DAINIPPON SUMITOMO PHARMA

Annual Report 2013

Dainippon Sumitomo Pharma Co., Ltd.

Expanding Leading-edge Innovations

Message from the President & CEO

We will create new value with technologies to achieve our new

Fiscal 2012 (the year ended March 31, 2013), the midway point of the second Mid-term Business Plan (2nd MTBP), was a year of significant progress for the Dainippon Sumitomo Pharma (DSP) Group's growth initiatives. These included expansion of sales of LATUDA®, an atypical antipsychotic, in the United States, and our full-scale entry into the area of oncology with the acquisition of U.S. biotechnology company Boston Biomedical, Inc.

Net sales decreased 0.8% compared with the previous fiscal year to ¥347.7 billion as the impact of National Health Insurance drug price revisions in Japan and other factors offset strong sales in the United States. Despite the decline in sales, the DSP Group's cost reduction measures led to a 22.8% increase in operating income to ¥25.0 billion and 16.4% gain in net income to ¥10.0 billion.

However, the rapidly expanding risk of falling profits from long-listed drugs in Japan as we approach fiscal 2014, the final year of the 2nd MTBP, has heightened the need to accelerate the transformation of our earnings structure. In North America, although sales are growing, we are facing challenges in achieving the profit targets of the MTBP due to several factors, including a delay in the launch of a new product. Another consideration is that our expansion in the oncology area has significantly changed our business structure.

Under these circumstances, we decided that we had to create a new business strategy to respond quickly to the changes in our business environment and focus on growth areas. We therefore formulated the third Mid-term Business Plan and established a new vision: "Aspire to be a globally active R&D-based company" and "Contribute to medical care through leading-edge technologies."

The DSP Group will continue striving to fulfill its mission as a pharmaceutical company by using its technologies to address areas with significant unmet medical needs and create new value for the betterment of healthcare and fuller lives of patients worldwide.

We are counting on the continued guidance and support of our shareholders and other investors.

August 2013

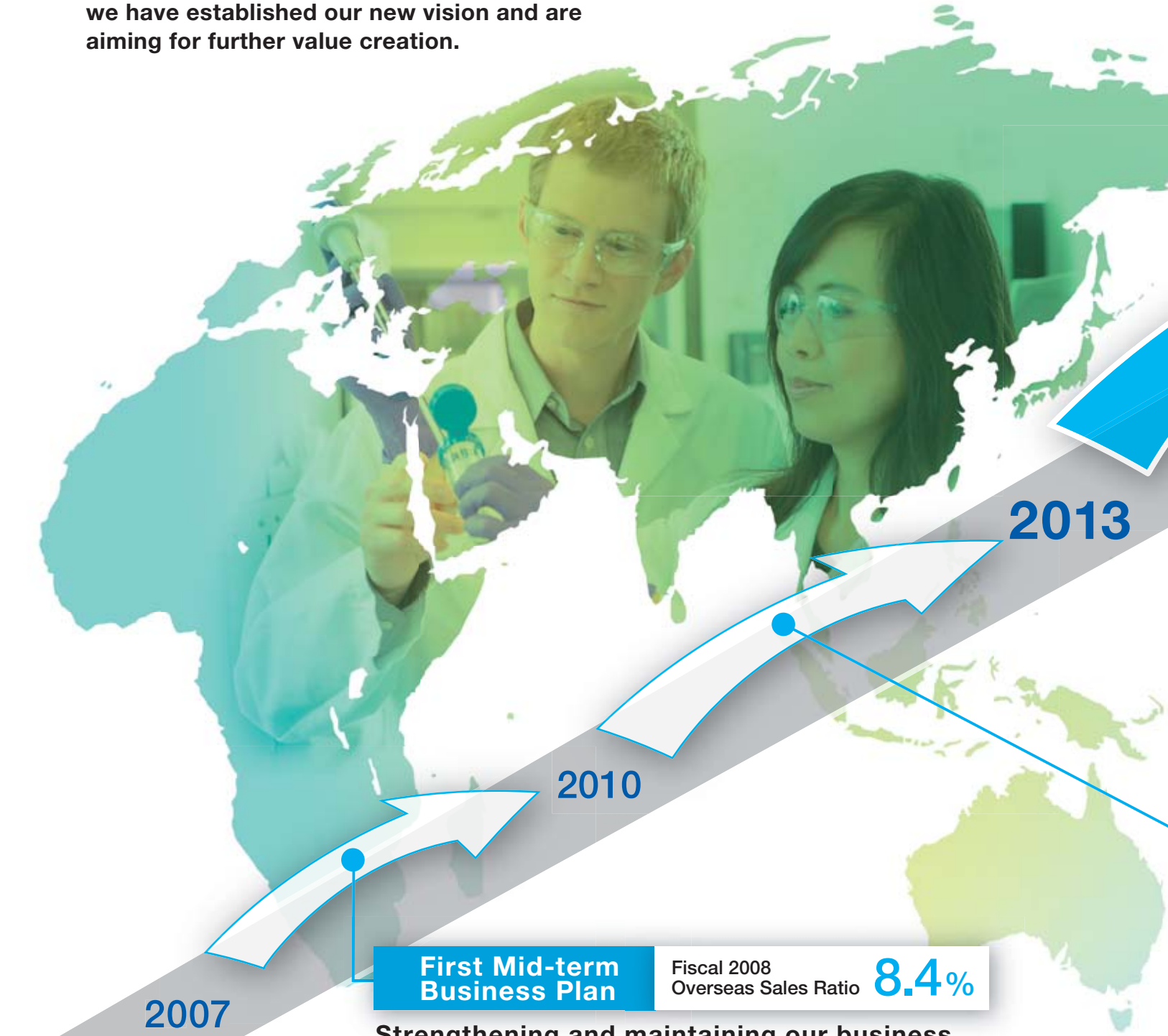
Masayo Tada
Representative Director,
President and Chief Executive Officer


leading-edge
vision.

New Vision

Since its founding in 2005, DSP has steadily grown its global presence while enhancing its pipeline.

With the recent start of the third Mid-term Business Plan, we have established our new vision and are aiming for further value creation.



First Mid-term Business Plan

Fiscal 2008 Overseas Sales Ratio **8.4%**

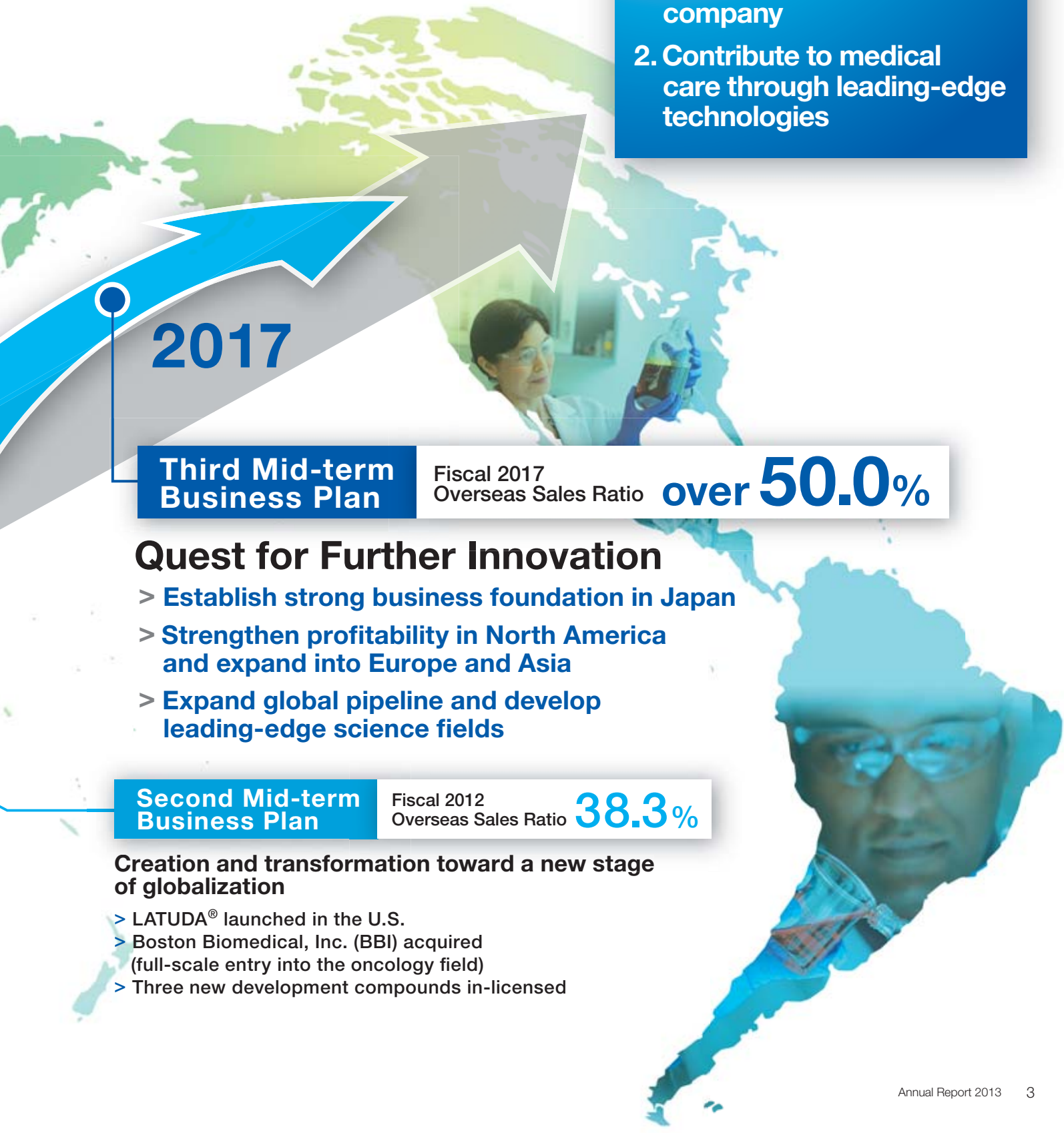
Strengthening and maintaining our business foundation toward globalization

> Sepracor Inc. acquired (now Sunovian Pharmaceuticals Inc.)
> LATUDA® approved in Japan
> Five new products launched in Japan

2022

New Vision

1. Aspire to be a globally active R&D-based company
2. Contribute to medical care through leading-edge technologies



2017

Third Mid-term Business Plan

Fiscal 2017 Overseas Sales Ratio **over 50.0%**

Quest for Further Innovation

> Establish strong business foundation in Japan

> Strengthen profitability in North America and expand into Europe and Asia

> Expand global pipeline and develop leading-edge science fields

Second Mid-term Business Plan

Fiscal 2012 Overseas Sales Ratio **38.3%**

Creation and transformation toward a new stage of globalization

> LATUDA® launched in the U.S.
> Boston Biomedical, Inc. (BBI) acquired (full-scale entry into the oncology field)
> Three new development compounds in-licensed

Highlights 2013

April 2012

Acquisition of U.S. Biotechnology Company Boston Biomedical, Inc.

In April 2012, DSP acquired Boston Biomedical, Inc. (BBI), a biotechnology company in the field of oncology, thus obtaining its innovative pipeline in oncology and excellent drug discovery and development capabilities. With the establishment of the DSP Cancer Institute in Japan in September 2012 and the creation of a global oncology R&D structure headed by Dr. Chiang J. Li, President and CEO of BBI, DSP is aiming for further creation of innovative anti-cancer drugs.

July 2012

Launch of ZETONNA® in the United States

ZETONNA®, a treatment for allergic rhinitis, is the first dry nasal aerosol spray available in the United States. Sunovion Pharmaceuticals Inc. (Sunovion) already markets OMNARIS® (corticosteroid nasal spray) for allergic rhinitis in the United States. With the launch of ZETONNA®, Sunovion has enhanced its product lineup of allergic rhinitis treatments.

September 2012

Steadily Maximizing the Value of LATUDA®

LATUDA® (lurasidone), an atypical antipsychotic agent launched in the United States in February 2011, expanded its area of availability with a launch in Canada in September 2012. In October 2012, the European Medicines Agency (EMA) accepted for review a Marketing Authorization Application (MAA) filed by partner company Takeda Pharmaceutical Company Limited for lurasidone for the treatment of schizophrenia, and in April 2013, DSP submitted an MAA in Australia. Furthermore, in the United States in June 2013, LATUDA® became the first atypical antipsychotic to obtain approval for two additional indications as 1) monotherapy and 2) adjunctive therapy with either lithium or valproate, both to treat adult patients with major depressive episodes associated with bipolar I disorder (bipolar depression). Through these and other activities, DSP is steadily working to maximize product value.

December 2012

Launch of AIMIX® in Japan

AIMIX® Combination Tablets LD/HD is a combination product of irbesartan (brand name: AVAPRO®), a long-acting angiotensin II receptor antagonist (ARB) with an anti-hypertensive effect that lasts for 24 hours, and amlodipine besilate (brand name: AMLODIN®), a calcium antagonist with a strong, sustained hypotensive effect. AIMIX® Combination Tablets HD is the first combination product in Japan including 10mg of amlodipine.

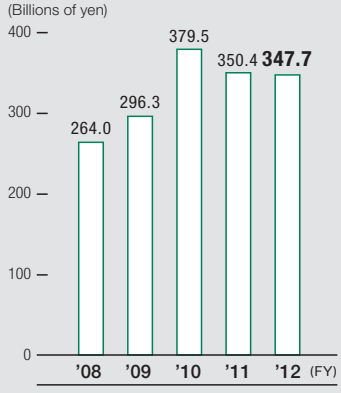
February 2013

Announcement of the Third Mid-term Business Plan

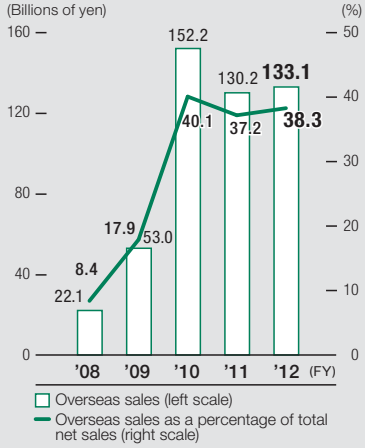
DSP announced the third Mid-term Business Plan, which began in fiscal 2013 and will culminate in fiscal 2017. Under the plan, DSP has established its new vision “Aspire to be a globally active R&D-based company” and “Contribute to medical care through leading-edge technologies” in its quest for innovation. (See page 8 for details.)

- Net sales decreased 0.8% year on year to ¥347.7 billion partly due to the impact of National Health Insurance (NHI) drug price revisions and lower sales of existing products in Japan, although performance was strong in North America from factors including substantial growth in sales of LATUDA®.
- Operating income increased 22.8% year on year to ¥25.0 billion and net income increased 16.4% year on year to ¥10.0 billion as business structure improvements in Japan and overseas resulted in reductions in expenses that compensated for the decrease in net sales.

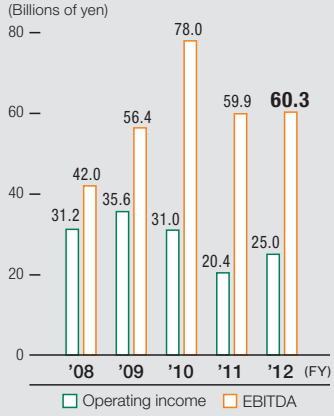
Net Sales



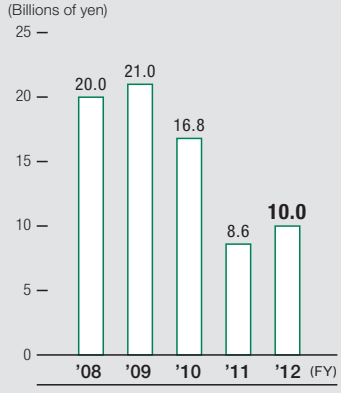
Overseas Sales/Overseas Sales as a Percentage of Total Net Sales



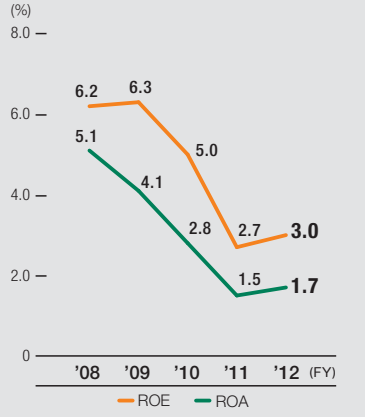
Operating Income/EBITDA[1]



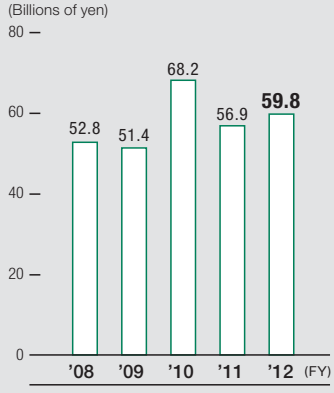
Net Income



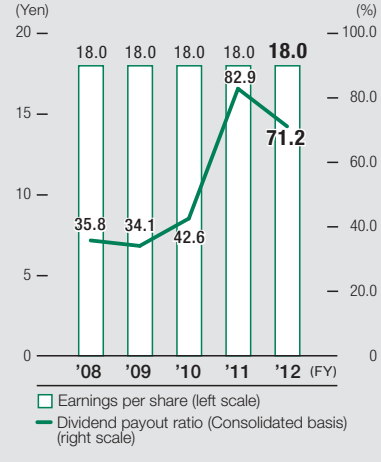
ROE[2]/ROA[3]



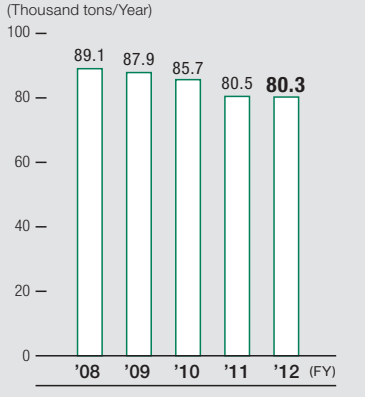
R&D Costs



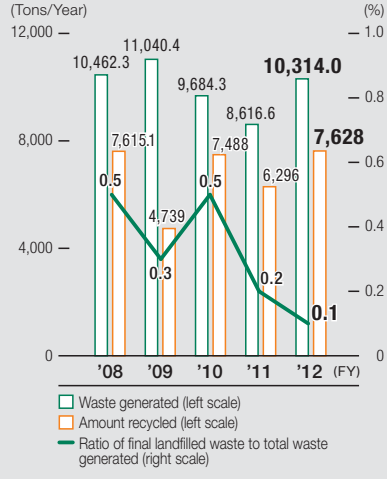
Earnings Per Share/Dividend Payout Patio (Consolidated Basis)



CO_2 Emissions



Waste Recycling



1. Earnings before interest, taxes, depreciation and amortization
2. ROE = Net income ÷ (Total net assets - Minority interests, average for the fiscal year)
3. ROA = Net income ÷ Total assets, average for the fiscal year

Expanding Leading-edge Innovations

Since our founding in 2005, Dainippon Sumitomo Pharma Co., Ltd. (DSP) has provided innovative and useful global medicines. We will continue to broadly contribute to society by creating new value with leading-edge technologies.

Corporate Mission

To broadly contribute to society through value creation based on innovative research and development activities for the betterment of healthcare and fuller lives of people worldwide

Management Mission

- **To contribute to healthcare and people's well-being based upon the principles of patient-oriented management and innovative research**
- **To continuously strive to maximize corporate value through constant business development and to fulfill shareholder expectations**
- **To create an environment in which employees can fulfill their potential and increase their creativity**
- **To maintain the trust of society and to contribute to the realization of a better global environment**

Dainippon Sumitomo Pharma Declaration of Conduct

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

Editorial Policy

Applicable Period	This report is based on the results for fiscal 2012 (April 1, 2012 to March 31, 2013). Some of the activities described were conducted in fiscal 2013.
Organizational Scope	The report covers the 16 companies in the Dainippon Sumitomo Pharma Group (Dainippon Sumitomo Pharma Co., Ltd., its 15 consolidated subsidiaries). However, environmental performance data in the report are totals for major facilities in Japan only (plants, research laboratories, distribution centers, Osaka Head Office, Tokyo Head Office, branches).
Numerical Values and Graphs	Yen amounts less than 100 million yen are rounded down to the nearest 1 million yen in accordance with the *Yukashoken Hokokusho* (Annual Securities Report) for fiscal 2012 (the year ended March 31, 2013). Yen amounts greater than 100 million yen are rounded to the nearest 100 million yen. Accordingly, totals may differ from the sum of numbers in some breakdowns. Years shown in graphs are fiscal years ended March 31 unless otherwise specified.

Contents

Interview with President Tada

DSP's Third Mid-term Business Plan

Masayo Tada
Representative Director,
President and Chief Executive Officer

We are aiming to achieve business growth based on leading-edge technologies and to be a respected company of quality among pharmaceutical companies by fulfilling our corporate social responsibility.

Q. 1

The third Mid-term Business Plan was formulated at the midway point of the second Mid-term Business Plan. What was the reasoning behind this timing?

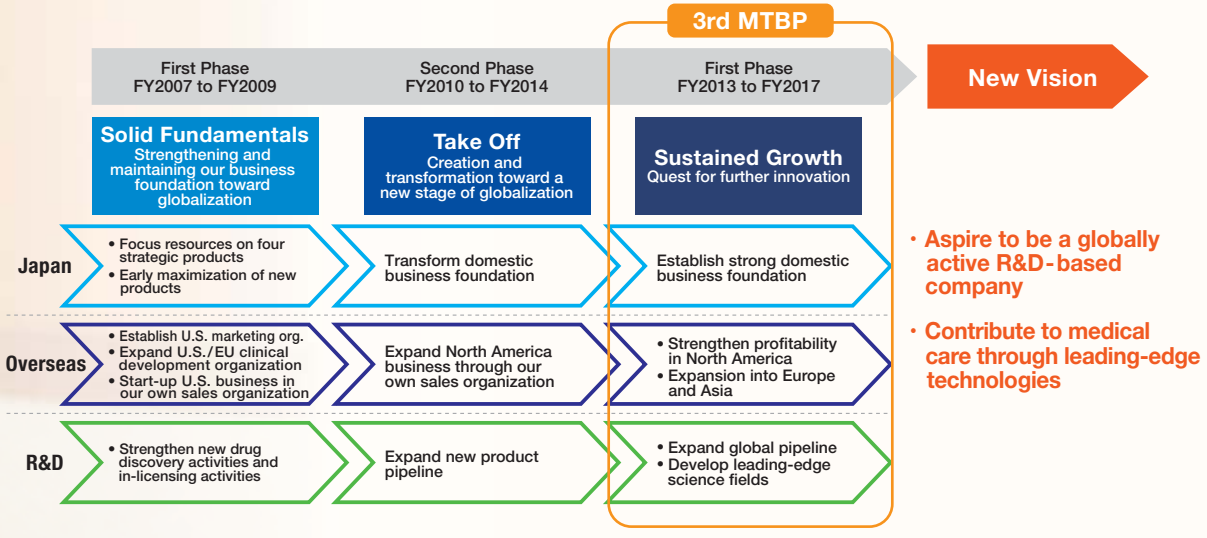
We reoriented our growth strategy at this time to respond appropriately to the changes in our operating environment.

