409	44,836	**467,065**
Long-term debt	**7,000**	7,000		11,118	11,119	17,005	**65,421**
Shareholders' equity	**134,649**	129,569	116,044	115,985	109,267	98,092	**1,258,402**
OTHER STATISTICS:							
R&D costs	**17,444**	15,929	15,218	13,124	12,565	12,079	**163,028**
Capital expenditures	**3,064**	4,294	6,532	6,414	4,074	2,041	**28,636**
Depreciation and amortization	**5,233**	5,821	5,316	4,334	4,267	3,936	**48,907**

	Yen						U.S. Dollars
PER SHARE OF COMMON STOCK:							
Basic net income	**¥ 41.76**	¥ 48.05	¥ 38.02	¥ 57.06	¥ 55.75	¥ 40.93	**$ 0.39**
Diluted net income			36.36	54.18	52.70	39.05	
Cash dividends applicable to the year	**10.00**	10.00	10.00	10.00	8.50	8.50	**0.09**

Note: The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥107 to $1, the approximate rate of exchange at March 31, 2005.

Results of Operations

For the fiscal year ended March 31, 2005, net sales increased 1.8 percent year-on-year to ¥173,900 million due to substantial growth in sales of products that contribute strongly to profits, such as PRORENAL®, an agent for the improvement of peripheral circulation that was developed in-house, and strategic products licensed from other companies, such as QVAR™, an inhaled steroid asthma treatment, despite the negative effects of reductions in National Health Insurance (NHI) drug prices.

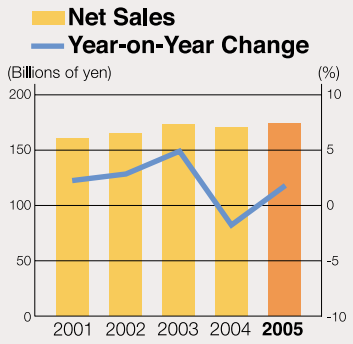
Operating income increased 12.0 percent year-on-year to ¥10,397 million due to factors including a decrease in retirement benefit expenses from the transfer of the substitutional portion (daiko henjo) of the government pension program, despite a substantial increase in clinical trial costs for items currently in the development pipeline.

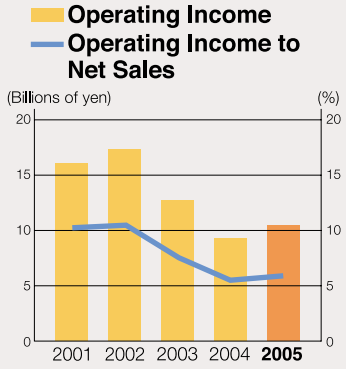
Research and development costs increased 9.5 percent year-on-year to ¥17,444 million.

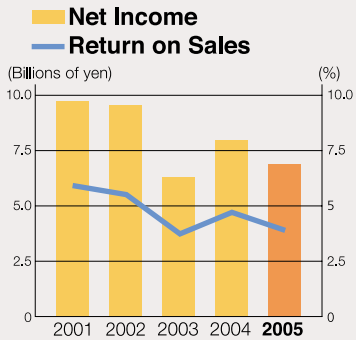
Net income decreased 13.1 percent year-on-year to ¥6,924 million. The Company sold a portion of its shares held in Abbott Japan Co., Ltd. to Abbott Finance Company S.A., which resulted in gains on sales of investment securities, and licensed a treatment for anxiety and depression to Switzerland-based Novartis Pharma AG, which resulted in royalty income. However, these positive factors were offset by losses associated with the transfer of the health care business, which handled the Company's over-the-counter drugs and other products, and the transfer of a portion of consolidated subsidiary Marupi Drug Co., Ltd., in addition to consulting and system-related expenses associated with the merger with Sumitomo Pharmaceuticals Co., Ltd. effective October 2005.

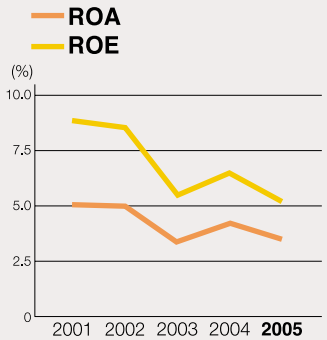
As a result of the above, the operating margin was 6.0 percent, return on equity (ROE) was 5.2 percent, and earnings per share (EPS) amounted to ¥41.76.

By business segment, in the pharmaceuticals business, sales increased 3.0 percent year-on-year to ¥122,055 million and operating income increased 12.2 percent to ¥11,472 million. Sales of PRORENAL®, a prostaglangin agent for the improvement of peripheral circulation, increased 21.2 percent year-on-year to ¥10.0 billion due to concentrated investment of management resources in sales of core products. In addition, sales of QVAR™, an inhaled steroid asthma treatment, increased 94.5 percent to ¥3.0 billion. Sales of GASMOTIN®, a gastroprokinetic agent, decreased 0.6 percent year-on-year to ¥15.6 billion, but sales of EBASTEL®, a long-lasting antiallergenic agent, increased 0.5 percent year-on-year to ¥10.3 billion.









Sales of major pharmaceuticals are presented in the table below.

In the animal health products business, sales decreased 4.8 percent year-on-year to ¥27,285 million and operating income decreased 24.0 percent to ¥956 million, as Dainippon Pharmaceutical ended sales of CARDOMEC® and ENACARD® in connection with the expiration of the marketing alliance with Merial Limited at the end of December 2004, and despite marketing efforts focused on VICTAS® and canine and feline nutritional formulas.

In other businesses, Dainippon Pharmaceutical aggressively marketed ECHO GUM® and GLYLOID®, which are natural hydrocolloid stabilizers used as food additives; AJIPOL® natural seasonings; industrial chemical products; and research reagents and instruments. As a result, sales increased 3.6 percent year-on-year to ¥24,560 million, while operating income decreased 5.1 percent to ¥1,410 million.

Financial Position

As of March 31, 2005, total assets were ¥201,431 million, an increase of ¥8,193 million from a year earlier, due primarily to an increase in cash and time deposits resulting from the sale of investment securities.