First, I would like to review the second Mid-term Business Plan. The plan was positioned as the "take-off" period for growth. We made significant qualitative advances such as the U.S. launch of LATUDA® and our full-scale entry into the oncology area with the acquisition of Boston Biomedical, Inc. (BBI). In quantitative terms, though, our initial targets had have become difficult to reach, in part because of various changes in the external environment. But the reason we decided to formulate the third Mid-term Business Plan (the "3rd MTBP") ahead of schedule was not simply that our numerical targets had become difficult to reach, but that the conditions on which we based our business activities had changed substantially. Two examples are the Japanese government's measures to promote the use of generic drugs, which have gone further than we expected, and our entry into the oncology area. We recognized the pressing need to revise our strategies and to execute them with agility.

The theme of the 3rd MTBP is "Sustained Growth." Breaking this idea down further, we will reap benefits by investing in growing regions and in growing business fields and technologies. We also need to strengthen our management system to provide a platform for promptly executing these strategies. Both strategies are designed to enable us to respond accurately and quickly to the rapid changes in our operating environment.

Along with the revision of our strategies, we also reexamined our corporate vision. During the 2nd MTBP, we achieved our goal of "establishing two solid mainstreams of revenue, from domestic operations and from international operations." We have therefore changed this part of the vision to "Contribute to medical care through leading-edge technologies." As a pharmaceutical manufacturer, research and development is the source of our competitive edge. We cannot grow without strengthening and promoting our research and development. To reiterate that idea, we clearly verbalized it as our new vision.

Third Mid-term Business Plan



Q. 2

The atypical antipsychotic LATUDA® will be a core driver of sales growth. What is your strategy for maximizing its value?

We plan to make LATUDA® a blockbuster by expanding its sales regions and adding new indications.

To maximize the product value of LATUDA®, we plan to make it a blockbuster by emphasizing two strategies. First, we will increase sales by expanding sales regions and creating alliances. We have already entered into a development and commercialization agreement with Takeda Pharmaceutical Company Limited in Europe excluding the U.K., and Takeda has filed a Marketing Authorization Application. In addition, we are working diligently on development with the aim of obtaining approval in Japan, Australia, China, Southeast Asia and other regions during the 3rd MTBP. Second, we will expand the indications of the product. In the United States, where LATUDA® is already approved for the treatment of schizophrenia, approval was obtained for the additional indication of bipolar I depression in June 2013. This new indication positions LATUDA® to benefit even more patients. We want to expand its indications on a global basis in the future.

Our promotion strategy will also be key to maximizing product value. First, with the addition of the new indication, we increased the number of sales representatives in the United States to further build the LATUDA® brand. Specifically, we increased the LATUDA® sales team to 410 people, 70 more than at the end of December 2012, by disbanding the LUNESTA® sales team and reassigning some staff to the LATUDA® team. The ability of this enlarged sales force to effectively grow sales holds the key to the brand's expansion, and we are therefore enhancing the sales training program. Moreover, we have increased the LATUDA® marketing budget from the previous year and will strengthen brand-building measures including the use of television commercials.

Q. 3

Another pillar of the plan is expansion in oncology, an area with very high unmet medical needs. How is development progressing in this area?

Development of BBI608 is generally advancing smoothly. We expect to launch BBI608 in North America in fiscal 2015 and are using new concepts to drive drug discovery.

Oncology is one of the areas with the highest unmet medical needs worldwide. We believe that taking on the challenge of development in this area is critical to fulfilling our mission as a pharmaceutical manufacturer.

BBI608, a treatment for colorectal cancer and solid cancers, and BBI503, a treatment for solid cancers, both target cancer stem cells as well as other heterogeneous cancer cells, and are expected to have potential to provide dramatic therapeutic efficacy. Expectations are rising for the launch of these drugs as soon as possible, and we are moving forward on their development with a sense of mission as a pharmaceutical manufacturer. Development of BBI608 has generally gone smoothly, and BBI608 entered an international Phase III clinical study as monotherapy for colorectal cancer in North America in January 2013. We are aiming for a market launch during fiscal 2015. Clinical studies are also under way for expansion of the drug's indications to include colorectal cancer (combination therapy) and other types of cancer. In Japan, a Phase I clinical study for the treatment of solid cancers (monotherapy) began in March 2013. After these trials are completed, we plan to move the compound into an international Phase III clinical study, with a planned launch in fiscal 2016. While the timing may ultimately differ somewhat from our targets, I am confident that this drug will advance steadily toward its market launch. In North America, we have already begun preparations for building the sales organization, including recruiting talented people with the potential to lead the organization and eyeing the establishment of a new marketing subsidiary.

We are also steadily speeding up discovery research in cancer immunotherapy. WT2725, a treatment for hematologic and solid cancers, and WT4869, a treatment for myelodysplastic syndromes and solid cancers, are both therapeutic cancer vaccine candidates derived from the WT1 protein. These projects represent our efforts to conduct discovery research based on new concepts. While the time required for development of these compounds is longer than for BBI608 and BBI503, we will move them steadily and quickly through development to meet the expectations of patients and healthcare professionals who are waiting for effective treatments.

Q.4

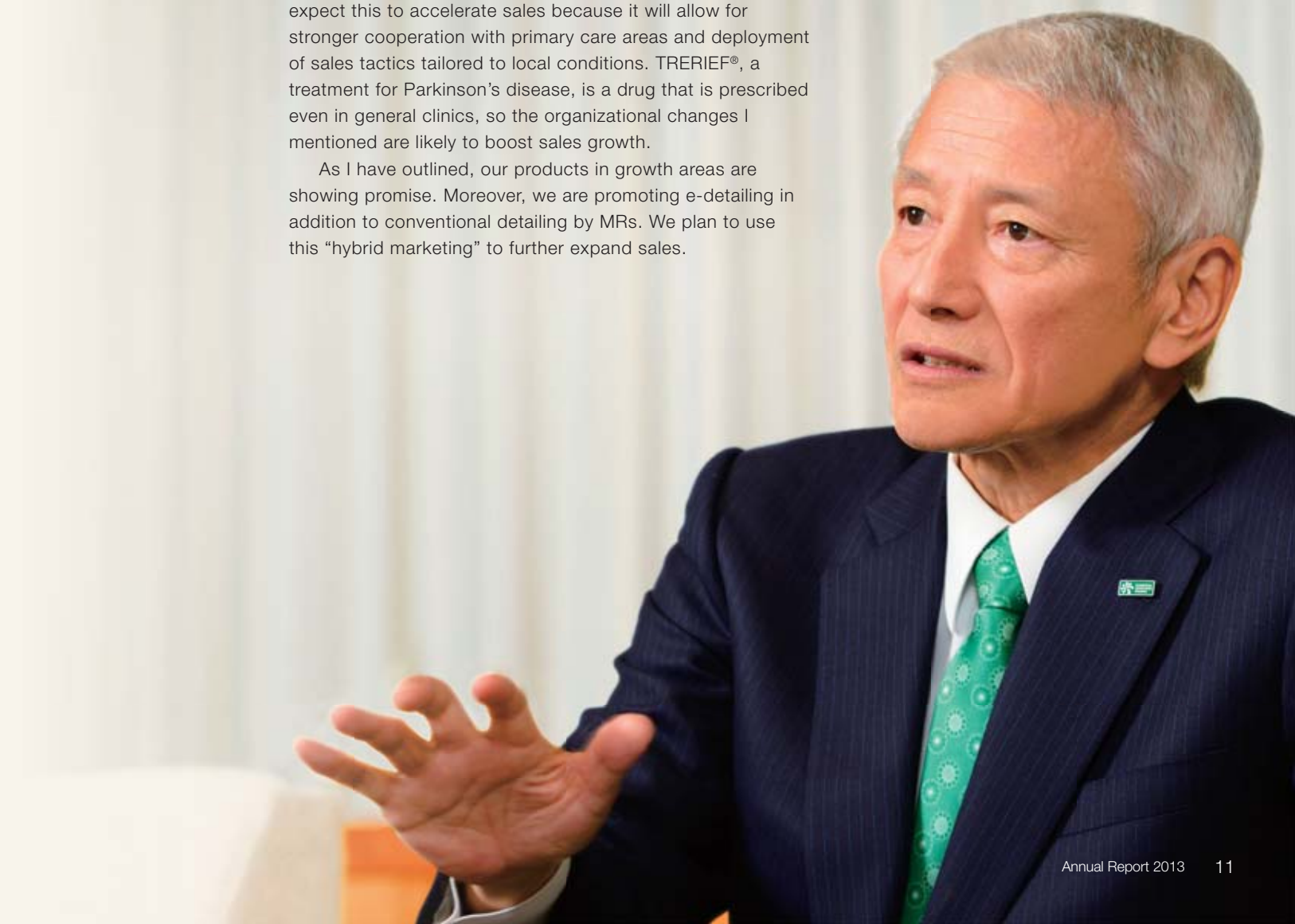
In the Japanese pharmaceutical business, sales of long-listed drugs are expected to decline, but what strategies do you have in mind to "establish a strong business foundation in Japan," one of the basic strategies in the 3rd MTBP?

We will establish a strong business foundation in Japan by concentrating our resources on growth products and on the earliest possible launch of global products.

For the Japanese pharmaceutical business, our basic strategy will be to offset the impact of the shift to generic drugs by concentrating our resources on growth products such as strategic and new products to drive sales expansion. From a medium-term perspective, we will establish a solid revenue base with strategies that include generating further growth with the earliest possible launch of global products such as lurasidone and BBI608, and expanding our pipeline with in-licensing and alliances.

I will explain the short-term outlook for our major products individually since the situation is different for each product. First, we expect strong growth from AIMIX®, an anti-hypertension drug launched in December 2012, because it has demonstrated an excellent anti-hypertensive effect, and is a product with which we can fully utilize our existing sales routes in the cardiovascular area. For LONASEN®, an atypical antipsychotic, we have obtained excellent results from meta-analysis of the findings of various research papers and clinical studies, and will use these as a tool to expand sales. Beginning in fiscal 2013, the CNS Product Management & Promotion Planning Department was dissolved and the CNS Sales and Marketing Department was absorbed into the regional divisions. We expect this to accelerate sales because it will allow for stronger cooperation with primary care areas and deployment of sales tactics tailored to local conditions. TRERIEF®, a treatment for Parkinson's disease, is a drug that is prescribed even in general clinics, so the organizational changes I mentioned are likely to boost sales growth.

As I have outlined, our products in growth areas are showing promise. Moreover, we are promoting e-detailing in addition to conventional detailing by MRs. We plan to use this "hybrid marketing" to further expand sales.



Q.5

DSP has added oncology as a focus therapeutic area, and is expanding into the new businesses of cell therapy and regenerative medicine. What are your objectives and policies in these areas?

We will focus on areas where we have a strong advantage to quickly create globally competitive new drugs.

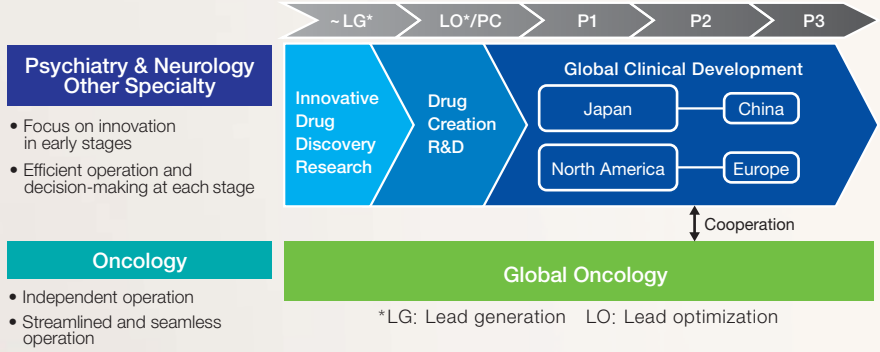
***POC (Proof of Concept):** Confirmation in human subjects of estimated efficacy and safety characteristics

In the 3rd MTBP, we have added oncology as a focus therapeutic area next to psychiatry & neurology. This is an area with significant unmet medical needs, and it presents major opportunities. The acquisition of BBI has made oncology an area of strong competitive advantage for the DSP Group, along with psychiatry & neurology. But we also have to improve the speed and efficiency of research and development to enhance our ability to create globally competitive new medicines. To that end, we have reorganized our R&D operations by therapeutic area and development stage rather than by function. We believe this will sharpen our focus on early-stage innovation and allow more efficient management and decision-making at each stage. In oncology, we will add more people to our global oncology R&D network headed by BBI President and CEO Chiang J. Li, an independent operation from other R&D, to further promote innovation in drug discovery research. With these initiatives, we plan to move ten compounds in areas other than oncology into clinical studies by fiscal 2017, and obtain proof-of-concept (POC)* for at least one compound each year. In oncology, we will conduct research and development with the aim of moving eight compounds into clinical studies by fiscal 2017.

Next, I will explain our approach to cell therapy and regenerative medicine. Our core idea in these businesses is to address unmet medical needs. The fact that no solutions have been obtained from existing technologies is the reason that clinical needs still remain. Advanced technologies are therefore essential for solving these needs. We chose cell therapy and regenerative medicine as focus fields because they are cutting-edge areas in which we have a fair amount of knowledge, thanks in part to our option agreement to co-develop a new cell therapy for stroke recovery with SanBio, Inc., a U.S.-based biotech focusing on regenerative cell therapy products. The capital alliance we formed with Retina Institute Japan in March 31, 2013 to develop practical applications for iPS cell technology is speeding up our research in these fields.

New R&D Structure

By therapeutic area and by development stage



*LG: Lead generation LO: Lead optimization

Q.6

DSP is pursuing a leaner corporate structure that will enable it to respond more flexibly to changes in the business environment. Can you briefly explain some specific measures?

We will achieve "innovation of quality" in our operations by improving efficiency across the board and establishing a strong corporate culture.

The DSP Group made significant advances in globalization during the 2nd MTBP. We need to continue to make necessary changes and reforms to accommodate changes in the business environment. However, responding adequately to changes in the environment will be impossible without a robust business foundation. Therefore, we have launched a Company-wide project to strengthen our business foundation in the 3rd MTBP. The goal of this project is to create a leaner corporate structure by pursuing management efficiency and establishing a strong corporate culture. In pursuing management efficiency, we will take a comprehensive approach that includes disposing of idle assets, consolidating offices, and eliminating waste in the work processes of every employee. Measures to establish a strong corporate culture will include personnel system reforms aimed at fostering a culture that encourages willingness to take on challenges. We expect to see some improvements beginning in fiscal 2014. However, these efforts are not intended just to cut costs; they are also aimed at "innovation of quality," including in our human resources. I believe the resulting leaner organization will enhance our agility in executing the new strategies I outlined at the beginning.

Q.7

With respect to managing corporate social responsibility, are there any points that DSP places particular importance on as a pharmaceutical company?

We are aiming to be a respected company of outstanding quality through our efforts to address unmet medical needs and contribute to society.

Our CSR efforts can be summarized in two points. One is our commitment to addressing unmet medical needs as a pharmaceutical company. We state in our corporate philosophy that our mission as a pharmaceutical company is to contribute to the betterment of healthcare and fuller lives through medicine. To fulfill that mission, we must always keep in mind that we will use leading-edge technologies for problems that cannot be solved with existing technologies.

The second point is contribution to society, something we cannot achieve by providing medicine alone. We will consistently do whatever we can in areas such as improving patients' quality of life, and will also continue to support the recovery from the Great East Japan Earthquake.

I firmly believe that success with these two points will make DSP a respected company of quality among pharmaceutical companies. As the head of the company, I will accurately guide our efforts to establish a presence as an industry-leading company in terms of technology, corporate culture and ethics.

Q.8

DSP has produced a new business plan and is striving to provide even greater value. Is there anything else you would like to say to shareholders and investors?

The entire DSP Group is committed to achieving our management objectives and continuing to move forward by using leading-edge technologies to drive innovation.

Currently we are working diligently to achieve the targets of the 3rd MTBP, including launching the oncology business and maximizing the value of LATUDA®. We will continue to create work environments that allow every employee to perform to their maximum potential and will work as a group to achieve our targets.

By creating new value with innovation driven by advanced technologies, we will benefit society while further increasing the DSP Group's corporate value. We will continue to dedicate our full efforts to meeting the expectations of our shareholders and investors.

Research and Development

DSP aims to further boost the speed and efficiency of its research and development, while strengthening its ability to discover new drugs with global applicability.

Basic Strategy

To address unmet medical needs* with innovative new drugs created through leading-edge technologies, DSP is working to fill out its global pipeline under the basic strategy of "increased speed and efficiency."

* DSP is working to address unmet medical needs through the development of new drugs to fight diseases for which treatments are lacking or are not fully satisfactory.

Focus Therapeutic Areas and New Fields of Business

Focus Therapeutic Areas

- **Psychiatry & Neurology**
- **Oncology**

DSP has identified the psychiatry & neurology area and the oncology area as focus therapeutic areas for research and development. We are also taking on the challenge of research and development of new treatments for intractable diseases that present considerable unmet medical needs.

Psychiatry & Neurology

The psychiatry & neurology area has been our primary research area of focus in our drive to create global products. We have positioned it as our focus therapeutic area because it is an area with significant medical needs and an area in which DSP is highly competitive.

We are focusing on treatments for disorders such as schizophrenia, depression, and cognitive impairment while also tackling Alzheimer's disease, neuropathic pain, developmental disorders, and neurodegeneration, with an emphasis on improving conditions where treatments are unsatisfactory and treating patients for whom the efficacy of existing treatments is insufficient.

Oncology

In the oncology area, which represents tremendous unmet medical needs, we require advanced expertise in research, development, and marketing. Under our global and integrated R&D structure including Boston Biomedical, Inc. (BBI) in the U.S. acquired by DSP in 2012 and the DSP Cancer Institute in Japan, the DSP Group is actively developing advanced and innovative drugs in the oncology area with a focus on cancer stem cell research that is leading the world.

We are also aiming to continually create innovative new oncology drugs by undertaking drug discovery based on cancer immunotherapy approaches and new concepts.

New Fields of Business:

- **Cell Therapy**
- **Regenerative Medicine**

DSP believes that many unmet medical needs are unresolvable through conventional technologies and can only be addressed through the use of new advanced technologies. In our aim to fulfill our mission as a pharmaceutical company and cultivate new fields of business to support our future, we are advancing initiatives in our therapeutic areas of focus and in fields leveraging leading-edge technologies, such as cell therapy and regenerative medicine. Through research and development into clinical applications for intractable diseases, we will broaden our contributions to medicine.

Evolving toward an Innovative and Effective Global Research and Development Structure

Toward the goal of innovative and efficient drug discovery, in April 2013 DSP reorganized its Drug Research Division, which had previously been divided along functional lines. We established the Innovative Drug Discovery Laboratories to take charge of initial drug creation from research program identification to the LG[1] stage and the Drug Development Research Laboratories to efficiently and quickly carry forward research programs and projects from the LO[2] stage onward. DSP also established the Preclinical Research Laboratories to enhance its comprehensive evaluation capabilities in safety and pharmacokinetic research, as well as to select drug candidate compounds with high value.

1. LG (lead generation)
   The process of drug discovery, to search for lead compounds (new drug candidate compounds) that act on drug targets.
2. LO (lead optimization)
   The process of drug discovery, continuing through the identification of optimal development candidate compounds, that achieves higher activity and improvements in physical properties, pharmacokinetics, and toxicity through chemical modification of lead compounds.

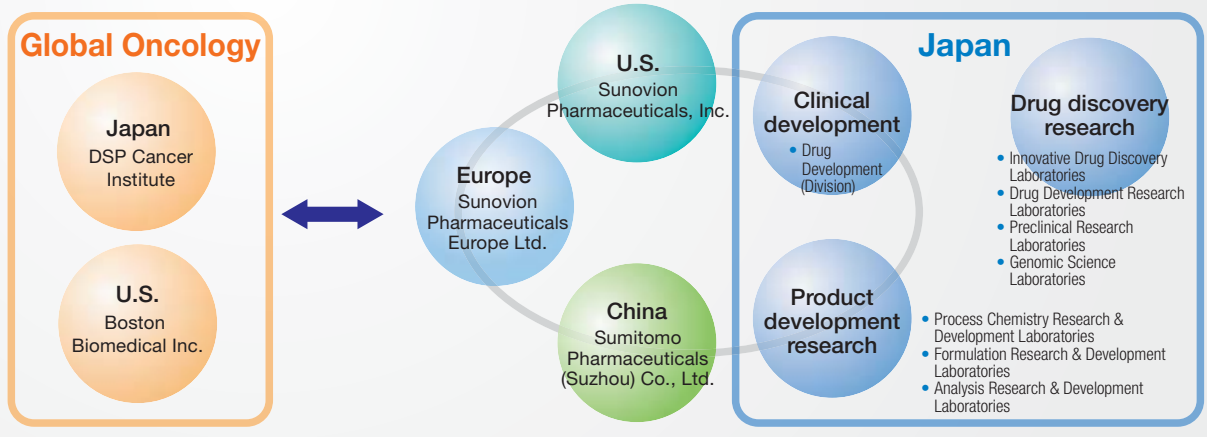
In oncology, we have positioned BBI at the center of our global research and development and expanded its staffing to about 100 people. In Japan, we established the DSP Cancer Institute in September 2012 with about 50 people. In charge of DSP global cancer research and development is Dr. Chiang J. Li, President and CEO of BBI. We are laying the foundation for an efficient and consistent structure that enables rapid decision-making.

The DSP Group conducts research and development through coordination among four sites in Japan, the U.S., China, and the U.K.

To build a structure allowing more efficient supervision of global research and development by the CSO (Chief Scientific Officer), we established the Global Business Strategy Committee (GBSC) in April 2012. The GBSC deliberates on issues such as global business strategies, licensing agreements, and research and development strategies (i.e., prioritization and resource allocation) to optimize portfolios across the Group from a global perspective. At the same time, we created the Global R&D Committee (GRDC) to deliberate initial development-stage projects and other matters from a global perspective.

To conduct global organizational operations in Japan, North America, and elsewhere in the area of clinical development we formed Global Clinical Development (GCD) in April 2013. The GCD horizontally integrates clinical development functions between DSP and our U.S. subsidiary Sunovion Pharmaceuticals, Inc. Additionally, we established the Head of GCD position in the U.S. to supervise global clinical development. Under the Head of GCD, we will strengthen our global unified operations and conduct more speedy and efficient development in order to achieve simultaneous applications in Japan, the U.S., and Europe for globally developed products.

DSP's Global Research Network



Toward “Post-LATUDA®” Early Creation

Targeted investment and greater speed for high-priority programs

To quickly discover novel strategic drug candidates to follow the atypical antipsychotic LATUDA®, we will prioritize resource allocation to compounds already in clinical-stage development to obtain POC* as soon as possible. In addition, we are taking various measures to shorten the R&D period and increase operating efficiency.

Specifically, we will emphasize efficient POC confirmation in the shortest time with the fewest resources possible. We subsequently will make go/no go decisions based on these study results as well as the business evaluation of the project. To expedite R&D, we will utilize a screening cascade (evaluation steps and selection criteria for new drug candidates) in the drug discovery stage and proactively incorporate extemporaneous preparation, microdosing, and global clinical studies in the development stage.