Current assets increased ¥12,614 million from a year earlier to ¥131,176 million. Inventories decreased due to unified management of procurement in the Logistics Department, which lead to a considerable increase in cash and time deposits.

Property, plant and equipment decreased ¥1,862 million from a year earlier to ¥32,611 million. The research facilities of the Combined Research Laboratories were extended and improved with the completion of the New East Block. The completed projects were transferred to buildings and structures and machinery and equipment, resulting in a substantial decrease in construction in progress. An increase in depreciation also reduced reported property, plant and equipment.

Investments and other assets decreased ¥2,559 million from a year earlier to ¥37,644 million. Factors included sale of investment securities.

Current liabilities increased ¥3,264 million to ¥49,976 million, due to increases in trade notes and accounts payable and in income taxes payable.

Long-term liabilities decreased ¥236 million from a year earlier to ¥16,022 million, due primarily to a decrease in long-term liability associated with the prior service cost of the defined contribution pension plan.

Total liabilities increased ¥3,028 million to ¥65,998 million.

Shareholders' equity increased ¥5,080 million from a year earlier to ¥134,649 million, due to an increase in retained earnings from net income.

Sales of Major Pharmaceutical Products

(Fiscal Years ended March 31; Billions of Yen)

Brand name (Generic name)	Category	Sales for Fiscal Year 2004	Sales for Fiscal Year 2005
KLARICID® (*clarithromycin*)	Macrolide antibiotic	18.9	**19.1**
GASMOTIN® (*mosapride citrate*)	Gastroprokinetic	15.7	**15.6**
ENSURE LIQUID® (–)	Enteral nutrition	13.8	**13.9**
EBASTEL® (*ebastine*)	Antiallergic	10.2	**10.3**
PRORENAL® (*limaprost alfadex*)	Vasodilator	8.3	**10.0**
SYNAGIS® (*palivizumab*)	Monoclonal antibody	5.4	**7.5**
EXCEGRAN® (*zonisamide*)	Antiepileptic	5.9	**6.3**
GLIMICRON® (*gliclazide*)	Oral hypoglycemic	5.0	**5.0**
SEVOFRANE® (*sevoflurane*)	Anesthetic	4.1	**4.3**
LOPEMIN® (*loperamide hydrochloride*)	Antidiarrheal	3.2	**3.3**
QVAR™ (*beclomethasone dipropionate*)	Bronchial asthma	1.5	**3.0**
SERENACE® (*haloperidol*)	Psychotropic	3.1	**2.9**

As a result, shareholders' equity per share of common stock outstanding at the end of the period increased ¥31.52 from a year earlier to ¥815.76, while the ratio of shareholders' equity to total assets decreased 0.3 percentage points to 66.8 percent.

Cash Flows

Net cash provided by operating activities increased ¥3,001 million to ¥15,523 million. A substantial decrease in inventories helped to offset a ¥2,150 million year-on-year decrease in income before income taxes and minority interests to ¥11,686 million.

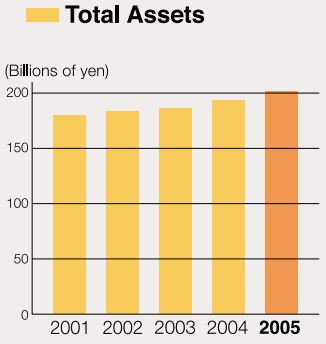
Net cash provided by investing activities increased ¥1,048 million to ¥982 million. Purchases of property, plant and equipment were ¥3,639 million, but proceeds from sales of marketable securities and investment securities totaled ¥6,917 million.

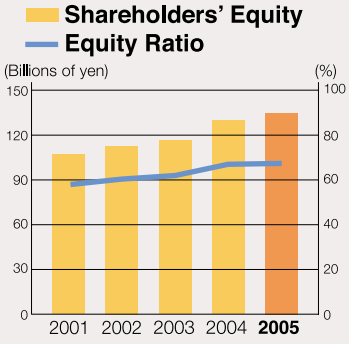
Net cash used in financing activities increased ¥4,066 million to ¥1,806 million, mainly consisting of ¥1,651 million in payment of cash dividends.

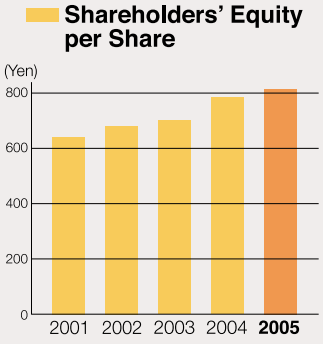
As a result, cash and cash equivalents as of March 31, 2005 totaled ¥38,182 million, an increase of ¥14,699 million from a year earlier.

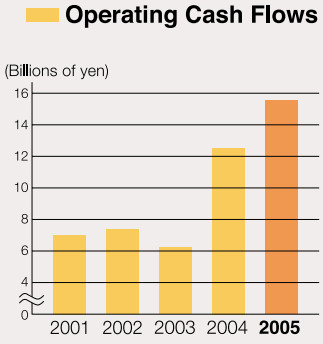
Dividend Policy

The consistent payment of appropriate dividends to shareholders is a management priority. Although paying steady dividends while giving full consideration to strengthening the Company's performance and financial structure is a basic policy, management will continue linking dividend payments to corporate performance, while promoting improvement of the Company's financial structure to support future growth. On the basis of this policy, cash dividends applicable to the fiscal year were ¥10.00 per share. The Company intends to deploy capital resources mainly for investment in research and development in Japan and overseas, and in property, plant and equipment to increase operating efficiency.









Consolidated Balance Sheets

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	**2005**	2004	**2005**
CURRENT ASSETS:			
Cash and time deposits (Note 3)	**¥ 35,190**	¥ 20,441	**$ 328,879**
Marketable securities (Notes 3 and 5)	**4,511**	4,797	**42,159**
Receivables:			
Trade notes	**4,574**	5,392	**42,748**
Trade accounts	**63,219**	59,316	**590,832**
Due from affiliates	**45**	65	**420**
Allowance for doubtful receivables	**(78)**	(86)	**(729)**
	67,760	64,687	**633,271**
Inventories (Note 4)	**16,217**	21,808	**151,561**
Deferred tax assets (Note 7)	**5,081**	3,399	**47,486**
Prepaid expenses and other current assets	**2,417**	3,430	**22,588**
Total current assets	**131,176**	118,562	**1,225,944**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**4,500**	5,148	**42,056**
Buildings and structures	**39,658**	37,635	**370,636**
Machinery and equipment	**38,695**	38,983	**361,635**
Construction in progress	**81**	1,268	**757**
Total	**82,934**	83,034	**775,084**
Accumulated depreciation	**(50,323)**	(48,561)	**(470,308)**
Net property, plant and equipment	**32,611**	34,473	**304,776**
INVESTMENTS AND OTHER ASSETS:			
Investment in unconsolidated subsidiaries and associated companies	**816**	816	**7,626**
Investment securities (Note 5)	**28,772**	31,615	**268,897**
Deferred tax assets (Note 7)	**54**	114	**505**
Other assets	**8,002**	7,658	**74,785**
Total investments and other assets	**37,644**	40,203	**351,813**
TOTAL	**¥ 201,431**	¥ 193,238	**$ 1,882,533**

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND SHAREHOLDERS' EQUITY	**2005**	2004	**2005**
CURRENT LIABILITIES:			
Short-term bank loans (Note 6)	**¥ 970**	¥ 970	**$ 9,065**
Payables:			
Trade notes	**3,696**	2,951	**34,542**
Trade accounts	**32,898**	30,987	**307,458**
Due to affiliates	**96**	387	**897**
	36,690	34,325	**342,897**
Income taxes payable	**4,019**	2,922	**37,561**
Accrued expenses	**5,723**	5,547	**53,486**
Other current liabilities (Notes 6 and 8)	**2,574**	2,948	**24,056**
Total current liabilities	**49,976**	46,712	**467,065**
LONG-TERM LIABILITIES:			
Long-term debt (Note 6)	**7,000**	7,000	**65,421**
Liability for retirement benefits (Note 8)	**6,382**	6,503	**59,645**
Deferred tax liabilities (Note 7)	**1,313**	1,196	**12,271**
Other liabilities (Note 8)	**1,327**	1,559	**12,402**
Total long-term liabilities	**16,022**	16,258	**149,739**
MINORITY INTERESTS	**784**	699	**7,327**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 11 and 13):			
SHAREHOLDERS' EQUITY (Notes 9 and 14):			
Common stock: authorized - 600,000,000 shares; issued, 168,184,154 shares	**13,444**	13,444	**125,645**
Capital surplus	**15,860**	15,860	**148,224**
Retained earnings	**100,821**	95,579	**942,252**
Unrealized gains on available-for-sale securities, net of tax	**8,032**	8,048	**75,066**
Total	**138,157**	132,931	**1,291,187**
Treasury stock - at cost			
3,159,324 shares in 2005 and 3,004,357 shares in 2004	**(3,508)**	(3,362)	**(32,785)**
Total shareholders' equity	**134,649**	129,569	**1,258,402**
TOTAL	**¥ 201,431**	¥ 193,238	**$ 1,882,533**

Consolidated Statements of Income

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
NET SALES (Note 10)	**¥ 173,900**	¥ 170,842	**$ 1,625,234**
COST OF SALES (Note 10)	**111,099**	110,013	**1,038,309**
Gross profit	**62,801**	60,829	**586,925**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	**52,404**	51,546	**489,757**
Operating income	**10,397**	9,283	**97,168**
OTHER INCOME (EXPENSES):			
Interest and dividend income	**603**	883	**5,636**
Interest expense	**(62)**	(133)	**(580)**
Gains on transfer of the substitutional portion of the government pension program (Note 8)		2,273	
Gains on sales of investment securities (Note 5)	**2,673**	1,960	**24,981**
Loss on enterprise restructuring	**(831)**		**(7,766)**
Loss on discontinued development of new compound	**(582)**	(426)	**(5,439)**
Loss on disposal of inventories	**(536)**		**(5,009)**
Expense related to business combination	**(488)**		**(4,561)**
Other - net	**512**	(4)	**4,785**
Other income (expenses) - net	**1,289**	4,553	**12,047**
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	**11,686**	13,836	**109,215**
INCOME TAXES (Note 7):			
Current	**6,162**	6,010	**57,589**
Deferred	**(1,489)**	(210)	**(13,916)**
Total income taxes	**4,673**	5,800	**43,673**
MINORITY INTERESTS IN NET INCOME	**89**	68	**832**
Net income	**¥ 6,924**	¥ 7,968	**$ 64,710**

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK:			
Net income	**¥ 41.76**	¥ 48.05	**$ 0.39**
Cash dividends applicable to the year	**10.00**	10.00	**0.09**

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Thousands of Shares		Millions of Yen				
	Issued Number of Shares of Common Stock	Number of Treasury Stock	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Treasury Stock
BALANCE, APRIL 1, 2003	168,184	(2,946)	¥ 13,444	¥ 15,860	¥ 89,300	¥ 761	¥ (3,321)
Net income					7,968		
Cash dividends, ¥10.00 per share					(1,652)		
Bonuses to directors and corporate auditors					(32)		
Loss on sales of treasury stock					(5)		
Increase in treasury stock		(58)					(41)
Net unrealized loss on available-for-sale securities						7,287	
BALANCE, MARCH 31, 2004	168,184	(3,004)	13,444	15,860	95,579	8,048	(3,362)
Net income					6,924		
Cash dividends, ¥10.00 per share					(1,652)		
Bonuses to directors and corporate auditors					(29)		
Loss on sales of treasury stock					(1)		
Increase in treasury stock		(155)					(146)
Net unrealized loss on available-for-sale securities						(16)	
BALANCE, MARCH 31, 2005	**168,184**	**(3,159)**	**¥ 13,444**	**¥ 15,860**	**¥ 100,821**	**¥ 8,032**	**¥ (3,508)**