Our “post-LATUDA®” targeted areas are those where the DSP Group has an advantage, such as the focus therapeutic areas of psychiatry & neurology and oncology, and other areas conducive to efficient R&D and sales activities.

In psychiatry & neurology, our “post-LATUDA®” targets include our own assets currently in development in the U.S. and the U.K. for disorders including Alzheimer’s disease, depression, and neuropathic pain. We will also consider our preclinical-stage compounds and in-licensed products such as SB623, a therapy for stroke recovery for which DSP has obtained option rights in North America from SanBio, Inc. In oncology, the most promising “post-LATUDA®” candidates are the colorectal cancer and solid cancer drug BBI608 and the solid cancer drug BBI503, which we added to our pipeline through our acquisition of BBI. We have also launched development of the solid cancer and hematologic cancer drug WT2725 in North America.

DSP plans to select several promising compounds from among these and accelerate a focused development plan.

* POC (Proof of Concept): Verifying predicted efficacy and safety characteristics of a drug in humans

R&D Targets

Area	Target
Psychiatry & Neurology, etc. (non-oncology)	• 10 compounds to start clinical studies by FY2017 • Acquire POC for 1 compound annually
Oncology	• 8 compounds to start clinical studies by FY2017

Creating Innovation through the Active Use of Leading-edge Science

Joint research with academia

In the discovery of new drugs, DSP is advancing not only its own in-house research but also joint research with universities and other research institutions in Japan and overseas. We are also active in alliances with biotechnology companies possessing innovative technologies. In this way, we are tackling the creation of innovative new drugs based on leading-edge science.

A concrete example of joint research with outside research institutions is our established alliance in the psychiatry & neurology area with the Graduate School of Osaka University in the Neuropsychiatric Drug Discovery Consortium (NDDC). The NDDC is working to discover innovative mental/neural drugs that present characteristics not found in previous cures by addressing the mechanism of mental disease onsets at the genetic and molecular levels. We have also launched the Laboratory for Malignancy Control Research (the DSK Project) with Kyoto University to discover innovative anti-cancer drugs based on controlling cancer malignancy. We are

conducting collaborative research with the Center for iPS Cell Research and Application (CiRA) at Kyoto University to develop a treatment for a rare intractable disease as an initiative in regenerative medicine and drug discovery. We are also actively participating in intractable disease research using disease-specific iPS cells, a project involving industry, government, and academia. Together with Johns Hopkins University and Keio University, we are further engaged in joint research using iN cells and iPS cells derived from patients with bipolar disorder. In the area of regenerative medicine, we are conducting joint research with Keio University into spinal cord injuries.

DSP is actively improving research efficiency by augmenting drug discovery with the K computer that went into operation in Kobe in September 2012 with a goal of reducing the period for identifying viable development candidate molecules (i.e., the drug discovery research period) by about 20%.

Further Expanding the Pipeline

Promoting collaboration and implementation through strategic investment

DSP is actively engaged in collaboration and implementation through strategic investment to expand its pipeline, making maximum use of its own information networks and expertise as well as those of Sunovion and BBI.

In September 2012, Sunovion acquired the U.S. biopharmaceutical firm Elevation Pharmaceuticals (currently Sunovion Respiratory Development Inc.), along with its chronic obstructive pulmonary disease (COPD) treatment SUN-101 (glycopyrronium bromide). Through this, we have strengthened our pipeline in the respiratory area, an area of focus for Sunovion.

In March 2013, we entered into a capital alliance with Retina Institute Japan, Inc. (currently Healios K.K.) to enable practical application of iPS cell technology for treating retinal disorders, thus strengthening our base in the cell therapy and regenerative medicine areas. Looking ahead, DSP and Retina Institute Japan are conducting exclusive discussions on cooperation in Japan and overseas related to the practical application of iPS cell technology for treating retinal disorders.

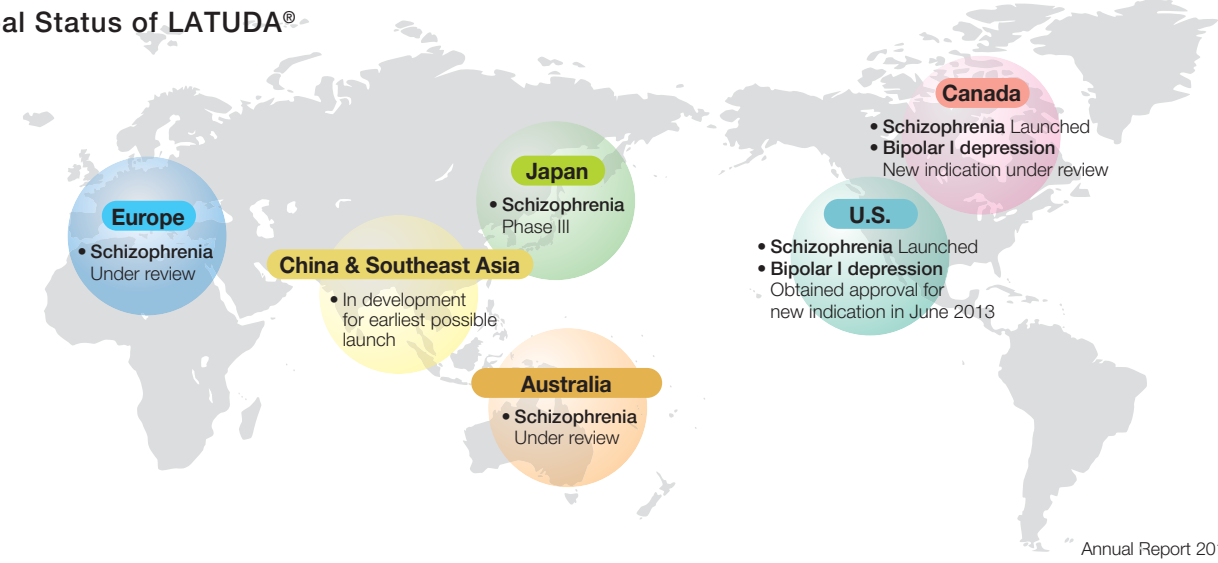
In March 2013, we also concluded a licensing agreement with the U.S. biotechnology company Edison Pharmaceuticals, Inc. regarding research, development, and marketing rights in Japan for the company's mitochondria disease treatments EPI-743 and EPI-589. These compounds are generating expectations as the world's first treatments for mitochondria diseases such as Leigh syndrome, a serious disorder for which no effective treatment exists, and also show promise in treating other disorders in psychiatry & neurology caused by oxidative stress.

DSP President Masayo Tada and Edison CEO Guy Miller

Psychiatry & Neurology

To optimize the product value of LATUDA® (lurasidone HCl), DSP is making efforts to expand indications for the drug and expand marketing territories through various means including alliances.

Global Status of LATUDA®



■ LATUDA®

LATUDA®, an atypical antipsychotic, received U.S. FDA approvals: 1) in April 2012 for expanding maximum dosage (160mg/day), and 2) in June 2013 for two additional bipolar I depression indications (for monotherapy and for adjunctive therapy with lithium or valproate), a first for an atypical antipsychotic. DSP is further continuing development aimed at an additional indication for bipolar disorder maintenance.

In Canada, LATUDA® was launched in September 2012 with an indication for schizophrenia and an application was submitted for the additional indication of bipolar I depression.

In Japan, the drug is undergoing a Phase III study for schizophrenia. Preparations are being made for a Phase III study for an additional indication of bipolar I depression.

In Europe, an application to the European Medicines Agency (EMA) for an indication of schizophrenia has been made by our partner Takeda Pharmaceutical Company Limited. LATUDA® was approved by Swiss Medic in August 2012.

In Asia-Pacific regions outside of Japan, DSP has applied for marketing approval in Australia and is planning for development and market entry for the drug in China and Southeast Asian nations.

■ Eslicarbazepine acetate

A novel voltage-gated sodium and T-type calcium channel blocker in-licensed from BIAL. The product is under review by the U.S. FDA as an adjunctive treatment for partial-onset seizures in adult patients with epilepsy. With demonstrated efficacy in patients' refractory to current medications, low relative rates of CNS side effects, and convenient once-daily dosing, eslicarbazepine acetate has the potential to be a new treatment option for physicians and help address unmet needs for appropriate patients with epilepsy. A Phase III monotherapy partial-onset seizure program is also being pursued and nearing completion.

■ Ranirestat

This compound is expected to alleviate diabetic neuropathy, a complication of diabetes, by inhibiting aldose reductase and thereby inhibiting the accumulation of intracellular sorbitol that causes diabetic neuropathy. A Phase III clinical study for the drug is currently under way in Japan. We have granted the overseas development and commercialization rights for this compound to Eizai Co., Ltd., which is now conducting a Phase II/III clinical study in the U.S., Canada and Europe.

■ SB623

A cell therapy for stroke recovery for which DSP has obtained the option right from SanBio, Inc. for the North American territory. An innovative therapeutic candidate, SB623 is expected to be effective in treating various disabilities caused by stroke for which no effective therapies currently exist. At present, SanBio is conducting a Phase I/II study in the U.S.

■ DSP-2230

A novel compound that selectively inhibits voltage-gated sodium channels Nav1.7 and Nav1.8. This drug is expected to be effective against peripheral neuropathic pain and potentially highly safe as it does not produce CNS or cardiovascular side effects.

In addition to the above, in fiscal 2012 we began development of the attention-deficit hyperactivity disorder (ADHD) treatment SEP-225289 and the schizophrenia treatment SEP-363856.

Oncology

Through two innovative compounds obtained in the acquisition of BBI and cancer peptide vaccines, DSP is leading the world in the oncology area.

■ BBI608, BBI503

Orally administered, first-in-class, small molecular anti-cancer drugs created by BBI. Targeting cancer stem cells as well as other heterogeneous cancer cells, these compounds inhibit both growth of tumor cells and maintenance of cancer stem cells. BBI608 and BBI503 are expected to provide superior efficacy and safety as monotherapies or in combination with chemotherapeutic and other agents.

In the U.S. and Canada, BBI608 is currently undergoing a Phase III clinical study for patients with colorectal cancer (monotherapy). DSP aims to acquire approvals in the U.S. and Canada in fiscal 2015 and in Japan in fiscal 2016. DSP is also conducting a Phase II clinical study in the U.S. and Canada for colorectal cancer (combination therapies) and a Phase I/II clinical study in the U.S. and Canada for solid cancer (combination therapy with paclitaxel). BBI608 was selected as one of the "2012 Top Ten Promising Late Stage Cancer Drugs."*

* The 10 most promising cancer treatment drugs in late-stage development in fiscal 2012, as identified in a proprietary survey by Fierce Biotech.

BBI503 is undergoing a Phase I clinical study in the U.S. and Canada as a monotherapy for solid cancer. DSP aims to acquire approvals in the U.S., Canada, and Japan in fiscal 2017.

■ WT4869, WT2725

Therapeutic cancer peptide vaccines targeting WT1, a protein expressed in cancer cells. DSP is developing these compounds using the basic and clinical research of Professor Haruo Sugiyama of Osaka University. The compounds are expected to demonstrate efficacy in the treatment of leukemia and various types of solid cancer by inducing WT1-specific cytotoxic T-lymphocytes that have the potential to attack cancer cells that express WT1.

At present, WT4869 is undergoing a Phase I/II clinical study for myelodysplastic syndromes (MDS) in Japan, as well as a Phase I clinical study for solid cancer. WT2725 is undergoing a Phase I clinical study for hematologic cancer and solid cancer in the U.S.

Other Therapeutic Areas

Cardiovascular / Diabetes

In Japan, DSP began marketing the hypertension drug AIMIX® in December 2012 after receiving regulatory approval. DSP also received approval for additional indications in February 2013 for the rapid-acting insulin secretagogue SUREPOST® for the treatment of diabetes in combination therapy with biguanide and in combination therapy with thiazolidine.

Respiratory

In the U.S., Sunovion began marketing ZETONNA® for the treatment of allergic rhinitis in a new dosage form of its core product ciclesonide, in July 2012. In addition, Sunovion launched a new clinical study (currently in Phase II) for the chronic obstructive pulmonary disease (COPD) treatment SUN-101 in the U.S. and U.K. In Japan, DSP-3025, a potential treatment for bronchial asthma and allergic rhinitis, is in the Phase I stage.

■ SUN-101

A proprietary solution formulation of glycopyrrolate bromide, delivered by a customized eFlow® Closed System Nebulizer. Including products on the market and in development in this therapeutic area, SUN-101 is currently planned to be the first LAMA (long-acting muscarinic antagonist) in nebulized form to enter the U.S. market, for the treatment of chronic obstructive pulmonary disease (COPD).

■ DSP-3025

An immune response modifier with agonistic activity against Toll-like receptor 7 (TLR7). This compound is expected to become a therapeutic agent providing long-term disease remission in bronchial asthma and allergic rhinitis. We have entered into a co-development and co-marketing agreement with AstraZeneca PLC under which we retain development and commercialization rights in Japan, China, Korea and Taiwan, and AstraZeneca retains development and commercialization rights worldwide excluding these four countries.

Others

In January 2013, DSP submitted an application for partial changes to the carbapenem antibiotic MEROPEN®, to change the dosage to 6g/day (titer) as an indication for purulent meningitis in Japan.

Phase II clinical studies are under way in Japan with DSP-6952 for the treatment of Irritable Bowel Syndrome (IBS) with constipation and chronic idiopathic constipation, and with DSP-1747 for the treatment of nonalcoholic steatohepatitis (NASH), in-licensed from Intercept Pharmaceuticals Inc. The start of a Phase II clinical study is also under consideration for DSP-1747 for primary biliary cirrhosis (PBC).

■ DSP-1747

In-licensed from Intercept Pharmaceuticals, DSP-1747 (Intercept development code: INT-747) is a farnesoid X receptor (FXR) agonist that modulates FXR, a nuclear receptor whose ligand is the primary human bile acid. It is expected to have a therapeutic effect on liver dysfunction and hepatic fibrosis by increasing bile acid in the liver. DSP is currently conducting a Phase II clinical study with DSP-1747 in Japan for patients with NASH. Intercept Pharmaceuticals is conducting development overseas. A Phase III study is under way for patients with PBC, and a Phase II/III study is under way for patients with NASH. DSP-1747 is expected to be the world's first drug approved for NASH.

New Drugs in the R&D Pipeline

Product/ Code Name	Generic Name	Formulation	Therapeutic Indications	Country/ Area	Development Stage (Phase I / Phase II / Phase III / NDA / MAA)	Origin	Remarks
Psychiatry & Neurology							
LATUDA® (SM-13496)	lurasidone hydrochloride	Oral	Schizophrenia	Europe	Phase III – NDA / MAA	In-house	Co-development with Takeda Pharmaceutical Company Limited Takeda submitted an MAA in Europe via the centralized authorization procedure in September 2012.
			Schizophrenia	Australia	Phase III – NDA / MAA		Submitted in March 2013 Marketed in U.S. and Canada
			(New indication) Bipolar 1 depression	Canada	Phase III – NDA / MAA		Submitted in August 2012 Approved indication: Schizophrenia (U.S. and Canada) Bipolar I depression (U.S.)
			Schizophrenia	Japan	Phase III		
			(New indication) Bipolar maintenance	U.S. and Europe, etc.	Phase III		Approved indication: Schizophrenia (U.S. and Canada) Bipolar I depression (U.S.)
			(New indication) MDD with mixed features	U.S. and Europe, etc.	Phase III		
SEP-0002093	eslicarbazepine acetate	Oral	Epilepsy adjunctive therapy	U.S.	Phase III – NDA / MAA	BIAL-Portela & Ca, S.A.	Submitted in March 2009 Re-submitted in February 2013
			Epilepsy monotherapy	U.S.	Phase III		
DOPS®1	droxidopa	Oral	Neurogenic orthostatic hypotension	U.S.	Phase III – NDA / MAA	In-house	Out-licensed to Chelsea Therapeutics International, Ltd. Submitted by Chelsea in the U.S. in September 2011 Re-submitted in July 2013
				Europe	Phase III		
			Intradialytic hypotension	U.S.	Phase III		
			Fibromyalgia	U.K.	Phase III		
AS-3201	ranirestat	Oral	Diabetic neuropathy	Japan	Phase III	In-house	
				U.S., Canada and Europe	Phase III		Out-licensed to Eisai Co., Ltd.
LONASEN®	blonanserin	Oral	Schizophrenia	China	Phase III	In-house	
			(Addition of pediatric usage) Schizophrenia	Japan	Phase III		
		Transdermal patch	(New formulation – Transdermal patch) Schizophrenia	Japan	Phase II	In-house	Co-development with Nitto Denko Corporation Approved dosage form: Oral
SEP-225289	TBD	Oral	Attention-deficit hyperactivity disorder (ADHD)	U.S.	Phase II	In-house (Sunovion)	
DSP-8658	TBD	Oral	Alzheimer's disease	U.S.	Phase I	In-house	
DSP-1053	TBD	Oral	Major depressive disorder	U.S.	Phase I	In-house	
DSP-2230	TBD	Oral	Neuropathic pain	U.K.	Phase I	In-house	
SEP-363856	TBD	Oral	Schizophrenia	U.S.	Phase I	In-house (Sunovion)	

Japan Overseas

Product/ Code Name	Generic Name	Formulation	Therapeutic Indications	Country/ Area	Development Stage (Phase I / Phase II / Phase III / NDA / MAA)	Origin	Remarks
Cancer							
CALSED®1	amrubicin hydrochloride	Injection	Small cell lung cancer	China		In-house	Submitted in August 2012
				U.S. and Europe			Out-licensed to Celgene Corporation
AG-7352	TBD	Injection	Cancer	U.S. and Canada		In-house	Out-licensed to Sunesis Pharmaceuticals, Inc.
BBI608	TBD	Oral	Colorectal cancer Monotherapy	U.S. and Canada		In-house (BBI)	
			Colorectal cancer Combination therapy	U.S. and Canada			
			Solid cancer Combination therapy with paclitaxel	U.S. and Canada	2		
			Solid cancer (Monotherapy)	Japan			
WT4869	TBD	Injection	Myelodysplastic syndromes	Japan	3	In-house / Joint research with Chugai Pharmaceutical Co., Ltd.	
			Solid cancer	Japan			
WT2725	TBD	Injection	Solid cancer, Hematologic cancer	U.S.		In-house / Joint research with Chugai Pharmaceutical Co., Ltd.	
BBI503	TBD	Oral	Solid cancer (Monotherapy)	U.S. and Canada		In-house (BBI)	
Respiratory							
SUN-101	Glycopyrrolate bromide	Inhalant	Chronic obstructive pulmonary disease (COPD)	U.S.		In-house (Sunovion)	From the former Elevation Pharmaceuticals
DSP-3025	TBD	Collunarium	Bronchial asthma, Allergic rhinitis	Europe		In-house	Out-licensed to AstraZeneca PLC for overseas markets
				Japan			
		Inhalant		U.K.			
Cardiovascular/Diabetes							
SUREPOST®	repaglinide	Oral	(New indication) Type 2 diabetes (All combination therapies including DPP4 inhibitors)	Japan		Novo Nordisk A/S	Approved indication: Reduction of postprandial blood glucose in patients with type 2 diabetes (Monotherapy, Combination with α-GI, BG and TZD)
METGLUCO®	metformin hydrochloride	Oral	(Addition of pediatric usage) Type 2 diabetes	Japan		Merck Santé	
DSP-8658	TBD	Oral	Type 2 diabetes	U.S.		In-house	
Others							
MEROPEN®	meropenem hydrate	Injection	(Change of maximum dose) Purulent meningitis: 6g daily	Japan		In-house	Submitted in January 2013 Approved maximum recommended dose: 3g daily for severe or refractory cases of infectious diseases
DSP-6952	TBD	Oral	IBS with constipation, Chronic idiopathic constipation	Japan		In-house	
DSP-1747	obeticholic acid	Oral	Nonalcoholic steatohepatitis (NASH)	Japan		Intercept Pharmaceuticals, Inc.	
DSP-5990	ceftaroline fosamil	Injection	MRSA infection	Japan		Takeda Pharmaceutical Company Limited	

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

(As of July 31, 2013)

Manufacturing

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

A Supply Chain That Supports Global Business

The Manufacturing Division takes the central role in the DSP Group's global supply chain management to achieve a stable supply of products to all customers through its manufacturing, logistics and shipping functions.

To maintain an optimal product supply system, DSP operates four factories in Japan as its primary manufacturing bases, while also cooperating with domestic and overseas contract manufacturers. Through our overseas manufacturing network, in addition to manufacturing at DSP Group facilities, we are promoting contract manufacturing under technology alliances. This approach is exemplified by MIRIPLA®, a therapeutic agent for hepatocellular carcinoma, which is manufactured by Pierre Fabre in France.

To further strengthen our stable supply system, we will promote global supply chain management based on global expansion, including the overseas procurement of raw materials and pharmaceutical intermediates and manufacturing at overseas factories.

Quality Assurance

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

The pharmaceuticals manufactured by the DSP Group are exported around the world after obtaining regulatory approvals from government institutions of importing nations, including the U.S. Food and Drug Administration (FDA), the European Medicines Agency (EMA), and Australia's Therapeutic Goods Administration (TGA). Therefore, operating standards in the DSP Group are consistent with the GMP standards of Europe and the United States. Furthermore, we have established a high level of facility design and a quality assurance system to pass audits by overseas partner companies and meet strict quality standards at the global level, following the guidelines of the International Conference on Harmonisation (ICH), which deliberates the harmonization of EU, U.S. and Japanese pharmaceutical regulations.

Global standards for quality assurance are expected to become increasingly rigorous. The DSP Group is therefore making proactive investments in manufacturing facilities — including a new solid dosage form facility and a restricted access barrier system (RABS) that increases the level of sterility assurance — to meet future standards. Our manufacturing, quality assurance and other related divisions will work in concert to continue to provide pharmaceuticals of high quality.

A Trusted Pharmaceutical Company

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

We also continue to reduce production costs and conduct eco-friendly production activities through the automation of facilities and other laborsaving measures, the optimization of production sites, appropriate inventory control, and the introduction of co-generation systems.

Moreover, our distribution operations swiftly and accurately deliver high-quality products that meet user needs, and we are working to strengthen the complementary functions of distribution centers in eastern and western Japan to maintain a stable supply in not only normal times but also in the case of a disaster or other emergency.

Japanese Plants

DSP has four factories in Japan. The Suzuka Plant is our main factory serving global supply. It conducts integrated pharmaceutical manufacturing from the production of active pharmaceutical ingredients to packaging. The Ibaraki Plant, which is also the main base of the Technology Research & Development Division, is a development-driven pharmaceutical plant able to accommodate a range of processes from commercial production to quality control in a flexible manner. The Ehime Plant is a manufacturing base for biopharmaceutical products. The Oita Plant is our core facility for the production of active pharmaceutical ingredients. Each of these factories manufactures pharmaceuticals while constantly ensuring the safety of the products based on GMP-compliant manufacturing equipment, processes and testing.

Overseas Plants

The plant at Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. in China serves as a DSP Group production facility and packages products for sale in the local market. Expansion of facilities is progressing in stages, with the construction of a warehouse completed in October 2012. Fully integrated production, from formulation to packaging, is scheduled to start in 2014.