	Thousands of U.S. Dollars (Note 1)				
	Common Stock	Capital Surplus	Retained Earnings	Unrealized Gains on Available-for-sale Securities	Treasury Stock
BALANCE, MARCH 31, 2004	$ 125,645	$ 148,224	$ 893,262	$ 75,215	$ (31,421)
Net income			64,710		
Cash dividends, $0.09 per share			(15,439)		
Bonuses to directors and corporate auditors			(271)		
Loss on sales of treasury stock			(10)		
Increase in treasury stock					(1,364)
Net unrealized gain on available-for-sale securities				(149)	
BALANCE, MARCH 31, 2005	**$ 125,645**	**$ 148,224**	**$ 942,252**	**$ 75,066**	**$ (32,785)**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2005	2004	**2005**
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	**¥ 11,686**	¥ 13,836	**$ 109,215**
Adjustments for:			
Depreciation and amortization	**5,233**	5,821	**48,907**
Provision for liability for retirement benefits, less payments	**(174)**	764	**(1,626)**
Interest and dividend income	**(603)**	(883)	**(5,636)**
Interest expense	**62**	133	**580**
Gains on transfer of the substitutional portion of the government pension program		(2,273)	
Gains on sales of investment securities	**(2,673)**	(1,960)	**(24,981)**
Loss on devaluation of investment securities			
Changes in assets and liabilities:			
Decrease (increase) in receivables	**(3,065)**	2,590	**(28,645)**
Decrease in inventories	**5,591**	2,326	**52,252**
Increase (decrease) in payables	**2,365**	(2,127)	**22,103**
Other - net	**1,624**	603	**15,177**
Sub-total	**20,046**	18,830	**187,346**
Interest and dividend received	**605**	883	**5,654**
Interest paid	**(62)**	(129)	**(579)**
Income taxes paid	**(5,066)**	(7,062)	**(47,346)**
Net cash provided by operating activities	**15,523**	12,522	**145,075**
INVESTING ACTIVITIES:			
Increase in time deposits	**(2,019)**	(19)	**(18,869)**
Proceeds from sale of property, plant and equipment	**1,133**	316	**10,589**
Purchases of property, plant and equipment	**(3,639)**	(4,449)	**(34,009)**
Proceeds from sales of investment securities	**3,241**	4,132	**30,290**
Proceeds from sales of marketable securities	**3,676**	1,078	**34,355**
Purchases of investment securities	**(674)**	(848)	**(6,299)**
Other - net	**(736)**	(276)	**(6,879)**
Net cash provided by (used in) investing activities	**982**	(66)	**9,178**
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans		(50)	
Proceeds from long-term debt		7,000	
Redemption of convertible bonds		(11,118)	
Increase in treasury stock	**(148)**	(45)	**(1,383)**
Dividends paid	**(1,651)**	(1,652)	**(15,430)**
Dividends paid to minority interests	**(7)**	(7)	**(66)**
Net cash used in financing activities	**(1,806)**	(5,872)	**(16,879)**
NET INCREASE IN CASH AND CASH EQUIVALENTS	**14,699**	6,584	**137,374**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**23,483**	16,899	**219,467**
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	**¥ 38,182**	¥ 23,483	**$ 356,841**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Dainippon Pharmaceutical Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2005 and 2004

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Dainippon Pharmaceutical Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥107 to $1, the approximate rate of exchange at March 31, 2005. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and its 4 significant subsidiaries (together, the "Group") .

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in the unconsolidated subsidiaries and all associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not have been material.

The differences between the costs of the Company's investments in consolidated subsidiaries and its equities in the net assets at the respective dates of acquisition, are amortized over 5 years.

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

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

c. Marketable and Investment Securities

Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, and ii) available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of shareholders' equity. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

d. Inventories

Inventories are stated at cost, determined by the average method.

e. Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of buildings is computed by the straight-line method over the estimated useful lives of the assets. Depreciation of machinery and equipment is computed by the declining-balance method over the estimated useful lives of the assets. Ranges of useful lives used in the computation of depreciation are as follows:

Buildings	3 - 60 years
Machinery and equipment	2 - 17 years

f. Liability for Retirement Benefits

Upon retirement or termination of employment, employees are normally entitled to lump-sum and/or annuity payments based on current rate of pay and length of service.

The Group has a lump-sum plan, a defined benefit pension plan and a defined contribution plan for employees: a non-contributory and a contributory funded defined benefit pension plan. The liability for retirement benefit is provided based on projected benefit obligations and plan assets at the balance sheet date.

The liability for retirement benefits for directors and corporate auditors is recorded to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. These amounts are paid subject to approval of the shareholders. Liability for retirement benefits includes retirement benefits for those officers at March 31, 2005 and 2004 of ¥549 million ($5,131 thousand) and ¥497 million, respectively.

g. Research and Development Costs

Research and development costs are charged to income as incurred. Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2005 and 2004 were ¥17,444 million ($163,028 thousand) and ¥15,929 million, respectively.

h. Leases

All leases are accounted for as operating leases. Under Japanese accounting standards for leases, finance leases that deem to transfer ownership of the leased property to the lessee are to be capitalized, while other finance leases are permitted to be accounted for as operating lease transactions if certain “as if capitalized” information is disclosed in the notes to the lessee's financial statements.

i. Income Taxes

The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

j. Appropriations of Retained Earnings

Appropriations of retained earnings are reflected in the financial statements for the following year upon shareholders’ approval.

k. Foreign Currency Items

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

l. Per Share Information

Net income per share is computed by dividing net income available to common shareholders, by using the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

The number of shares used in the calculation of net income per share was 165,113 thousand and 165,212 thousand for the year ended March 31, 2005 and 2004, respectively.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

m. New Accounting Pronouncements

In August 2002, the Business Accounting Council issued a Statement of Opinion, “Accounting for Impairment of Fixed Assets”, and in October 2003 the Accounting Standards Board of Japan (ASB) issued ASB Guidance No. 6, “Guidance for Accounting Standard for Impairment of Fixed Assets”. These new pronouncements are effective for fiscal years beginning on or after April 1, 2005 with early adoption permitted for fiscal years ending on or after March 31, 2004.

The new accounting standard requires an entity to review its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

The Company is currently in the process of assessing the effect of adoption of these pronouncements.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at March 31, 2005 and 2004 for purposes of the consolidated statements of cash flows consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Cash and time deposits	**¥ 35,190**	¥ 20,441	**$ 328,879**
Time deposits with maturity over three months	**(19)**	(19)	**(178)**
Marketable securities with a maturity of three months or less when purchased	**3,011**	3,061	**28,140**
Cash and cash equivalents	**¥ 38,182**	¥ 23,483	**$ 356,841**

4. INVENTORIES

Inventories at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Finished goods	**¥ 9,323**	¥ 13,551	**$ 87,131**
Semi-finished goods and work in process	**3,823**	3,622	**35,729**
Raw materials and supplies	**3,071**	4,635	**28,701**
Total	**¥ 16,217**	¥ 21,808	**$ 151,561**

5. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2005 and 2004 consisted of the following :

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Current:			
Government and corporate bonds	**¥ 1,500**	¥ 1,736	**$ 14,019**
Commercial paper and other	**3,011**	3,061	**28,140**
Total	**¥ 4,511**	¥ 4,797	**$ 42,159**
Non-current:			
Equity securities	**¥ 26,279**	¥ 25,996	**$ 245,598**
Government and corporate bonds	**640**		**5,981**
Trust fund investments and other	**1,853**	5,619	**17,318**
Total	**¥ 28,772**	¥ 31,615	**$ 268,897**

The carrying amounts and aggregate fair values of marketable and investments securities at March 31, 2005 and 2004 were as follows:

	Millions of Yen			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**¥ 12,119**	**¥ 13,684**	**¥ (98)**	**¥ 25,705**
Other securities	**862**	**41**	**(50)**	**853**
Held-to-maturity	**2,140**	**1**	**(319)**	**1,822**

	Millions of Yen			
	2004			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 12,038	¥ 13,411	¥ (136)	¥ 25,313
Bonds and debentures	80	156		236
Other securities	4,433	285	(99)	4,619
Held-to-maturity	1,500		(306)	1,194

	Thousands of U.S. Dollars			
	2005			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	**$ 113,262**	**$ 127,888**	**$ (916)**	**$ 240,234**
Other securities	**8,056**	**383**	**(467)**	**7,972**
Held-to-maturity	**20,000**	**9**	**(2,981)**	**17,028**

Available-for-sale securities and held-to-maturity securities whose fair value is not readily determinable as of March 31, 2005 and 2004 were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Available-for-sale:			
Equity securities	**¥ 1,574**	¥ 1,683	**$ 14,710**
Money management funds (MMF) and other	**11**	61	**103**
Held-to-maturity:			
Commercial paper	**3,000**	3,000	**28,037**
Total	**¥ 4,585**	¥ 4,744	**$ 42,850**

Proceeds from sales of available-for-sale securities were ¥6,417 million ($59,972 thousand) and ¥2,037 million for the years ended March 31, 2005 and 2004, respectively. On those sales, gross realized gains and losses computed on a moving average cost basis were ¥2,720 million ($25,421 thousand) and ¥40 million ($374 thousand), respectively for the year ended March 31, 2005 and ¥1,960 million and ¥1 million, respectively for the year ended March 31, 2004. Gross realized gains of ¥1,853 million ($17,318 thousand), respectively, for the years ended March 31, 2005 and 2004 resulted from sales of equity securities of ABBOTT JAPAN Co., Ltd.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale and held-to-maturity at March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due in one year or less	**¥ 4,500**	¥ 4,736	**$ 42,056**
Due after one year through five years	**1,086**		**10,150**
Due after five years through ten years	**154**		**1,439**
Total	**¥ 5,740**	¥ 4,736	**$ 53,645**

At March 31, 2005, investment securities of ¥15 million ($140 thousand) were pledged as collateral for accounts payable of ¥64 million ($598 thousand). At March 31, 2004, investment securities of ¥16 million were pledged as collateral for accounts payable of ¥76 million.

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

Short-term bank loans consist of unsecured loans from banks bearing interest of 0.69% to 0.79% at March 31, 2005 and 2004, respectively. Other current liabilities as of March 31, 2005 and 2004 include deposits received from customers in the amount of ¥734 million ($6,860 thousand) and ¥738 million, respectively, bearing interest of 0.03% and 1.88%, respectively. Unused short-term bank loan credit lines were ¥10,000 million ($93,458 thousand) at March 31, 2005 and 2004.

As is customary in Japan, short-term and long-term bank loans are made under general agreements which provide that security and guarantees for future and present indebtedness will be given upon request of the bank, and that the banks shall have the right, as the obligations become due, or in case of default, to offset cash deposits against such obligations due to the banks. None of the lenders has ever exercised these rights against debts of the Group.

Long-term debt at March 31, 2005 and 2004 consists of unsecured loan from banks and financial institutions due to 2008.

7. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% and 42.0% for the year ended March 31, 2005 and 2004, respectively.

Significant components of deferred tax assets and liabilities as of March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Deferred tax assets:			
Liability for retirement benefits	**¥ 2,318**	¥ 2,199	**$ 21,664**
Accrued enterprise taxes	**362**	291	**3,383**
Accrued bonuses to employees	**1,669**	1,664	**15,598**
Accrued other expenses	**429**	379	**4,009**
Loss on devaluation of investment securities	**910**	1,080	**8,505**
Other	**3,969**	2,445	**37,094**
Total deferred tax assets	**9,657**	8,058	**90,253**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**(5,517)**	(5,532)	**(51,561)**
Deferred gain on sales of fixed assets	**(239)**	(156)	**(2,234)**
Other	**(79)**	(53)	**(738)**
Total deferred tax liabilities	**(5,835)**	(5,741)	**(54,533)**
Net deferred tax assets	**¥ 3,822**	¥ 2,317	**$ 35,720**

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2005 and 2004 was as follows:

	2005	2004
Normal effective statutory tax rate	**40.6%**	42.0%
Increase (decrease) in taxes due to:		
Expenses not deductible for tax purposes	**7.6**	6.9
Non-taxable dividend income	**(1.2)**	(2.3)
Tax credits for research and development costs	**(8.1)**	(6.7)
Other	**1.1**	2.0
Actual effective tax rate	**40.0%**	41.9%

8. RETIREMENT AND SEVERANCE BENEFITS

The liability (asset) for employees' retirement benefits at March 31, 2005 and 2004 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Projected benefit obligation	**¥ 38,562**	¥ 39,093	**$ 360,393**
Fair value of plan assets	**(32,626)**	(28,314)	**(304,916)**
Unrecognized prior service benefit	**3,518**	3,807	**32,878**
Unrecognized actuarial loss	**(4,343)**	(9,019)	**(40,589)**
Prepaid pension cost	**722**	439	**6,748**
Liability for employee's retirement benefit	**¥ 5,833**	¥ 6,006	**$ 54,514**

The retirement allowance of ¥497 million accompanied by the enterprise arrangement which is due to be paid in the subsequent fiscal year is added up in the other current liabilities and is not included in liability for employee's retirement benefit.