Marketing

In the Japanese pharmaceutical market, we are focusing on expanding sales by concentrating our resources on growth products, while in the North American market, our focus is on maximizing the value of LATUDA®.

Basic Strategy

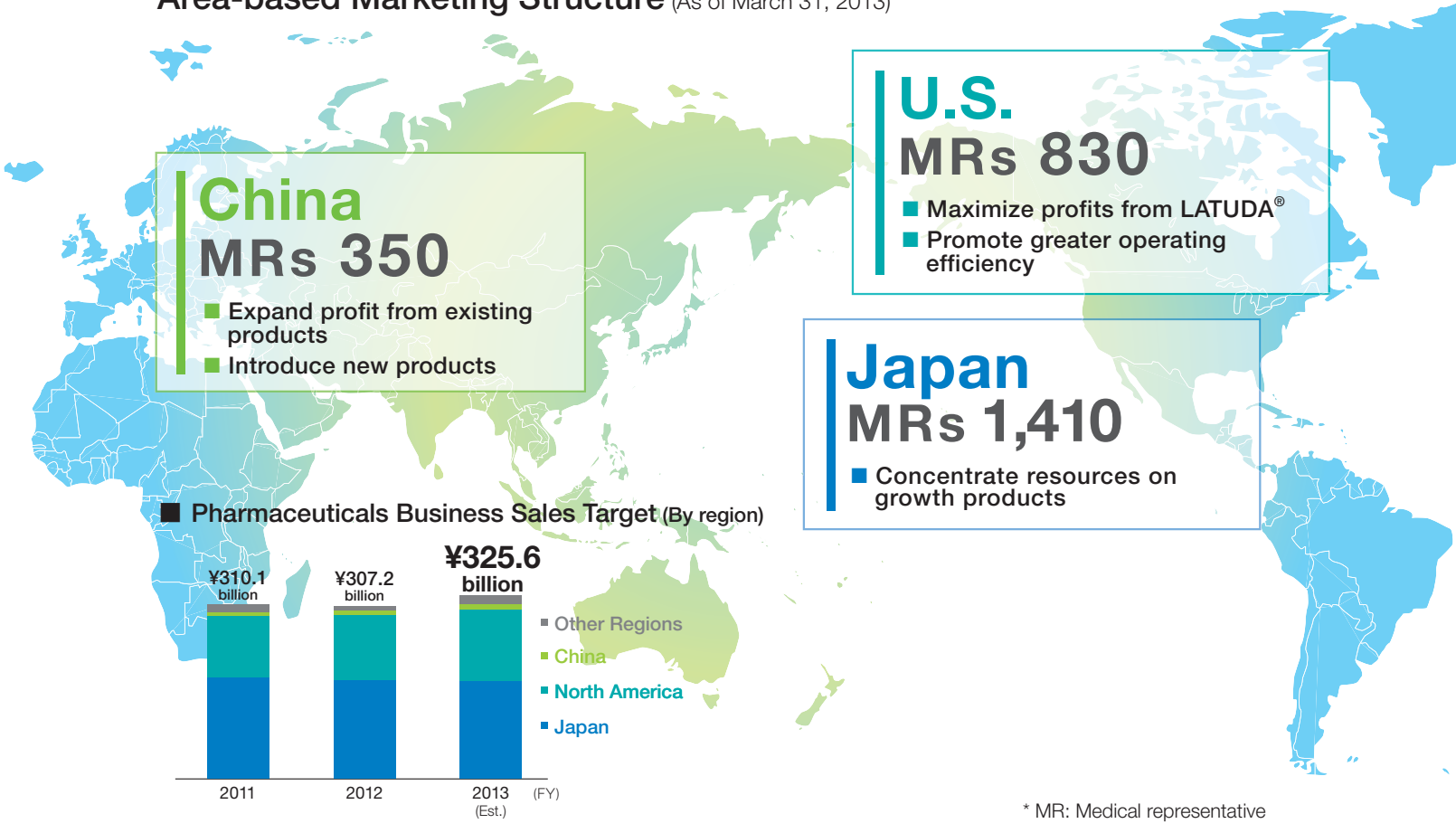
Two of the five basic strategies of DSP's third Mid-term Business Plan (3rd MTBP) are to "establish a robust revenue base in Japan" and "further expand overseas business and maximize earnings."

In the Japanese pharmaceuticals business, we are working to expand sales of growth products by focusing sales resources on strategic products AIMIX®, AVAPRO®, LONASEN® and TRERIEF® and new products such as METGLUCO®, SUREPOST® and Paxil® CR.

In the North American market, our top priority is maximizing profit from LATUDA®. In addition, we are moving to further raise operating efficiency with initiatives including optimization of the field force structure for the existing products of Sunovion Pharmaceuticals Inc.

In the Chinese market, we are working to maximize our business scale and earnings by expanding sales of existing products including MEPEM® (MEROPEN®) and introducing new products.

Area-based Marketing Structure (As of March 31, 2013)



* MR: Medical representative

Japanese Pharmaceuticals Business

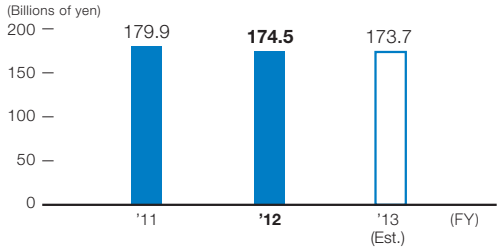
Japanese Market

Net sales: ¥174.5 billion

Number of MRs: 1,410

(Fiscal 2012)

Sales in Japan



Key Measure

- **Concentrate on growth products with various resources**

Focus Marketing Areas

Psychiatry & neurology, cardiovascular/ diabetes, and specialty areas

Key Products for Sales and Marketing

Strategic products	AIMIX® (cardiovascular), AVAPRO® (cardiovascular), LONASEN® (psychiatry & neurology), TRERIEF® (psychiatry & neurology)
New products	Paxil® CR (psychiatry & neurology), METGLUCO® (diabetes), SUREPOST® (diabetes)
Specialty products	AmBisome® (infectious diseases), MIRIPLA® (cancer), REPLAGAL® (Anderson-Fabry disease)

Summary of Fiscal 2012 Results

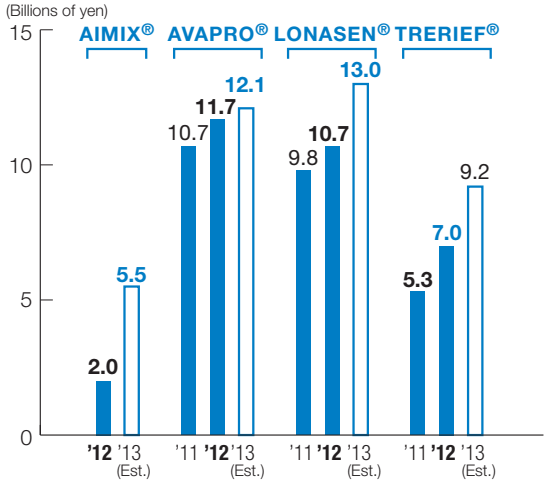
Sales of METGLUCO®, a biguanide oral hypoglycemic drug, and TRERIEF®, a treatment for Parkinson's disease, grew substantially, and the addition of AIMIX®, a newly launched anti-hypertension drug, contributed to sales. However, the drug price revisions of April 2012 reduced sales by approximately ¥10.0 billion, and the decline in sales of existing products also had a significant impact. Consequently, sales and income declined in spite of a decrease in selling, general and administrative expenses resulting from DSP's cost reduction measures.

Psychiatry & Neurology

As a pharmaceutical company handling therapeutic agents for schizophrenia, Parkinson's disease, anxiety and epilepsy, DSP is focusing on expanding sales of the strategic products LONASEN®, an atypical antipsychotic, and TRERIEF®, a treatment for Parkinson's disease.

We enhanced our marketing organization by dissolving the CNS Sales & Marketing Department in 2013 and reorganizing it as psychiatry departments under regional divisions. This change enables these divisions to tailor sales approaches to market conditions in their area and strengthens cooperation

Strategic Product Sales



with branches responsible for marketing to primary care providers.

For LONASEN®, presentations at academic conferences increased in fiscal 2012 and evidence was published in medical journals in Japan and overseas. We will continue to conduct promotional activities using data from evidence scheduled for publication. In addition to regular MR activities, we are actively using e-promotion such as provision of product information via the internet, webcasts of lectures and e-mail magazines for healthcare practitioners.

For TRERIEF®, which we added as a strategic product in 2012, we are conducting carefully targeted marketing primarily to neurologists. By effectively using evidence from post-marketing studies of safety and efficacy in long-term treatment, we aim to establish TRERIEF® as the first-line adjunctive treatment for Parkinson's disease. This drug is also prescribed in general clinics, so we expect the previously mentioned organizational changes to boost sales.

We have been conducting co-promotion in Japan for Paxil® CR (paroxetine hydrochloride hydrate), an antidepressant launched by GlaxoSmithKline K.K. in June 2012. Paxil® CR is the controlled-release formulation of Paxil® tablets, a selective serotonin reuptake inhibitor (SSRI). The addition of Paxil® CR tablets to the product line allowed us to expand our marketing activities in the area of antidepressants, which will enable us to further increase our presence in the psychiatry & neurology area.

In fiscal 2012, sales of LONASEN® increased 9.2% year on year to ¥10.7 billion, and sales of TRERIEF® increased 31.8% to ¥7.0 billion. In fiscal 2013, our sales targets for these products are ¥13.0 billion and ¥9.2 billion, respectively.

Cardiovascular/Diabetes

In the cardiovascular area, DSP strives to be a partner in hypertension treatment, handling a variety of anti-hypertensive products with a lineup consisting of an angiotensin II receptor blocker (ARB), calcium channel blocker (CCB), diuretic, angiotensin-converting enzyme (ACE) inhibitor and alpha-beta blocker. We are making prescription proposals that encompass the cardiovascular area as a whole, with a focus on AIMIX®, a therapeutic agent for hypertension. Other products in this area

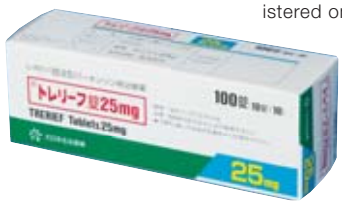
Strategic Products

AIMIX®
(Therapeutic agent for hypertension)
First of its kind in Japan, AIMIX® is a combination product of irbesartan (brand name: AVAPRO®), a long-acting angiotensin II receptor antagonist (ARB) and amlodipine besilate (brand name: AMLODIN®), a calcium antagonist with a strong, sustained hypotensive effect.

AVAPRO® (Therapeutic agent for hypertension)
A long-acting ARB (angiotensin II receptor blocker) with a long half-life in blood and a 24-hour-lasting blood pressure-lowering effect, having high anti-hypertensive effect in mild to severe hypertension. Substantial evidence for efficacy and safety is available from the U.S. and Europe where this drug is on the market under the brand name of AVAPRO® or APROVEL®

LONASEN® (Atypical antipsychotic)
This drug blocks dopamine-2 receptors and serotonin-2 receptors. In clinical studies, this drug showed efficacy on not only positive symptoms of schizophrenia (such as hallucinations or delusions), but also negative symptoms (such as flat affect or hypobulia). The incidence of adverse reactions such as extrapyramidal symptoms or weight gain and hyperprolactinemia in the clinical studies was lower than the incidence reported for other drugs in this therapeutic area.

TRERIEF® (Therapeutic agent for Parkinson's disease)
Improvement in motor ability and betterment in activities of daily living have been found when administered once daily in patients with Parkinson's disease who are not sufficiently cured by other anti-Parkinson's disease drugs.



include AVAPRO®, another therapeutic agent for hypertension, and AMLODIN® a therapeutic agent for hypertension and angina pectoris. Launched in December 2012, AIMIX® is the first combination product in Japan that contains irbesartan (AVAPRO®), a long-acting ARB, and amlodipine besilate (AMLODIN®), a calcium channel blocker with a strong, sustained hypotensive effect. Approximately half of hypertension patients have inadequate control of their blood pressure. AIMIX® has shown a good hypotensive effect, and we will promote it as a treatment option for patients who have not responded adequately to AMLODIN® and AVAPRO® either as monotherapy or in combination with each other. As AIMIX® is a product with which we can fully leverage our existing sales routes in the cardiovascular area, we are targeting it for strong sales growth as a top priority product.

In fiscal 2012, sales of AIMIX® were ¥2.0 billion even though the product was only available from December 2012, and sales of AVAPRO® increased 8.9% year on year to ¥11.7 billion. In fiscal 2013, our sales targets for these products are ¥5.5 billion and ¥12.1 billion, respectively.

In the diabetes area, we have been working to quickly maximize sales of new products METGLUCO®, a biguanide oral hypoglycemic drug launched in May 2010, and SUREPOST®, a rapid-acting insulin secretagogue launched in May 2011.

In fiscal 2012, sales of METGLUCO® increased 54.4% year on year to ¥12.0 billion. In fiscal 2013, we are aiming to further increase sales to ¥15.2 billion. Prescriptions of SUREPOST® have been expanding following the lifting of the limit on the prescription period in April 2012. We will aim to quickly maximize sales of SUREPOST® by adding indications for combination therapies with other diabetes drugs.

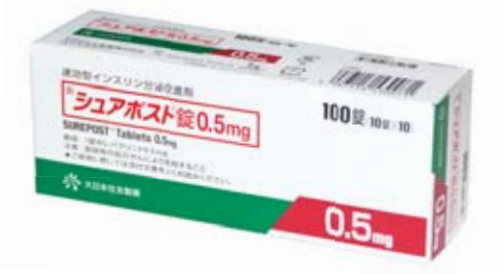
Specialty Areas (Cancer, Infectious Diseases, Rare Diseases)

In fiscal 2013, we established specialty areas, consisting of cancer, infectious diseases and rare diseases, as categories in which we can use our high level of expertise as a competitive advantage. We have made them focus marketing areas in which we

New Products

METGLUCO® (Biguanide oral hypoglycemic)
Launched in May 2010, METGLUCO® shows sustained blood-glucose lowering effect mainly by way of inhibitory action against hepatic glyconeogenesis, without stimulation of insulin secretion. It can be prescribed as a monotherapy for type 2 diabetes, and provides a higher daily maintenance dosage and maximum daily dosage than other metformin drugs on the market in Japan. METGLUCO® may be taken not only after meals but also just before meals.

SUREPOST® (Rapid-acting insulin secretagogue)
Launched in May 2011, SUREPOST® binds to the sulfonylurea receptors in the pancreatic beta cells to stimulate the postprandial insulin secretion rapidly, thereby ameliorating postprandial blood glucose and lowering HbA1c in type 2 diabetes patients.



Paxil® CR
(Antidepressant)
Paxil® CR tablets is the controlled-release formulation of Paxil® tablets, a selective serotonin reuptake inhibitor. First approved in the U.S. in 1999, this drug is currently approved in more than 40 countries worldwide. Launched in Japan in June 2012, it is marketed by GlaxoSmith-Kline K.K. Co-promoted by DSP.

are working to expand sales.

In the cancer area, we are focusing on expanding sales of specialty product MIRIPLA®, a therapeutic agent for hepatocellular carcinoma. With this product, as well as the natural alpha interferon SUMIFERON®, we aim to contribute to the total care of liver diseases.

In the area of infectious diseases, we are working to contribute to medical care mainly with AmBisome®, a therapeutic agent for systemic fungal infection that we have positioned as a specialty product, while also promoting the appropriate use of MEROPEN®, a carbapenem antibiotic, and highlighting the advantages of HIBITANE®, an antimicrobial agent for general antiseptic purposes.

In the area of rare diseases, we are focusing on expanding sales of REPLAGAL®, an Anderson-Fabry disease drug. In addition, we have established a website to provide information on rare diseases to medical professionals and patients.

In fiscal 2012, sales of MIRIPLA® decreased 12.1% year on year to ¥1.1 billion, sales of AmBisome® increased 2.3% to ¥4.6 billion, and sales of REPLAGAL® increased 8.7% to ¥9.9 billion. In fiscal 2013, our sales targets for these products are ¥1.3 billion, ¥5.0 billion and ¥10.5 billion, respectively.

Other Areas

In other therapeutic areas, given the aging of society, we worked to expand the market for PRORENAL®, a vasodilator, by promoting awareness of the disease lumbar spinal canal stenosis. However, sales of this product in fiscal 2012 decreased 8.1% year on year to ¥14.2 billion.

Specialty Products

MIRIPLA®

(Therapeutic agent for hepatocellular carcinoma)

Lipiodolization is a standard method for treating hepatocellular carcinoma in which an anticancer drug is suspended in an oily lymphographic agent and then administered into the hepatic artery with a catheter. This drug's characteristics include a high suspensibility in oily lymphographic agents. In addition, it accumulates and stays in the tumor after administration into the hepatic artery and releases the platinum component gradually over a long period with only minor exposure to the patient's overall body.

AmBisome®

(Therapeutic agent for systemic fungal infection)

The lipid bilayer of this liposomal formulation encloses amphotericin B, reducing the risk of cellular damage as well as distribution to the kidneys, two side effects of non-encapsulated amphotericin B. AmBisome® is the first drug in Japan recognized to be effective in treating presumed fungal infection in febrile neutropenic patients.

REPLAGAL®

(Therapeutic agent for Anderson-Fabry disease)

REPLAGEL® is an *α*–galactosidase enzyme preparation produced from human cell cultures through Gene Activation® technology. It reduces accumulation of CTH (ceramide trihexoside), the causative agent of Anderson-Fabry disease, through an intravenous infusion of 40 minutes or more once every two weeks.

Overseas Pharmaceuticals Business

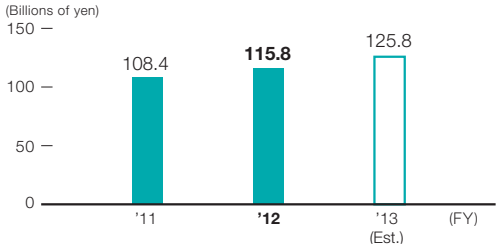
North American Market

Net sales: ¥115.8 billion

Number of MRs: 830

(Fiscal 2012)

Sales in North America



Key Measures

- **Maximize profits of LATUDA®**
- **Promote greater management efficiency**

exclusively to LATUDA® led to a steady increase in the number of prescriptions.

North American sales of LATUDA® in fiscal 2012 were $202 million (¥16.1 billion), growing substantially year on year by 134.9% on a local currency basis and 134.5% on a yen basis. In fiscal 2013, Sunovion is augmenting its MR team for LATUDA® and will work to strengthen measures for brand penetration to further maximize the product's value following FDA approval in June 2013 for both monotherapy and adjunctive therapy to treat adult patients with major depressive episodes associated with bipolar I disorder (bipolar I depression). Promotion for bipolar depression began in late July 2013, with promotion using marketing materials scheduled to start in late September 2013 and DTC advertising including television commercials to begin in Q1 of calendar year 2014 (January-March). The rollout of these measures is forecast to increase fiscal 2013 sales 70% year-on-year to $350 million.

LUNESTA® is a non-narcotic sedative hypnotic indicated for insomnia. Sales had been forecasted to decrease from the previous fiscal year due to the launch of a competing generic product. However, the impact of said launch was less than expected. As a result, fiscal 2012 sales significantly exceeded the initial revenue target, increasing 6.3% year on year on a local currency basis and 6.4% on a yen basis to $561 million (¥44.8 billion). In anticipation of the expiration of the exclusive sales period in 2014, promotion will shift in fiscal 2013 from MR activities to more efficient methods such as digital advertising and patient-oriented marketing, and sales are forecast to decline.

Summary of Fiscal 2012 Results

Significant growth in sales of LATUDA® exceeding the initial revenue target offset the decrease in sales of XOPENEX®, a short-acting ß-agonist inhalation solution, whose period of exclusivity expired. In addition, business structure improvement reduced labor costs. As a result, segment profit increased substantially.

Psychiatry & Neurology

Sunovion Pharmaceuticals Inc. (Sunovion) focused on quickly maximizing earnings from LATUDA®, an atypical antipsychotic, as a priority item in fiscal 2012. Substantial promotional activities by MRs dedicated

Respiratory

XOPENEX® is an asthma treatment. Amid an increasingly competitive market, the launch of generic versions of XOPENEX® Inhalation Solution upon the expiration of the exclusivity period in August 2012 had a substantial impact. As a result, sales for fiscal 2012 decreased significantly to $317 million (¥25.3 billion).

OMNARIS® is an inhaled nasal corticosteroid used to treat the symptom of allergic rhinitis. The interruption of supply from the manufacturer at the end of 2011 resulted in a significant decrease in sales in fiscal 2012 to $24 million (¥1.9 billion). On the other hand, the allergic rhinitis therapeutic medication ZETONNA® was made commercially available in the United States in July 2012. As a new dosage form and delivery mechanism of ciclesonide, the same active ingredient as in OMNARIS®, ZETONNA® is the first non-aqueous nasal aerosol spray available in the United States with a once-daily, one spray per nostril dosing. Fiscal 2012 sales of ZETONNA® were $5 million (¥0.4 billion), but fiscal 2013 sales are forecast to grow to $25 million.

BROVANA® is a long-acting β-agonist used as a maintenance treatment for chronic obstructive pulmonary disease (COPD). Sales are steadily growing, with fiscal 2012 sales of $160 million (¥12.7 billion), a year-on-year increase of 26.0% on a local currency basis and 25.3% on a yen basis.

Sunovion has prioritized its respiratory portfolio to focus on therapeutic areas most poised for growth. This strategic evolution focuses investments in COPD and asthma, specifically on inline products BROVANA®, the asthma treatment ALVESCO® and Phase II product SUN-101. Accordingly, in July 2013 the company reorganized its respiratory sales team, and reduced the number of respiratory MRs. Sunovion will continue to market its allergy products OMNARIS® and ZETONNA®, as well as the asthma treatment XOPENEX HFA® with efficient investment strategies.

Main Products

LUNESTA® (Sedative hypnotic)

A non-narcotic sedative hypnotic indicated for sleep onset and sleep maintenance.

LATUDA® (Atypical antipsychotic)

LATUDA® is an atypical antipsychotic agent with a proprietary chemical structure created originally by DSP.

BROVANA® (Long-acting ß-agonist)

An inhalation solution bronchodilator indicated for the maintenance treatment of COPD.

Overseas Pharmaceuticals Business

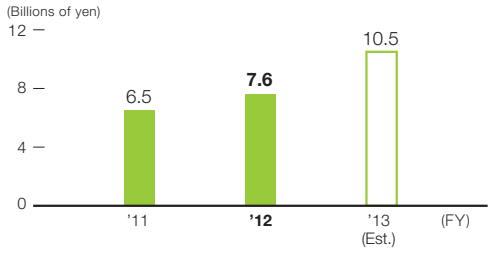
Chinese Market

Net sales: ¥7.6 billion

Number of MRs: 350

(Fiscal 2012)

Sales in China



Key Measures

- **Expand profit from existing products**
- **Introduce new products**

Summary of Fiscal 2012 Results

The rapid expansion of the Chinese pharmaceutical market is expected to continue in the coming years, supported by the high economic growth rate. The DSP Group conducts marketing activities in China through its local subsidiary Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., which currently sells four products: MEPEM® (MEROPEN®), a carbapenem antibiotic; ALMARL®, a therapeutic agent for hypertension, angina pectoris and arrhythmia; SEDIEL®, a serotonin-agonist antianxiety drug; and GASMOTIN®, a gastroprokinetic.