Consolidated subsidiaries have adopted the simplified calculation method for projected benefit obligation allowed for small business entities in Japan. The components of net periodic benefit costs were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Service cost	**¥ 1,851**	¥ 1,769	**$ 17,299**
Interest cost	**963**	1,320	**9,000**
Expected return on plan assets	**(519)**	(570)	**(4,851)**
Amortization of prior service cost	**(290)**	(223)	**(2,710)**
Recognized actuarial loss	**761**	1,671	**7,112**
Net periodic benefit costs	**¥ 2,766**	¥ 3,967	**$ 25,850**
The amount of donation to a defined contribution pension	**179**		**1,673**
Total	**¥ 2,945**		**$ 27,523**

The Company had two types of pension plans for employees: a non-contributory and a contributory funded defined benefit pension plan. The contributory funded defined benefit pension plan, established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. In accordance with the Defined Benefit Pension Plan Law enacted in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion which would result in the transfer of the pension obligations and related assets to the government upon approval. The Company obtained approval for exemption from the future obligation by the Ministry of Health, Labor and Welfare on September 25, 2003 and recognized a gain on exemption from the future pension obligation of the governmental program in the amount of ¥2,273 million for the year ended March 31, 2004. The Company applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval by the Ministry of Health, Labor and Welfare on December 1, 2004.

Also, according to the enactment of the Defined Contribution Pension Plan Law in October 2001, the Company implemented a defined contribution pension plan on April 2, 2004 by which a portion of the lump-sum payment plan was terminated. The Company applied accounting treatment specified in the guidance issued by the Accounting Standards Board of Japan. The effect of this transfer was to decrease income before income taxes and minority interests by ¥154 million and was recorded as loss on transfer of pension plans in the income statement for the year ended March 31, 2004. The plan assets of ¥1,782 million will to be transferred over a period of 8 yeas beginning in 2004.

At March 31, 2005, the plan assets not yet transferred for the company totaling ¥1,547 million ($14,458 thousand) were presented as other current liabilities and other liabilities.

Assumptions used for the years ended March 31, 2005 and 2004 were set forth as follows:

Method of attributing benefits to periods of service	straight-line basis
Discount rate	2.5%
Expected rate of return on plan assets	2.5%
Amortization period for prior service cost	15 years
Recognition period for actuarial loss	15 years

9. SHAREHOLDERS' EQUITY

Japanese companies are subject to the Japanese Commercial Code (the "Code").

The Code requires that all shares of common stock are recorded with no par value and at least 50% of the issue price of new shares is required to be recorded as common stock and the remaining net proceeds as additional paid-in capital, which is included in capital surplus. The Code permits Japanese companies, upon approval of the Board of Directors, to issue shares to existing shareholders without consideration as a stock split. Such issuance of shares generally does not give rise to changes within the shareholders' accounts.

The Code also provides that an amount at least equal to 10% of the aggregate amount of cash dividends and certain other appropriations of retained earnings associated with cash outlays applicable to each period shall be appropriated as a legal reserve (a component of retained earnings) until such reserve and additional paid-in capital equals 25% of common stock. The amount of total additional paid-in capital and legal reserve that exceeds 25% of the common stock may be available for dividends by resolution of the shareholders. In addition, the Code permits the transfer of a portion of additional paid-in capital and legal reserve to the common stock by resolution of the Board of Directors.

The Code allows Japanese companies to repurchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The repurchased amount of treasury stock cannot exceed the amount available for future dividend plus amount of common stock, additional paid-in capital or legal reserve to be reduced in the case where such reduction was resolved at the shareholders meeting.

In addition to the provision that requires an appropriation for a legal reserve in connection with the cash payment, the Code imposes certain limitations on the amount of retained earnings available for dividends. The amount of retained earnings available for dividends under the Code was ¥93,150 million ($870,561 thousand) as of March 31, 2005 based on the amount recorded in the parent company's general books of account.

Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividends are applicable. Semiannual interim dividends may also be paid upon resolution of the Board of Directors, subject to certain limitations imposed by the Code.

10. TRANSACTIONS WITH AFFILIATES

Transactions of the Group with affiliates for the years ended March 31, 2005 and 2004 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Sales	**¥ 117**	¥ 203	**$ 1,093**
Purchases	**2,514**	2,623	**23,495**

11. LEASES

The Group lease certain machinery, computer equipment, office space and other assets.

Total rental expenses for the years ended March 31, 2005 and 2004 were ¥2,468 million ($23,065 thousand) and ¥2,471 million, respectively, including ¥680 million ($6,355 thousand) and ¥699 million of lease payments under finance leases.

Pro forma information of leased property such as acquisition cost, accumulated depreciation, obligation under finance lease, depreciation expense of finance leases that do not transfer ownership of the leased property to the lessee on a "as if capitalized" basis for the years ended March 31, 2005 and 2004 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Machinery and equipment:			
Acquisition cost	**¥ 2,677**	¥ 2,663	**$ 25,019**
Accumulated depreciation	**(1,431)**	(1,245)	**(13,374)**
Net leased property	**¥ 1,246**	¥ 1,418	**$ 11,645**

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2005	2004	**2005**
Due within one year	**¥ 545**	¥ 603	**$ 5,094**
Due after one year	**701**	815	**6,551**
Total	**¥ 1,246**	¥ 1,418	**$ 11,645**

Depreciation expenses, which are not reflected in the accompanying statements of income, computed by the straight-line method were ¥680 million ($6,355 thousand) and ¥699 million for the years ended March 31, 2005 and 2004, respectively.