In antibiotics, which formerly comprised a large segment of the pharmaceutical market, stronger moves by the authorities for proper use since 2011 have slowed growth in sales. Despite this situation, sales and profit in the Chinese business both increased due to solid growth in sales of MEPEM® (MEROPEN®), which has superior efficacy, safety and quality, and expansion of sales of other products.

In order to quickly capture a share of this large market, Sumitomo Pharmaceuticals (Suzhou) has reinforced and enhanced its sales structure, centered on departments that handle sales promotion and marketing. As of the end of March 2013, the company has 350 MRs conducting scientific promotion activities focused on the large-scale hospital market in 30 sectors (major urban, administrative and self-governing areas). Based on the rollout of these measures and the favorable market environment, fiscal 2013 sales are forecast to increase 38.2% year on year to ¥10.5 billion.

Future Business Expansion

Sumitomo Pharmaceuticals (Suzhou) applied for regulatory approval of amrubicin hydrochloride (name in Japan: CALSED®), a small cell lung cancer treatment, in August 2012. China has a high rate of lung cancer and, considering the country's population of 1.3 billion, we believe that amrubicin hydrochloride will be a promising new product.

Moreover, limaprost alfadex (named in Japan: PRORENAL® (DSP) / Opalmon® (Ono Pharmaceutical Co., Ltd.) is an oral prostaglandin E1 analogue discovered through collaborative research between Ono Pharmaceutical Co., Ltd. and DSP. In May 2013, the companies agreed that after Ono Pharmaceutical obtains marketing authorization in China for limaprost for the treatment of lumbar spinal canal stenosis, it will grant exclusive marketing rights in China to Sumitomo Pharmaceuticals (Suzhou). The number of lumbar spinal canal stenosis patients is expected to increase in China as well as in Japan with the growth in the number of elderly people in these countries, and there are currently no effective treatments. Consequently, limaprost is expected to establish a strong position in the market.

We will maximize the scale of business and earnings by enhancing the marketing structure and continuously launching new products such as LONASEN® and LATUDA®, two atypical antipsychotics we are developing.

Non-pharmaceuticals Business

Developing business in a broad range of fields through cooperation with the pharmaceuticals business

Food Ingredients, Food Additives and Chemical Product Materials

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

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

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

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

Animal Health Products

The animal health products business is conducted by DSP subsidiary DS Pharma Animal Health Co., Ltd., of which the major products are veterinary medicines for companion animals, primarily dogs and cats, as well as for farm animals such as cattle, swine, horses and cultured fish. The company produces and provides its own products to customers through development work, in close cooperation with the pharmaceuticals business.

In the companion animal market, its focus business segment, DS Pharma Animal Health sells various therapeutics, including VICTAS®, an antibacterial preparation, APINAC®, a treatment for chronic canine heart failure, PRONAMID®, a canine gastroprokinetic agent for the improvement of gastrointestinal motility, and STEROP®, the first anti-inflammatory steroid eye-drop approved for veterinary use in Japan. In addition to its veterinary medicines, the company provides a broad range of other products, including Prescription Diet®, a line of canine and feline therapeutic nutritional formulas, and Science Diet®, a pet food formulated for health maintenance, from Hill's Pet Nutrition, Inc.

In the livestock business, DS Pharma Animal Health sells URSO®, a medicine for cattle and swine, and EQVALAN®, a medicine for horses. In the fisheries business, the company sells vaccines, anesthetics and synthetic antibacterial drugs for fish and crustaceans, contributing to food security and safety. In addition to medicines, the company also deals in feed additives and mixed feed for maintaining the health of fish and improving productivity.

At DS Pharma Animal Health, several products for companion animals and livestock are currently under development, including medicines discovered by DSP.

Diagnostics and Research Materials

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

In addition, DS Pharma Biomedical develops and supplies research materials that facilitate research related to medical care. It is focusing on creating new value by providing cells and culture media that can be applied in regenerative therapy using ES cells and iPS cells.

The company aims to contribute to drug discovery research through companion diagnostic biomarker developments and a new early-stage drug discovery assay system that applies cell culture techniques.

VICTAS® SS Tablets
A new quinolone antibiotic for dogs and cats.

Point-of-care testing products and in-vitro diagnostic kit for bone metabolism

DSP's Social Responsibility

We provide products that are truly desired while fulfilling our responsibilities as a corporate citizen.

Main Concept for Our CSR

Dainippon Sumitomo Pharma sets forth its mission to serve society in the Company's Corporate Mission, and the aim of its operations, which are focused on its stakeholders, in the Management Mission. At DSP, CSR is the daily pursuit by each executive and employee of our mission, never forgetting their position as responsible members of society.

Our Declaration of Conduct specifies our corporate philosophy and values in more concrete terms, serving as our basic approach to promoting CSR. We are committed to providing through our business activities the products that are truly needed, ensuring that these activities conform to our Declaration of Conduct, and pursuing them as a responsible corporate citizen. The Declaration of Conduct (Guidebook for Daily Application) brings together the specific conduct we are committed to practicing in our corporate activities, for each of the items in the Declaration of Conduct. The document is distributed to all of our executives and employees to promote knowledge, dissemination, and sharing.

To fulfill our responsibilities as a corporate citizen, we recognize the importance of correctly understanding international social issues and reflecting them appropriately in our corporate activities. For this reason, we have organized our Declaration of Conduct (Guidebook for Daily Application) and carry out specific initiatives along the lines of the core subjects of the ISO 26000* standard related to social responsibility.

* ISO 26000: This is the international guidance standard related to social responsibility issued by the International Organization for Standardization in November 2010. It provides guidance to all types of organizations regardless of size or location on seven principles related to social responsibility, including accountability, transparency, legal compliance, and respect for human rights, and prescribes concrete measures to be reviewed and put into practice.

More detailed information on our CSR activities is available on our website.
http://www.ds-pharma.com/csr/index.html

Comparative Table for ISO 26000 Core Subjects and DSP's Declaration of Conduct

Core subject and issues for ISO 26000		Engagement of the Declaration of Conduct
Organizational Governance		▲Corporate Governance See page 43.
Human Rights		
1	Due diligence	▲ Declaration of Conduct 2. Pursue trustworthy corporate activities. ▲ Declaration of Conduct 4. Help employees reach their full potential. See pages 34, 35, 39. ▲ Declaration of Conduct 5. Respect human rights.
2	Human rights risk situations	
3	Avoidance of complicity	
4	Resolving grievances	
5	Discrimination and vulnerable groups	
6	Civil and political rights	
7	Economic, social and cultural rights	
8	Fundamental principles and rights at work	
Labour Practices		
1	Employment and employment relationships	▲ Declaration of Conduct 3. Positively disclose information and properly manage information. ▲ Declaration of Conduct 4. Help employees reach their full potential. See pages 34, 35, 40. ▲ Declaration of Conduct 5. Respect human rights.
2	Conditions of work and social protection	
3	Social dialogue	
4	Health and safety at work	
5	Human development and training in the workplace	
The Environment		
1	Prevention of pollution	▲ Declaration of Conduct 6. Positively address global environmental issues. See page 36.
2	Sustainable resource use	
3	Climate change mitigation and adaptation	
4	Protection of the environment, biodiversity and restoration of natural habitats	
Fair Operating Practices		
1	Anti-corruption	▲ Declaration of Conduct 2. Pursue trustworthy corporate activities. See pages 34, 39.
2	Responsible political involvement	
3	Fair competition	
4	Promoting social responsibility in the value chain	
5	Respect for property rights	
Consumer Issues		
1	Fair marketing, factual and unbiased information and fair contractual practices	▲ Declaration of Conduct 1. Help people to have "healthy bodies, healthy lives." See page 40. ▲ Declaration of Conduct 3. Positively disclose information and properly manage information. See pages 35, 40.
2	Protecting consumers' health and safety	
3	Sustainable consumption	
4	Consumer service, support, and complaint and dispute resolution	
5	Consumer data protection and privacy	
6	Access to essential services	
7	Education and awareness	
Community Involvement and Development		
1	Community involvement	▲ Declaration of Conduct 7. Build harmonious relationships with society. See page 41.
2	Education and culture	
3	Employment creation and skills development	
4	Technology development and access	
5	Wealth and income creation	
6	Health	
7	Social investment	

Human Rights

Clinical Studies Put the Human Rights of Subjects First

To bring drugs into the world that deliver benefit to patients, we conduct human clinical studies in accordance with the requirements for new drug applications. Our clinical studies must follow regulations including Japan's ministerial ordinance on Good Clinical Practice (GCP), which was established to protect the human rights, maintain the safety, and improve the welfare of subjects participating in studies. Clinical studies rely on the cooperation of patients who participate as volunteers, with our clinical development personnel engaging in new drug development on the basis of common sense and conscience. Since clinical studies are conducted during the intermediate stages of confirming the efficacy (effectiveness) and safety (or side effects) of drug candidates, it is essential that patients who participate in these studies are fully informed not only about the drug's efficacy, but also about its safety and side effects, in order to protect and respect their human rights and physical safety.

Specifically, a doctor who is carrying out a clinical study asks patients to participate. At the start, the doctor explains in detail the investigational purpose, method, expected effect and various side effects that may appear. Based on a good understanding of the clinical study, the patients then decide on their own volition whether to participate.

We carry out clinical studies according to office standards and clinical study plans, in deference to the intentions of the patients themselves, so as to avoid infringing on their human rights.

Elimination of Discrimination in the Workplace

Prevention of harassment

Power harassment and sexual harassment in the workplace, as actions that harm the dignity of individuals, are important issues related to the violation of human rights.

To prevent the occurrence of such problems, DSP clearly stipulates related rules within its office regulations, and makes clear that violations will result in disciplinary action. Also, to avoid harassment in the workplace we ensure proper knowledge of issues through evaluator training and grade-specific training, and engage in raising anti-harassment awareness. We have also established consultation services at each major workplace and a system that ensures a quick, sincere response to complaints and proper consultation.

Specifically, in fiscal 2012, we created a training DVD on harassment prevention and distributed the DVD to all departments and divisions as part of our efforts to comprehensively eliminate harassment in the workplace.

Poster informing employees about the establishment of the General Consultation Desk

Respect for the dignity of the individual

DSP respects the human rights of all people involved with the Company, and in its Declaration of Conduct (Guidebook for Daily Application) clearly rejects any discrimination based on race, nationality, origin, religion, ideology, creed, sex, physical disability, age or form of employment.

Labour Practices

Creating a Workplace Environment That Allows Employees to Focus Confidently on Their Work

DSP has established a Health and Safety Policy, and has long enacted a variety of health and safety activities to prevent work-related accidents. Moreover, in preparation for the occurrence of a fire, explosion, or other major work-related accident, or a large-scale natural disaster, DSP has taken a number of measures to minimize the impact, including equipment-centered measures and the establishment of rules.

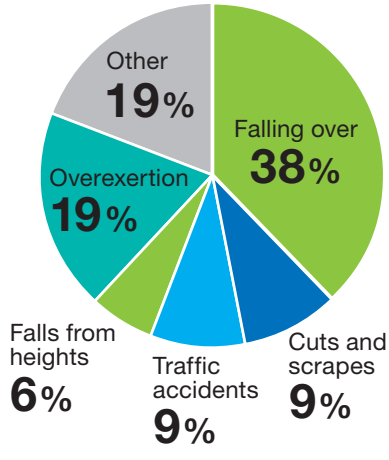
In addition to these measures, we believe it is important to instill an awareness of health and safety among employees themselves. Toward this end, the Secretariat of Environmental and Safety Committee implements training for new hires, encouraging them to think again about basic considerations, such as what exactly health and safety entails and why health and safety initiatives are necessary. Also, information about work-related accidents that occur at DSP is shared with the entire Company via DSP's intranet. These examples help foster awareness about health and safety among all employees through recognition of accidents as close-at-hand events.

Analysis of work-related accidents

Classifying the types of work-related accidents that occurred in the four years from fiscal 2009 to fiscal 2012 (excluding accidents involving sales fleet vehicles), we found that falls accounted for 38% of the total. While the various factors behind falls included sidewalk curbs, wet floors, and icy pavements, many cases seemed to involve rushing, hasty actions, or other psychological factors resulting in insufficient attention being given to a dangerous situation.

These findings demonstrated the importance of promoting awareness of safety among employees in addition to Company policies. As a result, we take advantage of National Safety Week to foster a sense of awareness toward safety.

Classification of Work-related Accidents



Note: Breakdown by type of work-related accidents (excluding accidents involving sales fleet vehicles) that occurred during the four years from fiscal 2009 to fiscal 2012.

Establishing a general consultation desk

In addition to the compliance hotline, the sexual harassment consultation desk, and the outside mental health consultation desk already in place, DSP established the General Consultation Desk (the "Discuss Anything Desk") in January 2012. The General Consultation Desk addresses a wide range of topics, including subjects about which employees are unable to consult their bosses or colleagues in the usual course of their jobs, as well as problems, struggles, or questions about which employees have consulted with others, but which remain unresolved. The General Consultation Desk addressed 40 such matters during fiscal 2012.

DSP will continue to strive to foster a workplace environment in which every employee is able to work comfortably and with a sense of security.

Creating an environment in which employees can fully exercise their capabilities

As part of our management mission, we seek "to create an environment in which employees can fulfill their potential and increase their creativity," and we therefore aim to foster a corporate climate where employees can independently pursue their own skills development, where the Company actively supports employee growth, and where the corporate environment allows employees to demonstrate their full potential.

Personnel development primarily consists of on-the-job training (OJT) where employees learn through doing actual tasks and taking on challenges. As a supplement to this, a variety of off-the-job training (Off-JT) programs are offered in forms including strengthening/support measures, training sessions and more. By combining OJT and Off-JT with job rotation, effective personnel development is carried out in an environment that can encourage employees to maximize their potential. DSP considers mutual communication with its employees an essential element in personnel development, and has accordingly introduced its self-report system. The primary purpose of the self-report system is to help supervisors understand the individual situations, issues and hopes of each employee under them from the standpoint of considering their long-term growth and skills development.

Supervisors hold face-to-face meetings with individual employees based on their self-reports, providing them with an opportunity to focus on their future in the Company and to reevaluate their resolve, interest and aspirations. Supervisors reflect on the Company's training policies and day-to-day duties and, by linking this to OJT and Off-OJT, support the growth of individual employees.

The Environment

DSP recognizes its responsibility for its environmental impact and strives to reduce environmental impact in all areas of its business operations.

Established in fiscal 2005 and revised in fiscal 2008, our Basic Environmental Policies underpin all our environmental activities. Under the Basic Environmental Policies, we formulated a Mid-term Environmental Plan that specifies goals of special importance and objectives for the three years from fiscal 2012 to fiscal 2014. In addition, every year we draft an Annual Implementation Plan. In this way, we ensure that our environmental activities are systematic and effective.

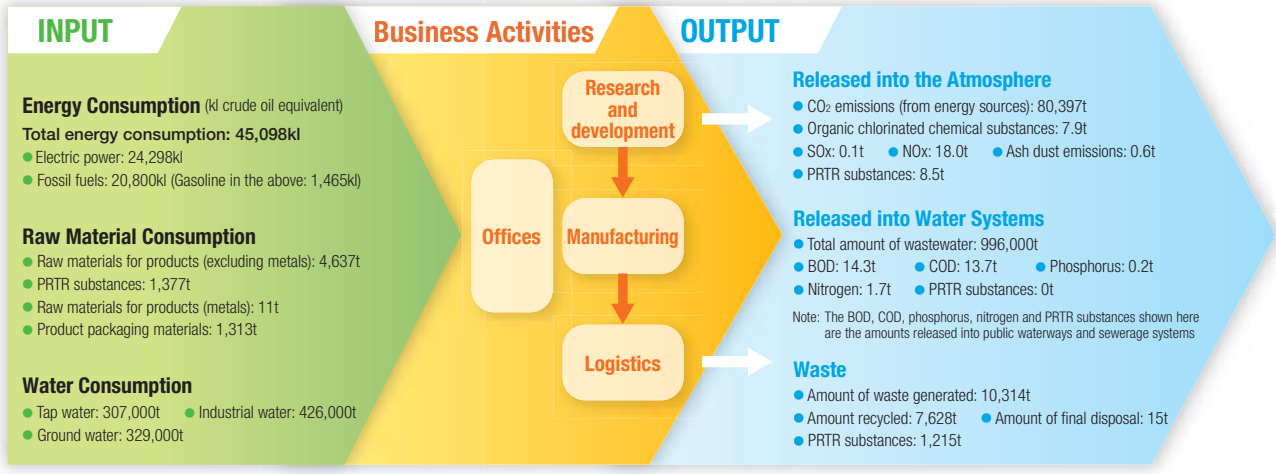
Basic Environmental Policies

With awareness that the global environment is now facing a serious crisis, we at DSP will make concerted efforts to preserve the environment and help create a recycling-oriented society through all our corporate activities as a company with a mission to protect human lives and promote health, thereby contributing to a prosperous and pleasant world.

DSP has formulated basic environmental policies as pillars of environmental activities that the Company should undertake.

Overview of environmental impact

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



Note: Totals include figures for workplaces in Japan only (plants, research laboratories, distribution centers, Osaka Head Office, Tokyo Head Office, branches and business offices)

Mid-term Environmental Plan (fiscal 2012–2014)

DSP has clarified key issues related to its environmental activities and has established its Mid-term Environmental Plan as an action plan to realize these goals and make continuous improvements toward them. During fiscal 2012, we made steady progress in most areas, except for a few objectives. In the future, we will continue to pursue further improvements.

Note: Although the Mid-term Environmental Plan is a three-year plan, it is reviewed each year to adjust for changes in the situation within and outside the Company.

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

Goals of Special Importance	Objectives	Progress in FY2012	Degree of Progress
1. Reduce emissions of chemical substances	(1) Properly manage chemical substances, and continually strive to reduce emissions of chemical substances (PRTR substances, etc.) into the environment	(1) With increases in the volume of dichloromethane and 1,2-dichloroethane handled, atmospheric emissions of these substances increased approximately 69% over the previous fiscal year (remaining at the same level as fiscal 2010)	△
2. Promote energy saving and address climate change	**[1] Numerical targets:**	**[1] Numerical targets:**	
	(1) Reduce CO_2 emissions for the whole Company to the level of the base year (FY2006) by FY2012	(1) Company-wide CO_2 emissions in fiscal 2012 stood at 97.9% of the level in fiscal 2006 Goal achieved	◎
	(2) Improve per-unit energy consumption and CO_2 emissions for the whole company by 1% or more per year, respectively	(2) 108% Although Company-wide CO_2 emissions declined to a certain extent, per-unit CO_2 emissions increased due to rising energy usage caused by parallel operations of air-conditioning facilities at both the new and existing dosage form facilities at the Suzuka Plant, and reducing the amount of production at the Oita Plant	△
	[2] Activity targets:	**[2] Activity targets:**	
	(1) Promote greening of the Company's work sites	(1) Considered various measures at each work site and in General Affairs Department	△
	(2) Promote the introduction of energy-efficient equipment and machinery at the Company's work sites	(2) Introduced energy-efficient equipment and machinery. This included replacing air-conditioning equipment at the Central Research Laboratories and painting the roofs of buildings at the Ehime Plant with heat-resistant paint	◎
	(3) Promote the use of renewable energy at the Company's work sites	(3) Currently in the process of installing solar power generation equipment at the Central Research Laboratories	○
	(4) Promote efficiency in all types of business operations at the Company's work sites	(4) Implemented across the whole Company	○
	(5) Promote visualization of energy use at work sites	(5) Considered various measures at each work site	○
3. Reduce waste	(1) Maintain final landfill disposal by the whole company at less than 1% of waste generated	(1) Maintained at less than 1% (FY2012 result 0.1%)	◎
	(2) Plants and research laboratories: Maintain final landfill disposal of industrial waste at less than 1% of amount generated	(2) Zero emissions goal achieved at four plants and one research laboratory, but goal not achieved at one research facility in FY2012 (1.8%)	△
	(3) Other sites: Continue complete recycling of recyclable waste	(3) Other sites made progress in recycling recyclable waste	○
4. Promote communication with Group companies	(1) Support environmental and safety activities of Group companies	(1) Conducted environmental and safety audits at two Group companies in Japan, and held meeting in March 2012 to exchange information on energy management of domestic Group companies	◎
5. Promote communication with local communities	(1) Understand environmental risks that corporate activities can present to the local community	(1) Gained understanding of most risks, and implemented countermeasures	○
	(2) Disclose information to the local community in an appropriate way	(2) Implemented appropriately	○
	(3) Participate actively in local environmental activities	(3) Actively implemented at each work site	◎
6. Address biodiversity	(1) Review basic policy and other measures	(1) Drafted plans for future DSP initiatives related to biodiversity	○
7. Enhance environmental education	(1) Develop and implement educational programs	(1) Created and implemented a scheme for grade-specific education, education of all employees, and support for education conducted by work sites	○
8. Train employees	(1) Train key persons in environmental management	(1) Training taking place at each work site	○

Activities to Conserve Energy and Address Climate Change

In addition to the active introduction of new energy technologies that emit lower levels of greenhouse gas (CO_2), DSP is undertaking efficient energy use in all of its business activities and working to reduce emissions of CO_2.

In fiscal 2012, we added measures to conserve energy in both the summer and winter months to the initiatives already in place to introduce energy-saving equipment to operations and hybrid vehicles to our leased sales fleet. As a result, we were able to maintain Company-wide CO_2 emissions at the same level as the previous fiscal year. As of the end of fiscal 2012, hybrid vehicles accounted for about 56% of our sales fleet Company-wide.

Climate change is currently the most pressing issue worldwide. We will continue to actively introduce new technologies throughout all of our business activities, and will continue tackling reduction of CO_2 emissions while using energy efficiently.

Note: We use our own fixed value for the CO_2 conversion coefficient. This is to eliminate the influence of external factors such as the operational status of nuclear power plants and to make the results of our efforts clear. As such, the figures may differ from those reported in accordance with Japan's Act on Promotion of Global Warming Countermeasures.

Waste Reduction

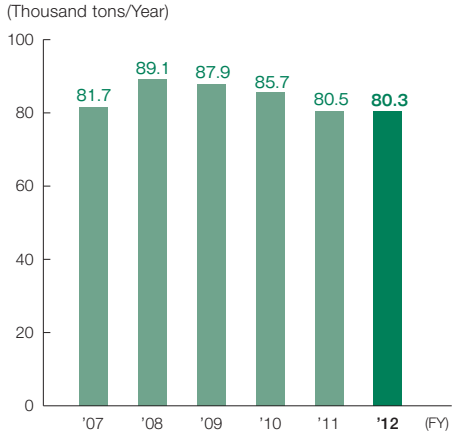
To make effective use of our limited resources, we practice the "3Rs" of waste management (reduce, reuse, recycle).