12. SEGMENT INFORMATION

The Group operates principally in the manufacture and sale of products in three business segments - pharmaceuticals, animal health products and other products. The business segment information of the Group for the years ended March 31, 2005 and 2004 was as follows:

	Millions of Yen					
	2005					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income						
Sales to customers	**¥ 122,055**	**¥ 27,285**	**¥ 24,560**	**¥ 173,900**		**¥ 173,900**
Intersegment sales/transfers			**1,312**	**1,312**	**¥ (1,312)**	
Total	**122,055**	**27,285**	**25,872**	**175,212**	**(1,312)**	**173,900**
Operating expenses	**110,583**	**26,329**	**24,462**	**161,374**	**2,129**	**163,503**
Operating income	**¥ 11,472**	**¥ 956**	**¥ 1,410**	**¥ 13,838**	**¥ (3,441)**	**¥ 10,397**
II. Identifiable assets, depreciation and capital expenditures						
Identifiable assets	**¥ 107,082**	**¥ 7,124**	**¥ 15,262**	**¥ 129,468**	**¥ 71,963**	**¥ 201,431**
Depreciation	**4,473**	**228**	**157**	**4,858**	**272**	**5,130**
Capital expenditures	**2,557**	**112**	**127**	**2,796**	**268**	**3,064**

	Thousands of U.S. Dollars					
	2005					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income						
Sales to customers	**$ 1,140,701**	**$ 255,000**	**$ 229,533**	**$ 1,625,234**		**$ 1,625,234**
Intersegment sales/transfers			**12,262**	**12,262**	**$ (12,262)**	
Total	**1,140,701**	**255,000**	**241,795**	**1,637,496**	**(12,262)**	**1,625,234**
Operating expenses	**1,033,486**	**246,066**	**228,617**	**1,508,169**	**19,897**	**1,528,066**
Operating income	**$ 107,215**	**$ 8,934**	**$ 13,178**	**$ 129,327**	**$ (32,159)**	**$ 97,168**
II. Identifiable assets, depreciation and capital expenditures						
Identifiable assets	**$ 1,000,766**	**$ 66,580**	**$ 142,636**	**$ 1,209,982**	**$ 672,551**	**$ 1,882,533**
Depreciation	**41,804**	**2,131**	**1,467**	**45,402**	**2,542**	**47,944**
Capital expenditures	**23,897**	**1,047**	**1,187**	**26,131**	**2,505**	**28,636**

	Millions of Yen					
	2004					
	Pharmaceuticals	Animal Health Products	Other Products	Total	Eliminations/ Corporate	Consolidated
I. Sales and operating income						
Sales to customers	¥ 118,481	¥ 28,654	¥ 23,707	¥ 170,842		¥ 170,842
Intersegment sales/transfers			1,389	1,389	¥ (1,389)	
Total	118,481	28,654	25,096	172,231	(1,389)	170,842
Operating expenses	108,254	27,397	23,610	159,261	2,298	161,559
Operating income	¥ 10,227	¥ 1,257	¥ 1,486	¥ 12,970	¥ (3,687)	¥ 9,283
II. Identifiable assets, depreciation and capital expenditures						
Identifiable assets	¥ 114,988	¥ 9,403	¥ 13,583	¥ 137,974	¥ 55,264	¥ 193,238
Depreciation	5,090	237	140	5,467	266	5,733
Capital expenditures	3,691	167	121	3,979	315	4,294

Each business segment comprises the following:

Business Segment	Major Product
Pharmaceuticals	Cardiovascular system drugs
	Antibacterial and antibiotic agents
	Central nervous system and antiallergic drugs
	Nutrients, hormones and vitamins
	Diagnostics
Animal Health Products	Animal health products
	Feeds and feed additives
Other Products	Food additives
	Other products (industrial chemicals, research reagents and instruments, etc.)

Geographical segment information and overseas sales information are not disclosed, because none of the Company's consolidated subsidiaries is located outside Japan, and the overseas sales of the Group for the years ended March 31, 2005 and 2004 were less than 10% of consolidated net sales.

13. CONTINGENT LIABILITIES

Contingent liabilities for guarantees of indebtedness of an associated company, and employees' housing loans guaranteed at March 31, 2005 were as follows:

	Millions of Yen	Thousands of U.S. Dollars
Guarantees of indebtedness	¥1,406	$13,140
Loans guaranteed	18	168

14. SUBSEQUENT EVENT

The outline of an appropriation of profit

On June 29, 2005, the shareholders of the Company approved payment of a year-end cash dividend to shareholders of record at March 31, 2005 of ¥5.00 ($0.05) per share or a total of ¥825 million ($7,710 thousand), and bonuses to directors and corporate auditors of ¥26 million ($243 thousand).

Dainippon Pharmaceutical and Sumitomo Pharmaceuticals Finalize Merger Agreement

On April 28, 2005, the Company and Sumitomo Pharmaceuticals Co., Ltd. (President: Yasuo Okamoto, "Sumitomo Pharmaceuticals") reached a definitive agreement for their merger, effective October 1, 2005.

This agreement was subsequently approved at a Shareholders'meeting held on June 22, 2005, in Sumitomo Pharmaceuticals, and June 29, 2005, in Dainippon Pharmaceutical.

1. Background and objectives of the merger

The business environment in which the Japanese pharmaceutical industry operates has become increasingly challenging due to various factors, such as the government's continuing initiatives to restrain medication expenditure through periodical drug price cutting and other measures, the soaring R&D spending of drug discovery,

the intensifying competition with U.S. and European mega pharmaceutical companies, and the ongoing restructuring of the pharmaceutical industry. Given these circumstances, for a medium-to-large size company to achieve stable growth while contributing to society, it is essential that it aggressively invest in R&D towards the discovery of innovative drugs, meanwhile, securing a robust domestic business base to sustain the growing size and duration of investments needed for successful development.

Moreover, global business operations, a prerequisite for a pharmaceutical company to grow, requires thorough planning of business strategies and substantial investments. Based on such common understanding, Dainippon Pharmaceutical and Sumitomo Pharmaceuticals had been investigating the possibility of a merger of the two companies to further fortify their business foundations in their most important operational base, Japan, and to also establish the potential for further global business development, which culminated in a basic agreement for their merger.

The new company to be established by the merger ("New Company") aims to further enhance profitability and competitiveness by combining the management resources of Dainippon Pharmaceutical and Sumitomo Pharmaceuticals and through the implementation of basic strategies based on the concept of "Selection and Focus".

2. Structure of merger

(1) Dainippon Pharmaceutical will be designated as the surviving company and Sumitomo Pharmaceuticals will be dissolved. Dainippon Pharmaceutical will change its name to "Dainippon Sumitomo Pharma Co., Ltd."

(2) One Sumitomo Pharmaceuticals share will be exchanged for 1,290 Dainippon Phamaceutical shares. (There has been no change in the merger ratio since concluding the basic agreement to merge)

Among the shares that are to be allotted to the shareholders of Sumitomo Pharmaceuticals, 3 million shares will be allotted using Dainippon Pharmaceutical's treasury stocks and the remaining 229,716,000 shares will be issued as common stocks.

(3) The New Company will pay to the shareholders of Sumitomo Pharmaceuticals as of the last day prior to the effective date of the merger, 16,000 yen per share as cash payment within 3 months of the effective date of the merger, in lieu of an interim dividend to be paid for the period ending September 2005. The value of this payment is subject to change based upon discussion between Dainippon Pharmaceutical and Sumitomo Pharmaceuticals, depending on the assets, liabilities, rights and obligations, etc., of Sumitomo Pharmaceuticals on the day before the effective date of the merger.

(4) The increase in common stock is ¥224 billion. The above amount is subject to change based upon discussion between Dainippon Pharmaceutical and Sumitomo Pharmaceuticals, depending on the assets, liabilities, rights and obligations, etc., of Sumitomo Pharmaceuticals on the effective date of the merger.

Independent Auditors' Report

Deloitte.

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To the Board of Directors of Dainippon Pharmaceutical Co., Ltd.:

We have audited the accompanying consolidated balance sheets of Dainippon Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Dainippon Pharmaceutical Co., Ltd. and consolidated subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu

June 29, 2005

Member of
Deloitte Touche Tohmatsu

Corporate Information

Corporate Data
(As of March 31, 2005)

Foundation
May 14, 1897

Capital
13,444 million yen

Number of Employees
2,427

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Chuo-ku, Tokyo 103-0023
Tel 03-3270-2011

Osaka Business Affairs Office
5-51, Ebie 1-chome, Fukushima-ku,
Osaka 553-0001
Tel 06-6454-8151

Suzuka Plant
1450, Yasuzuka-cho, Suzuka City 513-0818
Tel 0593-82-8951

Research Laboratories
33-94, Enoki-cho, Suita City 564-0053
Tel 06-6337-5876

Branch Office
Sapporo, Sendai, Tokyo 1st, Tokyo 2nd, Yokohama, Koshin-etsu, Nagoya, Kyoto, Osaka, Kobe, Hiroshima, Takamatsu, Fukuoka

Board of Directors
(As of June 29, 2005)

Chairman, President and Representative Director
Kenjiro Miyatake

Directors
Hisashi Fujita
Fujio Okamoto
Tetsuya Oida
Yuichi Yokoyama

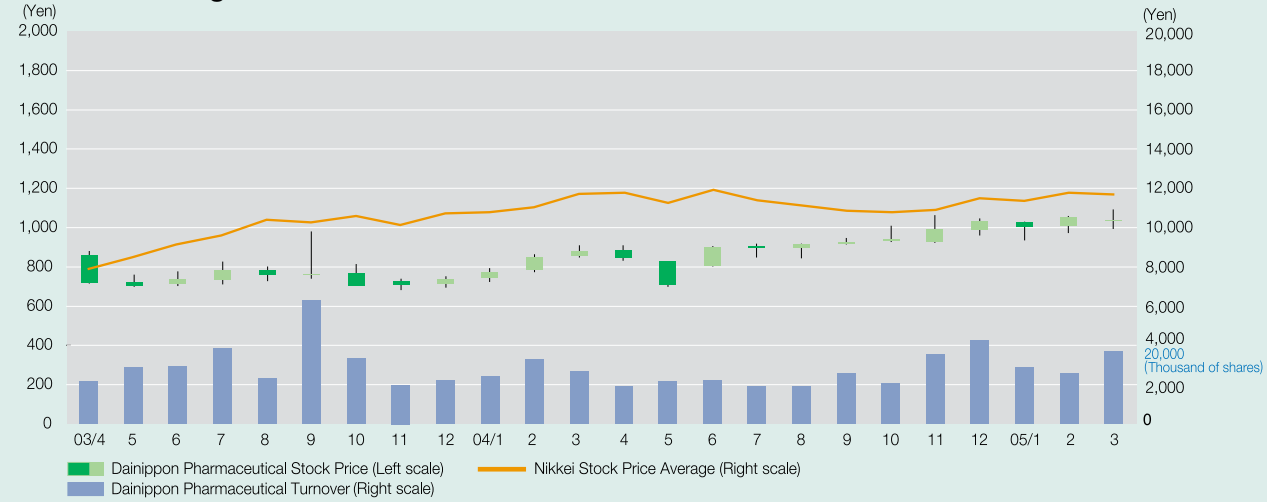
Full-Time Corporate Auditors
Toshiro Funakura
Fuminori Hashimoto

Corporate Auditors
Michihiro Ishii
Takayuki Usui

Businesses of Consolidated Subsidiaries

Gokyo Trading Co., Ltd.:	Purchasing and sales of industrial chemicals, food and food additives, and other chemical products
Nichiei Sangyo Co., Ltd.:	Parking garage management, clinical assay and testing of pharmaceuticals
Marupi Drug Co., Ltd.:	Sales of over-the-counter pharmaceuticals
Marupi Butsuryu Service Co., Ltd.:	Warehouse management

Stock Price Range and Turnover



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