In fiscal 2012, the volume of waste generated was 10,314 tons, an increase of approximately 21% over the previous fiscal year. This increase was primarily attributable to the decline in waste generation the previous fiscal year caused by the temporary suspension of manufacturing for some products at the Oita plant due to the Great East Japan Earthquake. In fiscal 2012, this was no longer a factor, and generated waste returned to regular levels. With the increase in the volume of waste generated, there was also a corresponding increase in the volume of waste recycled, which at 7,628 tons was approximately 21% higher than the previous fiscal year. Company-wide volume of final landfill waste decreased approximately 18% over the previous fiscal year to 14.9 tons. The Company-wide final waste disposal rate (ratio of volume of final landfill waste to volume of waste generated) was approximately 0.1% in fiscal 2012, meeting our Company-wide objective of final landfill industrial waste of less than 1%, as we did in the previous fiscal year.

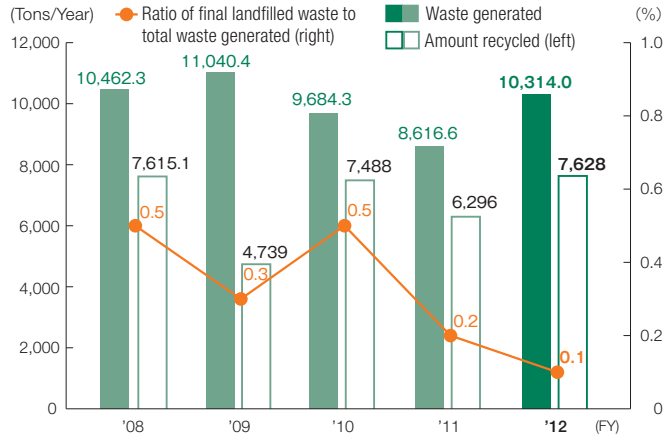
At our plants and research laboratories, we are pursuing zero emissions, which we have defined as a volume of final landfill industrial waste that is less than 1% of waste generated. In fiscal 2012, four of our plants and one research laboratory achieved zero emissions, while one research laboratory did not (final landfill industrial waste was 1.8%) The main reason for the failure to achieve zero emissions was an increase in waste due to the construction of the New Chemistry Research Building in the Osaka research center.

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

CO_2 Emissions



Waste Recycling



Fair Operating Practices

Appropriate Information Disclosure

DSP recognizes the importance of transparency in earning the trust of society, and as such, strives to disclose corporate information in a timely, appropriate and fair manner to its stakeholders. We undertake disclosure of information under due recognition of Japan's Financial Instruments and Exchange Act, the Timely Disclosure Rules of the Tokyo Stock Exchange (TSE), our in-house regulations for management and disclosure of information, and other rules.

Information that requires timely disclosure, such as the Company's financial results, is promptly disclosed through the TSE's TDnet (Timely Disclosure Network) and also published on our corporate website.

We also actively disclose information not requiring timely disclosure, including corporate information and product information, through news releases to media outlets and our own corporate website.

For medical professionals as well as patients and their families, we provide information on various diseases through DSP's Medical Information Website and DSP's Health Information Website (Japanese only) linked to our corporate website.

Preventing the Falsification and Leakage of Information

Information is an important asset in our corporate activities, and how it is used and protected is of particular importance to the Company. As part of its information security measures, DSP constantly reviews its technological measures as well as internal rules and standards in conjunction with changes occurring in society and advancements made in information technologies. As part of our physical measures to protect information, we have moved file servers and other information storage devices to robust data centers and have developed redundancy systems to ensure all systems continue to function even during a failure.

Since we started using a shared global networking system, we have adjusted to the level of information security policies and standards established by Japan, the United States and Europe, and strengthened our operational practices. At the same time, we are revising our standards to match ISO 27001, which is an international standard on information security.

We also focus on training aimed to ensure that employees recognize the importance of information security and ensure full compliance with rules and regulations. In fiscal 2012, we continued to provide e-learning programs over our intranet to promote higher awareness about information security by reconfirming the importance of security policies.

Guidelines for Transparency in Partnerships with Patients and Medical Institutions

The mission of an R&D-oriented pharmaceutical company is to contribute to the health of people and medical care around the world through continually researching and developing new drugs and steadily bringing them to market, under the objective of creating patient-centric medical care.

In order to fulfill this mission, it is essential to collaborate with medical institutions and research organizations including universities in all stages from drug discovery to information disclosure activities ensuring the proper usage of post-marketing pharmaceuticals.

With representatives of patient groups sitting on an increasing number of government committees and investigative commissions as governments and the medical community put greater emphasis on the "voice of the patient," patient groups have become important stakeholders in the mission to improve medical care.

At DSP, we believe that it is critical to raise awareness and increase understanding throughout society that activities designed to improve coordination between medical institutions and patient groups are undertaken in accordance with high ethical standards.

The Japan Pharmaceutical Manufacturers Association (JPMA) issued its Guidelines for Transparency in Relationships between Corporate Activities and Healthcare Institutions on January 19, 2011, and its Transparency Guidelines for the Relationship between Corporate Activities and Patient Associations on March 14, 2012.

As a member of the JPMA, we established our own Guidelines for Transparency in Partnerships with Medical Institutions in October 2011 and Guidelines for Transparency in Partnerships with Patient Associations in April 2012. In accordance with these guidelines, at the end of August 2013 we publicly disclosed information on our corporate website of our payments in fiscal 2012 to medical institutions and medical professionals.

Consumer Issues

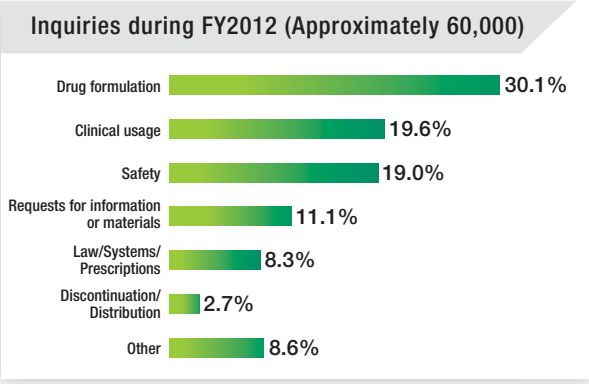
An Exclusive Commitment to Handling Inquiries: the Pharmaceuticals Information Center

DSP established the Pharmaceuticals Information Center in order to respond to inquiries about its ethical pharmaceuticals. In fiscal 2012, the center handled approximately 60,000 inquiries from medical professionals, patients and their families.

In order to help the Pharmaceuticals Information Center respond more promptly and in more depth to the inquiries it receives, a variety of in-house search systems, such as the DI-SaGaS product information search system, are utilized, and a Center FAQ is also maintained. Frequently received inquiries are compiled into a Q&A reference that enables all staff at the center to respond promptly and consistently when such inquiries are received in the future.

Information in inquiries received from medical professionals is shared as it is received with the MR* in charge as well as related divisions. Specifically, we use a system that sends an e-mail to the MR in charge regarding the nature of the question, summary of the response and source of information used in the response. This has enabled us to share information with MRs in charge and to ensure uniformity in our responses, which has helped foster relationships of trust between medical professionals and their MRs.

* MR: Medical representative



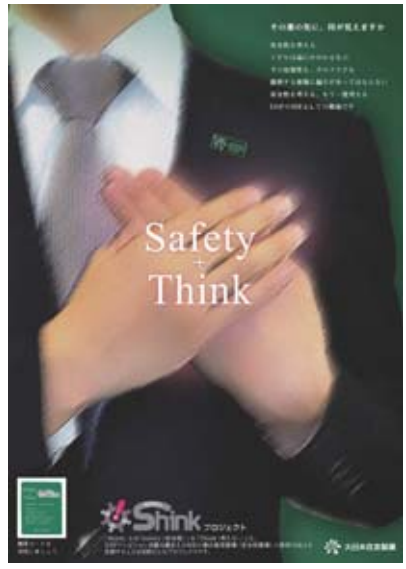
"Shink Project" to Think about Safety from Patients' Viewpoint

DSP is implementing its so-called "Shink Project," the purpose of which is to improve MRs' skills to provide information on proper use of DSP's pharmaceuticals. The term "Shink," coined by DSP, was created from "safety" and "think."

Our survey of medical professionals revealed that they are looking for a pharmaceutical company's appropriate responses to side effects and information provision from an objective standpoint. That is why our departments started working together to establish such a cross-divisional project.

The gist of this project is to facilitate discussion among participants by letting them think about what they would want if they were MRs, medical professionals, or patients. This raised awareness of the importance of providing information on drug safety. We have also enhanced training programs with an e-learning system and other training materials, which help MRs deepen their knowledge on drug safety and improve explanation skills. Moreover, we use tablet devices for effective information provision and in academic conferences run exhibit booths about proper use of drugs.

DSP will continue making efforts to provide medical professionals with safety information as "useful medical information" through MRs' activities.



Poster informing employees about the "Shink Project"

Community Participation and Development

Social Contribution Activities

In its Declaration of Conduct, DSP states its intent to engage in social contribution activities and to consider what it can do as a good corporate citizen. In addition, we are conducting disease awareness, education support, environmental conservation activities, donations, and other support activities based on our corporate slogan, “Healthy bodies, healthy lives.”

Employee Participation in Activities

DSP Group companies and their officers and employees contribute to organizations that share our commitment to promoting healthy bodies and healthy lives. In fiscal 2012, we donated to the nonprofit organization Support Network for Chronic Sick Children of Japan (“Nanbyonet”) and to five clubhouses in Japan certified by the International Center for Clubhouse Development.

Employee volunteers have also continued to raise funds to support the reconstruction of the areas affected by the Great East Japan Earthquake.

The Japan Epilepsy Research Foundation

Funded by donations from DSP and other interested parties, the Japan Epilepsy Research Foundation conducts the following activities to promote research into the treatment of epilepsy and to contribute to better health and medical care in Japan:

Monetary support activity

1. Provides grants for basic and applied clinical research
2. Subsidizes the dispatch of Japanese researchers overseas
3. Provides fellowships to researchers from other Asian countries to study in Japan
4. Subsidizes the publication of the *Journal of the Japan Epilepsy Society*

Commendation activity

1. Awards research prizes to researchers or research groups that achieve significant results through continuous research
2. Awards research service prizes to researchers who have made a notable contribution to and played a leading role in the progress of epileptology over many years

To publicize these support initiatives, the foundation holds meetings to present research findings and publishes the *Research Annual Report*. DSP will continue to contribute to the improvement of medical care and welfare by supporting this foundation.

Support for Activities to Eradicate Malaria

One of the world’s three major infectious diseases, malaria continues to claim numerous lives in regions of Africa, Asia, and elsewhere, despite being a preventable and treatable disease. Measures against malaria involve considerable expenditures, however, and thus call for cooperation among nations. Against this background, the non-profit organization Malaria No More Japan (MNMJ) was established in October 2012 to conduct awareness-raising and policy proposal activities aimed at eradicating malaria globally, with a focus on Asia. As a strong supporter of this organization, DSP has begun providing donations to MNMJ from fiscal 2013 and is cooperating in areas such as the hosting of malaria awareness-raising events.

Support for Measures against Counterfeit Drugs

Counterfeit drugs include not only those without therapeutic effect but also those that put patients’ lives at risk through unforeseen side effects. The threat of these drugs is increasing globally, with the amount in distribution in 2010 alone reported to have reached $75 billion. Furthermore, as a ready source of funds for organized crime or terrorist organizations, counterfeit drugs have taken on the dimension of an international problem.

Toward that end, 29 pharmaceutical companies engaged in global business (including DSP and seven other Japanese companies) will make a joint contribution of €4.5 million to the international police organization Interpol over three years, beginning in 2013. The funds will be used to promote awareness of counterfeit drugs among general citizens, to educate investigators specialized in pharmaceutical-related crimes, and to promote other initiatives to prevent such crimes.

Participation in the TABLE FOR TWO Program Supporting Children through School Lunches

From October 2012, DSP has taken part in the TABLE FOR TWO program in the employee cafeterias of its Osaka Head Office and Tokyo Head Office. Under this program, for every specified lunch set eaten, a ¥20 donation is made through the non-profit organization TABLE FOR TWO International to purchase a school lunch for a child in a developing country. School lunches not only assuage the hunger of these children but are also seen as improving children’s learning ability and basic physical fitness, as well as aiding in the prevention of disease, thus playing a key role in resolving poverty.

DSP values this program as an international contribution activity in which employees can participate directly, and plans to increase the number of participating workplaces.

Involvement in Local Communities

DSP places importance on relations and communication with local communities, and hopes to contribute to community development through our corporate activities.

As one such initiative, on November 7 and 8 of 2012 we conducted a tour of our Ibaraki Plant for fifth grade students from the Ibaraki City Municipal Tenno Elementary School. This tour went beyond the usual observation of manufacturing lines, becoming a social studies program that let the children experience the quality management, safety management, and research ingenuity of a pharmaceutical company.

In addition, every year our Osaka Center invites nearby elementary school students and kindergarten children to its customary acorn collecting event. In fiscal 2012, first grade students joined the fun on October 26, and kindergarten students on November 9. In addition to the above programs, our employees continually perform cleanup and volunteer activities in areas around workplaces.

We will continue to prize our interactions with people in the areas around our workplaces, and hope to contribute to the development of communities through participation in local activities at every opportunity.

Acorn collecting

An elementary school student performing a weighing experiment during a tour of the Ibaraki Plant

Activities to Support Reconstruction from the Great East Japan Earthquake

To provide long-term support for reconstruction from the Great East Japan Earthquake, on May 1, 2011 we established the Earthquake Reconstruction Support Office* as an organization dedicated to providing long-term assistance. Since then, we have been continually involved in reconstruction of the affected regions.

* The Earthquake Reconstruction Support Office was relocated under the Corporate Communications Division on April 1, 2012.

Opening the SUKOYAKA self-directed study space for junior high and high school students in Tome City, Miyagi Prefecture

In cooperation with the non-profit organization Children's Welfare Laboratory, DSP has opened a self-directed study space for junior high and high school students in a region affected by the Great East Japan Earthquake. SUKOYAKA is a space that can be used free of charge by children in environments where studying is difficult, such as students in temporary housing without space for study, or those in households unable to pay for supplementary schooling due to the disaster. We aim to make SUKOYAKA a place where children from the affected region can get together with peace of mind.

DSP will provide funding for activities by SUKOYAKA, covering costs including expenses for staff and furnishings in the space.

Support for a joint school sports festival in Okuma Town, Fukushima Prefecture

In Fukushima Prefecture, DSP provided support for a school sports festival for elementary school students and kindergarten children who have taken refuge from the effects of the Fukushima Daiichi Nuclear Power Plant accident. In addition to providing volunteer aid for preparations and operation and physical aid such as tents and banners, we presented the festival with a flag made by employees that bore a message of support conveying our thoughts toward the area.

This action was part of the School Smile Support Project to support schools that are conducting educational activities for children affected by the Great East Japan Earthquake. DSP has been a participant in the project since June 2011.

Holding the Shinno Festival Marche product exhibit to support the disaster-affected area

With the cooperation of the Sukunahikona Shrine in Osaka, DSP held the Shinno Festival Marche in front of its Osaka Head Office building on November 22, 2012. The exhibit sold produce from around the disaster-affected prefectures of Aomori, Iwate, Miyagi and Fukushima, as well as products from welfare vocational aid centers that lost their workplaces or sales routes to the tsunami. The goods sold at the event numbered a modest 1,800 items of 26 types, but as a project to support the affected region through purchases, it offered us an opportunity to extend our thoughts to producers from the region.

Corporate Governance

Basic Approach to Corporate Governance

DSP promotes the development of a system that maintains soundness and transparency while enabling rapid decision making. At the same time, DSP further strengthens internal control including risk management. With this framework, DSP strives to further enhance corporate governance, prove worthy of the trust of its shareholders and all other stakeholders, and continuously maximize its corporate value.

Factors That Could Significantly Influence Corporate Governance

Sumitomo Chemical Co., Ltd. is the parent company of DSP with a 50.22% share of voting rights. Respect for autonomy is affirmed by the parent company and management independence is maintained, with no restraints on approvals or other matters by the parent company concerning DSP's business operations.

Furthermore, no directors of Sumitomo Chemical sit on the DSP Board of Directors. DSP retains some personnel seconded from the parent company based on DSP's own judgment, and believes this has no influence on DSP's management or business operations. Respect for autonomy is affirmed by the parent company and DSP's independence is maintained.

Based on the above, DSP believes that the interests of its retail shareholders are not impaired by its parent company.

Management Structure

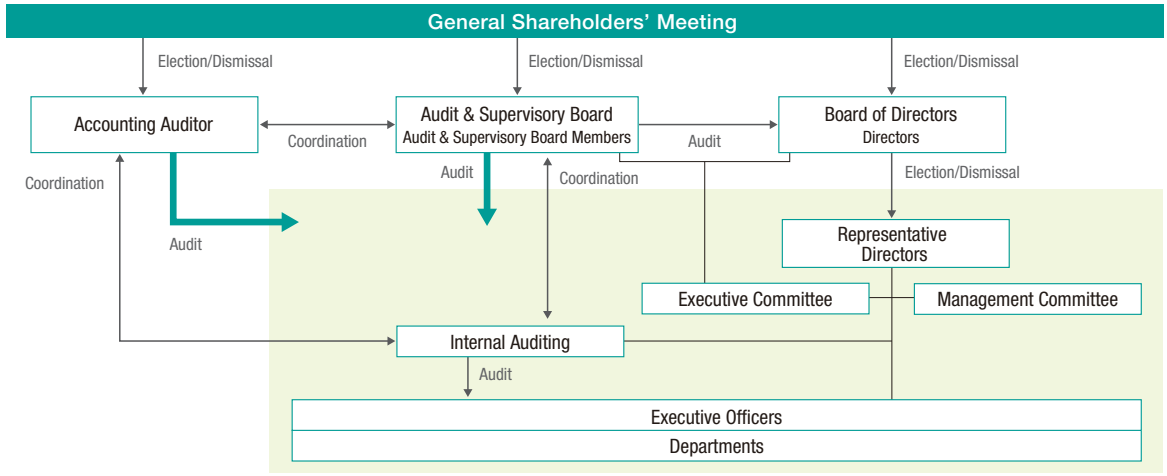
DSP has adopted an executive officer system under the Board of Directors to separate management supervision from business execution. In addition, DSP has adopted an Audit & Supervisory Board system independent of the Board of Directors to audit the execution of duties by the directors.

The Board of Directors is composed of eight members, including one outside director, and convenes once a month as a rule to decide and report on important management matters. In fiscal 2012, it met 15 times.

The Audit & Supervisory Board is composed of five members, including three outside members. It convenes once a month as a rule to discuss and decide important audit-related matters, as well as to preview the agenda items for Board of Directors meetings. In fiscal 2012, it met 14 times.

The Management Committee, which is a consultative body to assist the Representative Director, President and CEO in his decision making, meets twice a month as a rule to deliberate on important management matters, guided by the basic policies set by the Board of Directors. In fiscal 2012, it met 23 times. Moreover, to ensure that top managers including the members of the Board of Directors and the Audit & Supervisory Board and Executive Officers are fully aware of the status of business execution and related important matters, DSP has instituted the Executive Committee, which convenes once a month as a rule. In fiscal 2012, it met 12 times.

Corporate Governance Structure



Audit System

DSP has appointed five Audit & Supervisory Board members, three of whom are outside members. The Audit & Supervisory Board, composed of all the Audit & Supervisory Board members, determines audit policy, task allocation among members and other matters. In line with these matters, each member works to create an environment for greater audit effectiveness, including regular meetings with the representative directors, proactive reporting from and discussions with the other directors and employees, cooperation with the accounting auditor and the Internal Auditing Department, and furthermore, cooperation among all parties involved in auditing. In addition, members attend key business meetings including those of the Board of Directors to confirm the legality and appropriateness of management decisions by the directors and proactively audit the operational status of the internal control system through measures including receiving reports from directors and employees on the status of task execution, requesting explanation as necessary and viewing significant approval forms and other documents. The Audit & Supervisory Board Secretariat has been established as dedicated staff for the Audit & Supervisory Board members to raise the effectiveness of their audits and to smoothly accomplish auditing tasks.

Accounting audits are handled by KPMG AZSA LLC, based on an audit agreement. Internal audits are carried out by the Internal Auditing Department, which reports directly to the President of DSP. The basic elements for achieving the objectives of internal control, including subsidiaries, are audited from a fair and independent standpoint. Audit & Supervisory Board members, accounting auditors and internal auditors cooperate by meeting periodically to exchange information and other methods.

Establishment of an Internal Control System

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

Internal Control over Financial Reporting

To ensure the reliability of financial reporting, DSP designs and operates a system in accordance with the Company's basic framework for internal control over financial reporting, and conducts evaluations of internal control. The scope of the evaluations is Company-wide internal control at DSP and its major consolidated subsidiaries, as well as business processes with a significant impact on finances. DSP evaluates the effectiveness of the design and implementation of internal control by management.

Executive Remuneration

Remuneration for directors consists of basic remuneration and bonuses. Basic remuneration is set according to position, such as representative director, while bonuses are determined based on Company and individual performance using methods approved by the Board of Directors, within the scope of total remuneration approved at the annual shareholders' meeting. Remuneration for Audit & Supervisory Board members consists of basic remuneration determined by the Audit & Supervisory Board, within the scope of total remuneration approved at the annual shareholders' meeting. Remuneration for Audit & Supervisory Board members includes ¥36 million paid to outside members. In fiscal 2012, total remuneration paid to directors and Audit & Supervisory Board members was ¥252 million and ¥90 million, respectively. These amounts represent remuneration paid to directors and Audit & Supervisory Board members holding office during fiscal 2012, and include director bonuses of ¥31 million for that year.

Compliance

In the Declaration of Conduct, DSP stated both internally and publicly its commitment to "abide by laws and regulations, and conduct corporate activities in a transparent and fair manner with high ethical standards." To put this declaration into practice and ensure compliance, DSP has established the Compliance Standards for business activities.

In fiscal 2012, the Compliance Committee, presided over by the executive officer in charge of compliance, met two times. The committee ascertained the status of compliance efforts throughout DSP and issued appropriate reminders, recommendations, and advice to the parties concerned.

In addition, DSP conducted education and training for all employees on prevention of harassment and the Compliance Standards. As a global initiative, the Global Compliance Committee, which is composed of members from DSP and its Group companies in the United States, China and Europe, met two times to share information and exchange opinions. DSP also set up a compliance hotline to provide consultation or accept reports internally or externally in the event that an employee has questions or has obtained information concerning violations related to compliance.

Risk Management

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

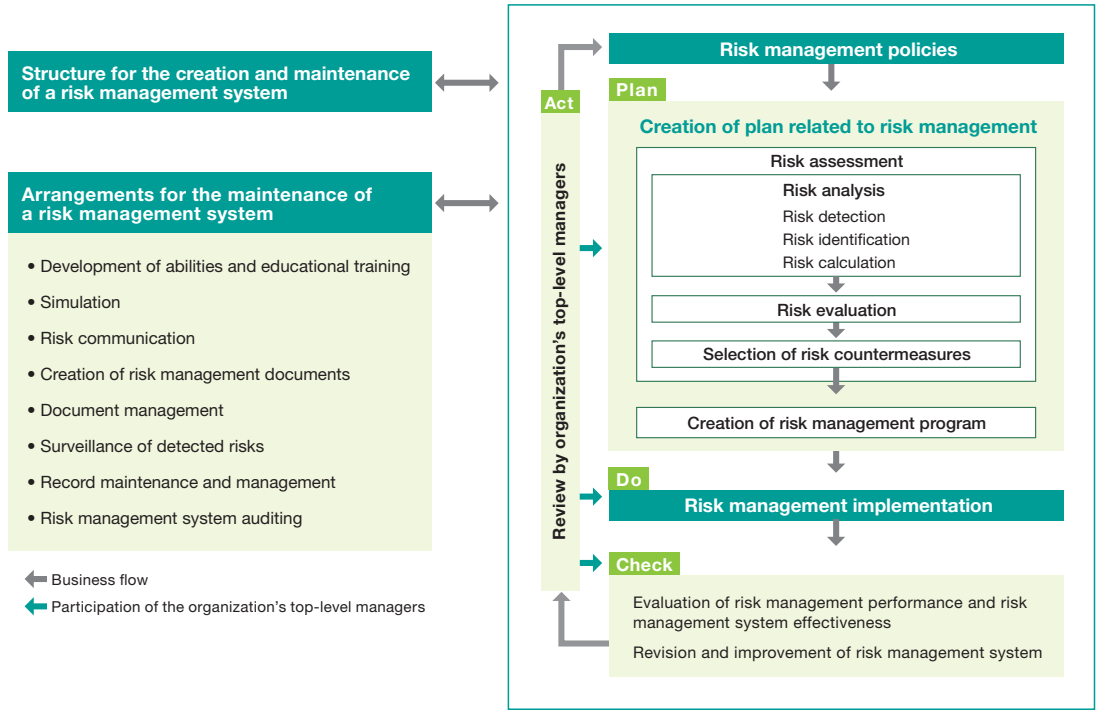
DSP has also established Emergency Response Rules to codify procedures in the event of an emergency.

In fiscal 2012, DSP prepared a business continuity plan (BCP) assuming an earthquake with its epicenter in the Tokyo metropolitan area and the Tokai, Tonankai and Nankai Earthquake, which are forecast to cause major damage, and summarized issues for future deliberation. In addition, DSP strengthened the safety administration system, improved IT infrastructure and network systems, and revised regulations and manuals for responding to a variety of risks. DSP is also improving its Group-wide risk management system in cooperation with Group companies in and outside Japan.

Supply Chain Management (Procurement of Raw Materials)

To ensure the stable and safe procurement of the raw materials and other items used in its pharmaceuticals, DSP continuously and systematically promotes measures to prevent interruption of its supply of raw materials, including

Risk Management System



use of multiple suppliers, consideration of alternate products and stockpiling. Currently, the Company is working on measures for individual products, and in fiscal 2012 it formulated specific measures for approximately 70 raw materials related to the products under review.

To conduct fair, open and transparent transactions, DSP concludes basic agreements on transactions with business partners, complies with relevant laws and regulations including the Act against Delay in Payment of Subcontract Proceeds, Etc. to Subcontractors, and continuously evaluates business partners.

In its overseas procurement, in addition to dealing speedily with problems as a matter of course, DSP works to prevent problems from occurring and eliminate supply uncertainties by building deeper relationships of trust through smooth communication with overseas business partners and trustworthy procurement activities.

As a part of its risk management, in fiscal 2012 DSP conducted a survey of approximately 20 business partners regarding their efforts for stable supply. In fiscal 2013, the Company plans to analyze the survey results and request greater cooperation in stable supply by providing feedback to business partners.

Subsidiary Management Structure and Governance

DSP has established rules for operation and management so that Group companies implement appropriate Group operations. DSP has designated managing divisions for each Group company and a division to govern them, and endeavors to monitor and administer the management and execution of duties at Group companies. DSP also provides appropriate support for business execution. In addition, the DSP Group is implementing unified CSR management including the establishment of a global governance structure, enhancement of compliance, strengthening of risk management, and social contribution activities.

Basic Stance on Elimination of Anti-Social Forces and Status of Implementation

DSP's basic policy is to take decisive action against anti-social forces and groups that threaten the order and safety of civil society. The Company specifies in its Declaration of Conduct (Implementation Policy) and Compliance Standards that it cuts off any and all relationships with anti-social forces, and promotes the elimination of such forces through measures including working to raise the awareness of employees through in-house seminars and other activities and concluding a memorandum of agreement regarding the elimination of anti-social forces with its business partners.

As the department in control of DSP's response, General Affairs works to improve its ability to respond by strengthening cooperation with corporate defense councils and the National Center for the Elimination of Boryokudan.

Annual Shareholders' Meeting and Exercise of Voting Rights

DSP sends out a notice of convocation of the annual shareholders' meeting approximately three weeks before the date of the meeting to facilitate the exercise of voting rights. For foreign shareholders, DSP posts an English translation of the convocation notice on the Company's website together with the Japanese version on the day the convocation notices are sent. Methods of voting include electronic voting platforms and other digital methods (such as the Internet) in addition to conventional voting in writing.

In addition, DSP conducts measures to enliven its annual shareholders' meeting such as presentation of the business report using video and narration during the meeting. Details of the results of resolutions on proposals at the annual shareholders' meeting are submitted in an extraordinary report and disclosed on DSP's website.

IR Activities

DSP regularly holds meetings for analysts and institutional investors worldwide. In Japan, meetings are held to coincide with financial results announcements at the end of the second and fourth quarters, while conference calls are carried out for announcements of financial results of the first and third quarters. In addition, meetings focused on a specific topic are held as appropriate. In fiscal 2012, DSP held a meeting on the third Mid-term Business Plan.

For overseas investors, representatives of DSP visited investors in Europe and the United States in May and November 2012, respectively. In addition, DSP presents webcasts of meetings held in Japan and conference calls with an overdubbed English translation (including question and answer sessions) on its website.

For retail investors, DSP holds meetings at branches of securities firms. In fiscal 2012, the Company held a meeting in October 2012 in Nagoya.

In addition, DSP presents financial information, news releases, presentation materials for investors, annual reports, and other materials on its website as appropriate.

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

Message from the Newly Elected Outside Director

I have recently been elected the first outside director of Dainippon Sumitomo Pharma Co., Ltd. In the last two years I served DSP as an outside member of the Audit & Supervisory Board, and have the view that good corporate governance is maintained at DSP.

Because DSP is engaged in a business directly related to human life and health with a mission to create and provide useful pharmaceuticals for patients, a particularly high level of corporate ethics above the ordinary level of compliance is required. The creation of a seat for an outside director, in my view, reflects DSP's strong commitment to achieving this high ethical standard.

My position has changed from that of auditing to participating in the management decision-making process. I believe the role I am expected to play is to give my opinion from the perspective of my career to date, which is rather different from those of my fellow members of the Board and based on the fact that I have no conflict of interest with the stakeholders of DSP or the Company itself. Keeping this in mind, I will be participating in management so as to contribute to the sound development of DSP.

Hidehiko Sato
Member, Board of Directors (Outside)

Career History

April 1968	Joined the National Police Agency
August 2002	Commissioner General of the National Police Agency
February 2005	President of the Police Personnel Mutual Aid Association
June 2011	Admitted to the bar (Japan)
June 2011	Audit & Supervisory Board Member, DSP
June 2013	Member, Board of Directors (Outside), DSP (to present)

Reason for the Election of the Outside Director

Mr. Hidehiko Sato has accumulated abundant experience and a wide range of knowledge in the course of his career, which includes positions such as Counselor of the Cabinet Legislation Bureau and Commissioner General of the National Police Agency, as well as expertise as an attorney. DSP shareholders approved the Company proposal that Mr. Sato serve as an outside director to have such qualities reflected in management.

Board Members and Executive Officers

(As of June 21, 2013)

Front row, from left: Hiroshi Noguchi, Masayo Tada, Makoto Hara,
Back row, from left: Tetsuya Oida, Yoshihiro Okada, Masaru Ishidahara, Hiroshi Nomura, Hidehiko Sato

Board Members

Masayo Tada
Representative Director, President and Chief Executive Officer

Hiroshi Noguchi
Representative Director, Senior Executive Vice President
Executive Director, Drug Research; Global R&D Office; Global Oncology Office

Makoto Hara
Member, Board of Directors, Executive Vice President
Global Corporate Management; Global Strategy; Business Development; Legal Affairs; Finance & Accounting; International Business Management

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

Masaru Ishidahara
Member, Board of Directors, Senior Executive Officer
Corporate Communications; Personnel; General Affairs; Procurement; Osaka Administration

Tetsuya Oida
Member, Board of Directors
Representative Director, President, DSP GOKYO FOOD & CHEMICAL Co., Ltd.

Hiroshi Nomura
Member, Board of Directors
Vice Chair, Executive Vice President and Chief Financial Officer, Sunovion Pharmaceuticals Inc.

Hidehiko Sato
Member, Board of Directors (Outside)

Audit & Supervisory Board Members

Nobuo Takeda
Audit & Supervisory Board Member

Yasuji Furutani
Audit & Supervisory Board Member

Harumichi Uchida
Audit & Supervisory Board Member (Outside)

Yutaka Atomi
Audit & Supervisory Board Member (Outside)

Kazuto Nishikawa
Audit & Supervisory Board Member (Outside)

Executive Officers

Susumu Nakajima
Senior Executive Officer
Executive Director, Sales & Marketing

Nobuhiko Tamura
Senior Executive Officer
Executive Vice President, Sunovion Pharmaceuticals Inc.; Executive Director, Drug Development; Head of Global Clinical Development for DSP Group

Yoshihiro Shinkawa
Executive Officer
Deputy Executive Director, Sales & Marketing

Yoshinori Oh-e
Executive Officer
Director, Business Development

Yoshiharu Ikeda
Executive Officer
Executive Director, Technology Research & Development; Information Systems Planning

Mutsuo Taiji
Executive Officer
Deputy Executive Director, Drug Research; Intellectual Property

Nobuyuki Hara
Executive Officer
Executive Director, Corporate Regulatory Compliance & Quality Assurance; Regulatory Affairs

Hitoshi Odagiri
Executive Officer
Director, Personnel; Career Development Support

Kazuo Koshiya
Executive Officer
Director, Global Oncology Office

Antony Loebel
Executive Officer
Executive Vice President and Chief Medical Officer, Sunovion Pharmaceuticals Inc.

Chiang J. Li
Executive Officer
President, Chief Executive Officer and Chief Medical Officer, Boston Biomedical, Inc.; Head of Global Oncology for DSP Group

Financial Section

Contents

Eleven-Year Summary of Selected Financial Data

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

	2013	2012	2011	2010	2009
RESULTS OF OPERATIONS:					
Net sales	**¥347,724**	¥350,396	¥379,513	¥296,262	¥264,037
Overseas sales revenue	**133,125**	130,243	152,226	53,015	22,051
Ratio of overseas sales revenue	**38.3%**	37.2%	40.1%	17.9%	8.4%
Cost of sales	**101,686**	98,857	110,030	112,263	103,741
Selling, general and administrative expenses	**220,994**	231,137	238,531	148,374	129,130
Operating income	**25,044**	20,402	30,952	35,625	31,166
Income before income taxes and minority interests	**18,158**	16,328	25,050	31,423	32,168
Net income	**10,044**	8,630	16,796	20,958	19,988
Comprehensive income (loss)	**37,174**	2,396	(12,066)	27,148	—
FINANCIAL POSITION:					
Current assets	**333,439**	334,251	333,000	287,555	263,540
Net property, plant and equipment	**69,862**	66,697	69,794	74,084	69,105
Total assets	**607,219**	559,410	589,868	626,743	391,295
Current liabilities	**124,831**	105,966	157,204	265,000	53,350
Long-term liabilities	**133,140**	134,217	108,681	18,260	13,449
Net assets	**349,248**	319,227	323,983	343,483	324,496
OTHER STATISTICS:					
Research and development costs	**59,844**	56,891	68,160	51,371	52,819
Capital expenditures	**12,384**	8,742	8,663	6,471	10,569
Depreciation and amortization	**35,085**	40,232	44,628	18,650	11,455
EBITDA	**60,333**	59,880	77,971	56,448	41,970
PER SHARE OF COMMON STOCK:					
Basic net income	**¥ 25.28**	¥ 21.72	¥ 42.27	¥ 52.75	¥ 50.30
Net assets	**879.03**	803.47	815.44	864.51	816.49
Cash dividends applicable to the year	**18.00**	18.00	18.00	18.00	18.00
FINANCIAL INDICATORS:					
Operating margin	**7.2%**	5.8%	8.2%	12.0%	11.8%
ROE	**3.0%**	2.7%	5.0%	6.3%	6.2%
ROA	**1.7%**	1.5%	2.8%	4.1%	5.1%
Equity ratio	**57.5%**	57.1%	54.9%	54.8%	82.9%

Notes 1. The U.S. dollar amounts in this report represent translations of Japanese yen solely for the reader's convenience at the rate of ¥94 = U.S.$1.00, the approximate exchange rate at March 31, 2013.

2. Dainippon Pharmaceutical Co., Ltd. merged with Sumitomo Pharmaceuticals Co., Ltd. on October 1, 2005 and changed its name to Dainippon Sumitomo Pharma Co., Ltd.

3. Dainippon Sumitomo Pharma Co., Ltd. and its consolidated subsidiaries adopted the new accounting standards for presentation of net assets in the balance sheet from 2007. In accordance with the adoption of the new accounting standards, net assets in the financial position from 2002 to 2006 have been reclassified.

Millions of yen						Percent change	Thousands of U.S. dollars (Note 1)
2008	2007	2006	2005	2004	2003	2013/2012	**2013**
¥263,993	¥261,213	¥245,784	¥175,088	¥171,672	¥172,554	(0.8%)	**$3,699,191**
24,521	22,032	9,696	3,820	3,630	3,990	2.2%	**1,416,223**
9.3%	8.4%	3.9%	2.2%	2.1%	2.3%		
99,385	99,346	130,437	111,099	110,013	108,046	2.9%	**1,081,765**
124,794	116,312	86,461	52,404	51,546	51,240	(4.4%)	**2,351,000**
39,814	45,555	28,886	11,585	10,113	13,268	22.8%	**266,426**
41,457	38,415	25,687	11,686	13,836	12,718	11.2%	**193,170**
25,592	22,605	15,377	6,924	7,968	6,364	16.4%	**106,851**
—	—	—	—	—	—	1,451.5%	**395,468**
251,063	234,313	249,733	131,176	118,562	116,241	(0.2%)	**3,547,223**
70,280	65,241	68,336	32,611	34,473	35,374	4.7%	**743,213**
399,791	382,535	392,966	201,431	193,238	187,416	8.5%	**6,459,777**
67,915	56,039	80,071	49,196	45,927	60,727	17.8%	**1,327,990**
13,598	20,484	24,262	16,802	16,258	9,248	(0.8%)	**1,416,383**
318,278	306,012	288,633	135,433	130,268	116,661	9.4%	**3,715,404**
47,266	40,870	29,636	17,444	15,929	15,218	5.2%	**636,638**
15,491	9,543	6,616	3,064	4,294	6,532	41.7%	**131,745**
11,870	12,008	8,901	5,233	5,821	5,316	(12.8%)	**373,245**
48,802	54,875	36,179	16,446	16,040	18,254	0.8%	**641,840**
Yen						Percent change	U.S. dollars
¥ 64.39	¥ 56.86	¥ 54.57	¥ 41.76	¥ 48.05	¥ 38.02	16.4%	**$0.27**
800.63	767.52	723.63	815.76	784.24	702.09	9.4%	**9.35**
18.00	14.00	12.00	10.00	10.00	10.00	0.0%	**0.19**
15.1%	17.4%	11.8%	6.6%	5.9%	7.7%		
8.2%	7.6%	7.3%	5.2%	6.5%	5.5%		
6.5%	5.8%	5.2%	3.5%	4.2%	3.4%		
79.6%	79.8%	73.2%	66.8%	67.1%	61.9%		

4. Dainippon Sumitomo Pharma Co., Ltd. acquired Sepracor Inc. (now Sunovion Pharmaceutical Inc.) in October 2009. Consolidated results for 2010 include the results of this company for 2.5 months (October 15 - December 31, 2009).

5. Dainippon Sumitomo Pharma Co., Ltd. and its consolidated subsidiaries adopted the new accounting standard for presentation of comprehensive income and the revised accounting standard for consolidated financial statements. In accordance with the adoption of the new accounting standards, comprehensive income (loss) has been presented in the results of operations from 2010 to 2013.

6. EBITDA = income before income tax and minority interests + interest expense – interest income + depreciation and amortization + amortization of goodwill – extraordinary income (loss)

Management's Discussion and Analysis

Overview

During the fiscal year ended March 31, 2013 (fiscal 2012), the Japanese economy remained sluggish under the influence of a prolonged economic slump in Europe and the strong yen. However, since the change in the Japanese government in December 2012, signs of economic recovery have appeared, including a correction of the strong yen and an upward trend in stock prices, and attention has focused on the direction of the government's economic and fiscal policies such as measures for quickly ending deflation. Outside Japan, the U.S. economy is gradually recovering despite lingering fiscal concerns, and the economies of Asian countries are generally expanding. However, anxiety about the European fiscal crisis persists, and the global economy continues to be clouded by uncertainty.

In the pharmaceutical industry, the business environment remained challenging. In addition to the lack of new drug discovery and rising development costs, countries around the world are implementing stricter approval procedures and taking steps to curb medical costs, and measures to promote the use of generic products are accelerating even in Japan.

Under such circumstances, the Dainippon Sumitomo Pharma Group ("the DSP Group") positioned fiscal 2012 as a year for taking significant steps toward further growth, with a continued focus on "transforming the earnings structure in Japan," "expanding overseas operation and maximizing earnings," and "expanding the drug pipeline for future growth."

In the Japanese pharmaceuticals business, the DSP Group worked to further expand sales of strategic products such as AVAPRO®, a therapeutic agent for hypertension and LONASEN®, an atypical antipsychotic. In addition, we launched AIMIX®, a therapeutic agent for hypertension, in December 2012, and concentrated on providing information to support rapid market penetration.

In the overseas pharmaceuticals business, sales in the United States expanded as U.S. subsidiary Sunovion Pharmaceuticals Inc. ("Sunovion") focused on expanding sales of LATUDA®, an atypical antipsychotic. LATUDA® was also launched in Canada in September 2012.

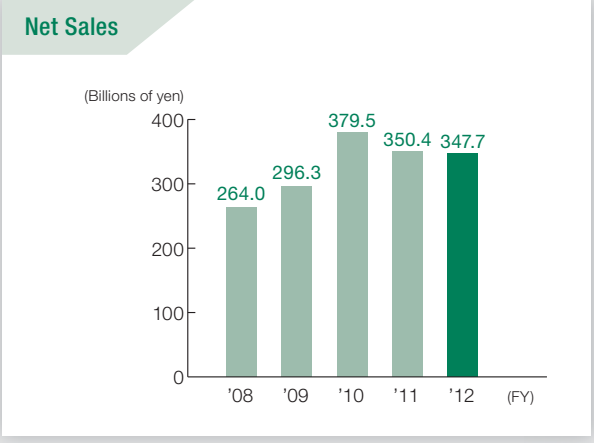
In initiatives for future business expansion, the DSP Group enhanced its oncology development pipeline and expanded its oncology R&D network through the acquisition of U.S. biotechnology company Boston Biomedical, Inc. ("BBI") in April 2012 and the establishment of The DSP Cancer Institute in September 2012. Also in September, Sunovion acquired U.S. company Elevation Pharmaceuticals, Inc., now Sunovion Respiratory Development Inc. ("SRD"). Furthermore, in January 2013, DSP established wholly owned subsidiary Sunovion Pharmaceuticals Asia Pacific Pte. Ltd. in Singapore as a base of operations in Southeast Asia.

Results of Operations

General Results

Net Sales

Net sales for fiscal 2012 decreased ¥2.7 billion, or 0.8%, year on year to ¥347.7 billion. Factors including the effect of National Health Insurance (NHI) drug price revisions in Japan and a decrease in exports of MEROPEN®, a carbapenem antibiotic, offset strong sales in the U.S. market.



Cost of Sales and Gross Profit

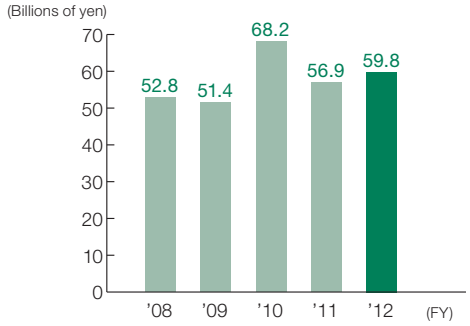
Cost of sales increased ¥2.8 billion, or 2.9%, year on year to ¥101.7 billion, and the cost of sales ratio increased 1.0 percentage points to 29.2%. As a result, gross profit decreased ¥5.5 billion, or 2.2%, to ¥246.0 billion.

Selling, General and Administrative Expenses

Selling, general and administrative (SG&A) expenses decreased ¥10.1 billion, or 4.4%, year on year to ¥221.0

billion. Among these expenses, research and development costs increased ¥3.0 billion, or 5.2%, to ¥59.8 billion. Excluding research and development costs, SG&A expenses decreased ¥13.1 billion, or 7.5%, overall to ¥161.2 billion due to factors such as personnel reductions in the United States and reduced advertising expenses.

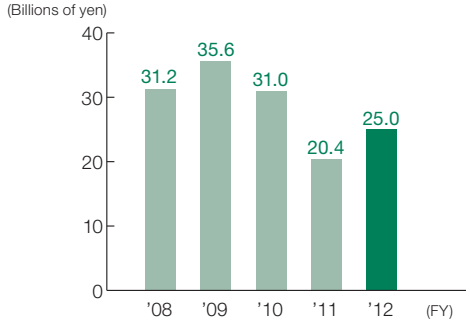
R&D Costs



Operating Income

As a result of the above factors, operating income increased ¥4.6 billion, or 22.8%, year on year to ¥25.0 billion.

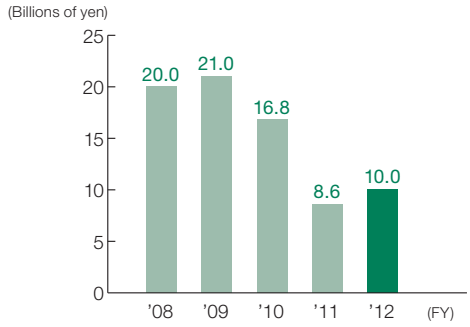
Operating Income



Other Income (Expenses) and Net Income

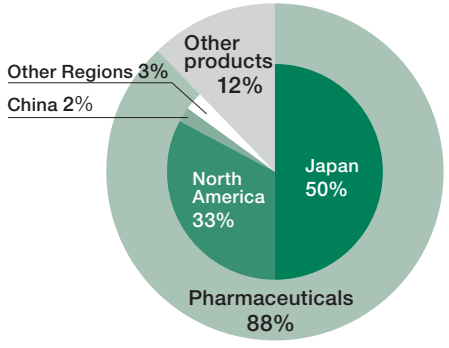
During fiscal 2012, other expenses exceeded other income by ¥6.9 billion. Primary factors included ¥4.8 billion in business structure improvement costs associated with a revision of the sales structure in the United States and the transfer of businesses in Japan and ¥1.1 billion in litigation expenses in the United States. As a result, net income for fiscal 2012 increased ¥1.4 billion, or 16.4%, year on year to ¥10.0 billion.

Net Income



Results by Business Segment

Sales Composition by Business Segment (FY2012)



Japan

Despite strong growth in sales of new product METGLUCO®, a biguanide oral hypoglycemic, and strategic product TRERIEF®, a Parkinson's disease drug, and the addition of sales from newly launched product AIMIX®, segment sales decreased ¥5.4 billion, or 3.0%, year on year to ¥174.5 billion, primarily because of the impact of the NHI drug price revisions and a decrease in sales of existing products. Segment income decreased ¥5.8 billion, or 8.7%, to ¥60.6 billion as lower SG&A expenses resulting from cost reduction efforts did not fully offset the substantial impact from the drug price revisions.

North America

Significantly higher-than-projected sales of LATUDA® and milestone revenue from out-licensing offset the decrease in sales of XOPENEX®, a short-acting beta agonist, after its period of exclusivity expired. As a result, segment sales increased ¥7.4 billion, or 6.8%, to ¥115.8 billion. Segment income was ¥15.0 billion, compared with loss of ¥0.3 billion in the previous fiscal year, reflecting a decrease in SG&A expenses due to reduced personnel costs resulting from business structure improvements. Excluding amortization of intangible assets associated with the acquisition of Sunovion and so on, segment income was ¥40.9 billion.

China

Sales of MEROPEN® expanded, and sales of other products also increased. As a result, segment sales increased ¥1.1 billion, or 16.8%, year on year to ¥7.6 billion, and segment income increased ¥0.9 billion, or 89.7%, to ¥1.8 billion.

Other Regions

Segment sales decreased ¥5.9 billion, or 39.1%, year on year to ¥9.3 billion because of lower export sales of MEROPEN® in major overseas markets due to expiration of its patent. Segment income decreased ¥2.7 billion, or 38.1%, to ¥4.3 billion.

Other Businesses

In addition to the reportable segments above, businesses such as food ingredients, food additives, chemical product materials, veterinary products and diagnostics are included in Other Businesses. Segment sales increased ¥0.2 billion, or 0.5%, year on year to ¥40.5 billion, and segment income decreased ¥0.2 billion, or 5.2%, to ¥3.0 billion.

Sales of Major Pharmaceutical Products

In the Japanese pharmaceuticals business, sales increased for most of the products on which the DSP Group focused its marketing efforts. Sales of TRERIEF® increased ¥1.7 billion, or 31.8%, year on year to ¥7.0 billion. Sales of METGLUCO®, a product launched in May 2010, increased a substantial ¥4.2 billion, or 54.4%, to ¥12.0 billion.

AIMIX®, which was launched in December 2012, made a solid market debut with sales of ¥2.0 billion despite a sales period of approximately four months. Sales of AVAPRO® and LONASEN® also increased. On the other hand, sales of AMLODIN®, a therapeutic agent for hypertension and angina pectoris, and MEROPEN® decreased ¥6.8 billion and ¥1.9 billion, respectively, due to generic erosion.

In North America, sales of LATUDA® were ¥16.1 billion, an increase of ¥9.2 billion, or 134.5%, year on year. This growth significantly exceeded initial projections. Sales of LUNESTA®, a sedative hypnotic, increased ¥2.7 billion year on year to ¥44.8 billion. On the other hand, sales of XOPENEX® decreased ¥8.1 billion to ¥25.3 billion because its period of exclusivity ended.

Japanese Sales of Major Pharmaceutical Products

(Before deduction of rebates; Billions of yen)

Brand name	Therapeutic indication	FY2012	FY2011
AMLODIN®	Therapeutic agent for hypertension and angina pectoris	**29.2**	36.0
GASMOTIN®	Gastroprokinetic	**19.5**	21.2
PRORENAL®	Vasodilator	**14.2**	15.5
METGLUCO®	Biguanide oral hypoglycemic	**12.0**	7.8
AVAPRO®	Therapeutic agent for hypertension	**11.7**	10.7
LONASEN®	Atypical antipsychotic	**10.7**	9.8
MEROPEN®	Carbapenem antibiotic	**10.3**	12.2
REPLAGAL®	Anderson-Fabry disease drug	**9.9**	9.1
TRERIEF®	Parkinson's disease drug	**7.0**	5.3
EBASTEL®	Antiallergic	**5.8**	6.6
AmBisome®	Therapeutic agent for systemic fungal infection	**4.6**	4.5
EXCEGRAN®	Antiepileptic	**3.1**	3.3
DOPS®	Neural function ameliorant	**3.1**	3.2
SUMIFERON®	Natural alpha interferon	**2.6**	3.6
AIMIX®	Antihypertensive	**2.0**	—
MIRIPLA®	Therapeutic agent for hepatocellular carcinoma	**1.1**	1.3
SUREPOST®	Rapid-acting insulin secretagogue	**0.7**	0.1

Major Exported Pharmaceuticals

(Billions of yen)

Brand name	Therapeutic indication	FY2012	FY2011
MEROPEN®	Carbapenem antibiotic	**6.2**	11.9
EXCEGRAN®	Antiepileptic	**1.8**	1.2
GASMOTIN®	Gastroprokinetic	**0.8**	0.8

Note: For external customers

U.S. Subsidiaries Sales (Billions of yen)

Brand name	Therapeutic indication	FY2012	FY2011
LUNESTA®	Sedative hypnotic	**44.8**	42.1
XOPENEX®	Short-acting beta-agonist	**25.3**	33.4
LATUDA®	Atypical antipsychotic	**16.1**	6.9
BROVANA®	Long-acting beta-agonist	**12.7**	10.2
ALVESCO®	Inhaled corticosteroid	**3.1**	2.8
OMNARIS®	Corticosteroid nasal spray	**1.9**	5.1
ZETONNA®	Corticosteroid nasal aerosol	**0.4**	—

China Subsidiaries Sales (Billions of yen)

Brand name	Therapeutic indication	FY2012	FY2011
MEROPEN®	Carbapenem antibiotic	**6.3**	5.5

Financial Position

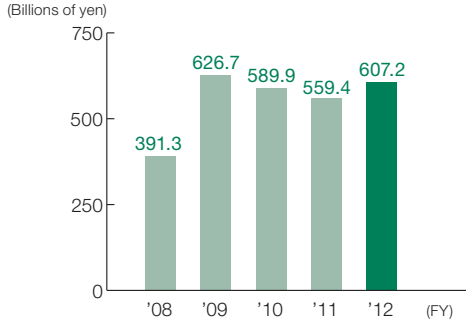
Assets, Liabilities and Net Assets

Total Assets

Total assets as of March 31, 2013 amounted to ¥607.2 billion, an increase of ¥47.8 billion from the end of the previous fiscal year. This reflected the increase in intangible assets including in-process research and development and the significant effect of the yen's depreciation on the assets of overseas subsidiaries.

Current assets decreased ¥0.8 billion from a year earlier to ¥333.4 billion. Factors included increases in short-term loans to the parent company and inventories, and a decrease in negotiable certificates of deposit and other marketable securities in connection with the acquisitions of BBI and SRD.

Total Assets



Investments and other assets increased ¥45.5 billion from a year earlier to ¥203.9 billion, primarily reflecting the substantial increase in in-process research and development due to the acquisitions of BBI and SRD, despite amortization of goodwill and patent rights.

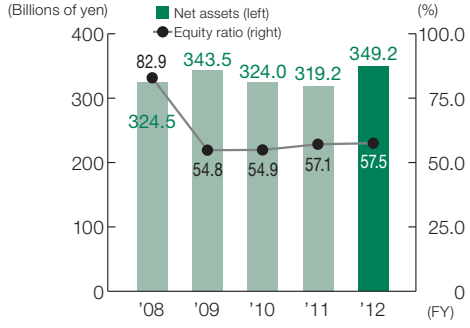
Total Liabilities

Total liabilities as of March 31, 2013 were ¥258.0 billion, an increase of ¥17.8 billion from a year earlier. While interest-bearing debt decreased mainly due to the repayment of loans, deferred tax liabilities increased substantially as a result of the acquisition of BBI.

Net Assets

Net assets as of March 31, 2013 were ¥349.2 billion, an increase of ¥30.0 billion from a year earlier, reflecting significant positive foreign currency translation adjustments due to the depreciation of the yen. The equity ratio (the ratio of net assets to total assets) was 57.5% as of March 31, 2013.

Net Assets/Equity Ratio

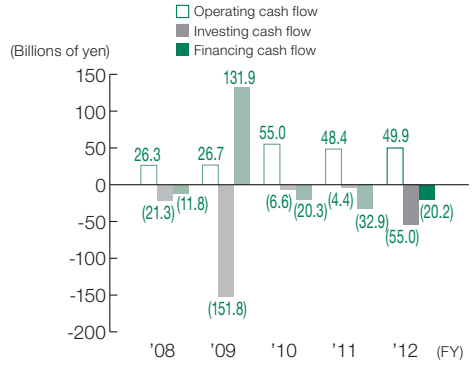


Cash Flows

Net Cash Provided by Operating Activities

Net cash provided by operating activities was ¥49.9 billion, compared with ¥48.4 billion for the previous fiscal year, and primarily consisted of income before income taxes and minority interests along with adjustments for depreciation and amortization and other items, which significantly exceeded other items including increase in inventories and income taxes paid.

Cash Flows



Net Cash Used in Investing Activities

Net cash used in investing activities was ¥55.0 billion, compared with ¥4.4 billion for fiscal 2011. The primary factor was payments associated with the acquisitions of BBI and SRD.

Free Cash Flow

Free cash flow, defined as the total of net cash provided by operating activities and net cash used in investing activities, was negative ¥5.1 billion, compared with positive ¥44.0 billion for fiscal 2011.

Net Cash Used in Financing Activities

Net cash used in financing activities was ¥20.2 billion, compared with ¥32.9 billion for fiscal 2011. Primary factors included repayment of debt and dividends paid.

Cash and Cash Equivalents

As a result of the above, cash and cash equivalents as of March 31, 2013 decreased ¥20.7 billion from a year earlier to ¥71.4 billion.

Dividend Policy and Dividends

The Company views the regular and consistent return of profits to shareholders as one of its most important management policies.

The Company's basic policy is to pay dividends from retained earnings twice a year, first as an interim dividend and second as a year-end dividend. The Board of Directors and the general meeting of shareholders determine the interim and year-end dividends, respectively.

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

Based on this policy, the Company paid cash dividends applicable to fiscal 2012 of ¥18.00 per share, consisting of an interim dividend and a year-end dividend of ¥9.00 per share each.

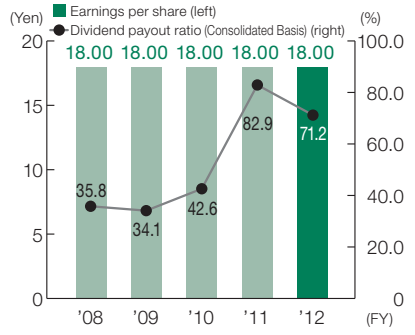
Major Cash Flow Indicators

	FY2007	FY2008	FY2009	FY2010	FY2011	FY2012
Equity ratio	79.6%	82.9%	54.8%	54.9%	57.1%	**57.5%**
Equity ratio on fair value basis	90.6%	83.1%	54.3%	52.2%	62.3%	**114.8%**
Ratio of interest-bearing debt to cash flows	17.5%	8.5%	431.2%	218.4%	205.4%	**195.9%**
Interest coverage ratio (times)	748.5	648.1	42.7	37.4	57.9	**56.9**

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

For fiscal 2013, the year ending March 31, 2014, the Company plans to pay cash dividends totaling ¥18.00 per share based on the policy described above.

Earnings Per Share/Dividend Payout Ratio
(Consolidated Basis)



Outlook for Fiscal 2013

In the Japanese pharmaceuticals business, the DSP Group will focus on sales expansion driven by strategic products and newly launched products. However, we forecast that net sales will decrease slightly due to factors including the impact from generic drugs. In North America, we expect decreases in sales of XOPENEX®, whose period of exclusivity has ended, and other products, but an increase in sales overall due to growth in sales of LATUDA® and other products and the likelihood of a weaker yen relative to the previous fiscal year. Given these circumstances, the DSP Group forecasts overall net sales of ¥369.0 billion, an increase of ¥21.3 billion year on year.

Gross profit is expected to increase with growth in net sales. SG&A expenses are expected to increase because although expenses will decrease due to business structure improvements and other factors, the increase due to the weaker yen is projected to exceed the reduction in expenses. Therefore, we forecast that operating income will increase ¥1.0 billion year on year to ¥26.0 billion. We also expect net income to increase ¥3.0 billion to ¥13.0 billion because of a decrease in extraordinary losses. Earnings before income taxes, depreciation and amortization (EBITDA) are forecast to decrease ¥6.3 billion to ¥54.0 billion.

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

Note: Foreign currency exchange rates used for forecasts: ¥100 = U.S.$1.00, ¥15 = 1 RMB

Outlook for Fiscal 2013 (Billions of yen)

	FY2013 (Forecast)	FY2012 (Actual)	Change	Percent change
Net sales	**369.0**	347.7	21.3	6.1%
Operating income	**26.0**	25.0	1.0	3.8%
Net income	**13.0**	10.0	3.0	29.4%

Business Risks

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

Forward-looking statements in the discussion of risks below reflect the judgment of the Group as of March 31, 2013.

(i) Risk relating to research and development of new products

The Group works to research and develop highly original and globally viable products. The Group strives to maintain an extensive product pipeline and to bring products to market as early as possible. Nevertheless, the Group can envision scenarios in which not all products under development will progress smoothly to eventual sale, as well as instances in which the development of certain products must be halted. Depending on the nature of the product under development, such cases could have a significant and negative impact on the Group's operating results and financial position.

(ii) Problems concerning adverse events

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

These efforts notwithstanding, previously unreported adverse events are sometimes discovered only after a drug has already been marketed. The appearance of such unexpected adverse events once a product has been sold could have a significant and negative impact on the Group's operating results and financial position.

(iii) Healthcare system reforms

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

(iv) Risk relating to the sale of products

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

(v) Risk relating to intellectual property rights

The Group utilizes a wide range of intellectual property during the course of its R&D activities, including both property owned by the Group and property that the Group lawfully uses with the authorization of the property's owner. Nevertheless, the Group recognizes the possibility, no matter how slight, that some use might be deemed an infringement of a third party's intellectual property rights. Consequently, legal disputes pertaining to intellectual property rights could arise and have a significant and negative impact on the Group's operating results and financial position.

(vi) Termination of partnerships

The Group enters into a variety of partnerships with other companies for the sale of purchased goods, the establishment of joint ventures, co-promotion, the licensing in and out of products under development, collaborative research and other purposes. The termination, for whatever reason, of such partnerships could have a significant and negative impact on the Group's operating results and financial position.

(vii) Prerequisites for primary business activities

The Group's core business is the ethical pharmaceutical products business. Accordingly, the Group requires licenses and other certifications to engage in R&D and the manufacture and sale of drugs pursuant to Japan's Pharmaceutical Affairs Law and other laws and regulations related to pharmaceuticals. The Company has obtained licenses and other certifications, including Type 1 and Type 2

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

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

(viii) Risk relating to litigation

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

(ix) Risk relating to closedown or shutdown of a plant

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

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

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

(xi) Impact of impairment of fixed assets

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

(xii) Transactions with the parent company

The Company and its parent company, Sumitomo Chemical Co., Ltd., have concluded agreements for the leasing of land for the Osaka Research Laboratories, Ehime Plant and Oita Plant, as well as for the purchase of raw materials used in the production of active pharmaceutical ingredients at these sites and other locations. These agreements involve prices that are determined based on discussions between the two parties with reference to general market prices. These agreements are customarily renewed every year. The Company also accepts employees on loan from the parent company. Furthermore, during the year we also made short-term loans to our parent company to raise capital efficiency.

The Company's policy is to continue these transactions and other ties with the parent company. However, changes in these agreements, including changes in the transaction terms specified therein, could have a significant and negative impact on the Group's operating results and financial position.

(xiii) Risk relating to overseas operations

The Group conducts global business activity mainly in the regions of North America and China. The risks such as change of local restrictions, worsening of diplomatic relations and political uncertainties are inherent in these activities. In the event the Group faces such risks, it could have a significant and negative impact on the Group's operating results and financial position.

The Group also faces risks other than those discussed above.

Consolidated Balance Sheets

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2013**	2012	**2013**
CURRENT ASSETS:			
Cash and time deposits (Notes 3 and 5)	**¥ 18,753**	¥ 12,953	**$ 199,500**
Marketable securities (Notes 3, 5 and 6)	**86,463**	99,118	**919,819**
Receivables:			
Trade notes (Note 5)	**2,897**	2,971	**30,819**
Trade accounts (Note 5)	**95,093**	99,653	**1,011,628**
Due from parent company, unconsolidated subsidiaries and affiliates (Notes 5 and 13)	**34,574**	25,050	**367,808**
Allowance for doubtful receivables	**(105)**	(110)	**(1,117)**
Total	**132,459**	127,564	**1,409,138**
Inventories (Note 4)	**62,689**	58,118	**666,904**
Deferred tax assets (Note 9)	**30,098**	31,783	**320,191**
Other current assets	**2,977**	4,715	**31,671**
Total current assets	**333,439**	334,251	**3,547,223**
PROPERTY, PLANT AND EQUIPMENT:			
Land	**10,277**	10,248	**109,330**
Buildings and structures	**92,586**	91,116	**984,957**
Machinery and equipment	**105,353**	104,959	**1,120,777**
Construction in progress	**5,799**	2,121	**61,691**
Total	**214,015**	208,444	**2,276,755**
Accumulated depreciation	**(144,153)**	(141,747)	**(1,533,542)**
Net property, plant and equipment	**69,862**	66,697	**743,213**
INVESTMENTS AND OTHER ASSETS:			
Investment in unconsolidated subsidiaries and affiliates	**980**	973	**10,426**
Investment securities (Notes 5 and 6)	**40,059**	29,083	**426,160**
Goodwill	**71,294**	64,311	**758,447**
In-process research and development	**50,664**	5,660	**538,979**
Other intangible assets	**24,352**	37,735	**259,064**
Deferred tax assets (Note 9)	**7,570**	11,625	**80,532**
Other assets (Note 10)	**8,999**	9,075	**95,733**
Total investments and other assets	**203,918**	158,462	**2,169,341**
TOTAL	**¥ 607,219**	¥ 559,410	**$ 6,459,777**

LIABILITIES AND NET ASSETS	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 1) 2013
CURRENT LIABILITIES:			
Current portion of long-term debt (Notes 5 and 8)	**¥ 20,000**	¥ 10,000	**$ 212,766**
Payables:			
Trade notes (Note 5)	**176**	151	**1,872**
Trade accounts (Notes 5, 6 and 7)	**44,518**	42,488	**473,596**
Due to parent company, unconsolidated subsidiaries and affiliates (Notes 5 and 13)	**2,118**	2,280	**22,532**
Total	**46,812**	44,919	**498,000**
Income taxes payable (Note 5)	**2,115**	5,437	**22,500**
Accrued expenses	**44,404**	40,163	**472,383**
Other current liabilities	**11,500**	5,447	**122,340**
Total current liabilities	**124,831**	105,966	**1,327,989**
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5 and 8)	**95,000**	118,000	**1,010,638**
Liability for retirement benefits (Note 10)	**11,030**	10,790	**117,340**
Other liabilities (Notes 8 and 9)	**27,110**	5,427	**288,406**
Total long-term liabilities	**133,140**	134,217	**1,416,384**
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14 and 20):			
NET ASSETS:			
Shareholders' equity (Note 11)			
Common stock: authorized — 1,500,000,000 shares in the years ended March 31, 2013 and 2012; issued — 397,900,154 shares in the years ended March 31, 2013 and 2012	**22,400**	22,400	**238,298**
Capital surplus	**15,860**	15,860	**168,723**
Retained earnings	**308,557**	305,664	**3,282,522**
Treasury stock, at cost: 590,246 shares in the year ended March 31, 2013 and 588,699 shares in the year ended March 31, 2012	**(651)**	(649)	**(6,926)**
Total shareholders' equity	**346,166**	343,275	**3,682,617**
Accumulated other comprehensive income (loss)			
Unrealized gains on available-for-sale securities, net of tax	**14,121**	8,016	**150,223**
Foreign currency translation adjustments	**(11,039)**	(32,064)	**(117,436)**
Total accumulated other comprehensive income (loss)	**3,082**	(24,048)	**32,787**
Total net assets	**349,248**	319,227	**3,715,404**
TOTAL	**¥607,219**	¥559,410	**$6,459,777**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Income

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
NET SALES (Notes 12 and 13)	**¥347,724**	¥350,396	**$3,699,191**
COST OF SALES (Notes 12 and 13)	**101,686**	98,857	**1,081,765**
Gross profit	**246,038**	251,539	**2,617,426**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 2(k) and 13)	**220,994**	231,137	**2,351,000**
Operating income	**25,044**	20,402	**266,426**
OTHER INCOME (EXPENSES):			
Interest and dividend income (Note 13)	**1,091**	1,025	**11,606**
Interest expense	**(1,072)**	(1,123)	**(11,404)**
Impairment loss (Notes 2(i) and 17)	**(417)**	(2,338)	**(4,436)**
Loss on valuation of investment securities (Note 6)	**—**	(224)	**—**
Gain on sales of property, plant and equipment	**—**	1,241	**—**
Restructuring (Notes 10 and 18)	**(4,841)**	(1,224)	**(51,500)**
Loss on litigation	**(1,090)**	—	**(11,596)**
Other — net	**(557)**	(1,431)	**(5,926)**
Other income (expenses) — net	**(6,886)**	(4,074)	**(73,256)**
INCOME BEFORE INCOME TAXES	**18,158**	16,328	**193,170**
INCOME TAXES (Note 9)**:**			
Current	**6,788**	12,291	**72,213**
Deferred	**1,326**	(4,593)	**14,106**
Total income taxes	**8,114**	7,698	**86,319**
NET INCOME	**¥ 10,044**	¥ 8,630	**$ 106,851**

	Yen		U.S. dollars (Note 1)
PER SHARE OF COMMON STOCK (Note 2(o))**:**			
Basic net income	**¥ 25.28**	¥ 21.72	**$0.27**
Cash dividends applicable to the year (Note 11)	**18.00**	18.00	**0.19**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income (Loss)

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
Net Income	**¥10,044**	¥ 8,630	**$106,851**
Other comprehensive income (loss) (Note 19)			
Unrealized gains (losses) on available-for-sale securities, net of tax	**6,105**	2,602	**64,947**
Foreign currency translation adjustments	**21,025**	(8,836)	**223,670**
Total other comprehensive income (loss)	**27,130**	(6,234)	**288,617**
Comprehensive income (loss)	**37,174**	2,396	**395,468**
Comprehensive income (loss) attributable to			
Comprehensive income (loss) attributable to owners of the parent	**37,174**	2,396	**395,468**
Comprehensive income (loss) attributable to minority interests	**—**	—	**—**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

	Thousands of shares		Millions of yen								
			Shareholders' equity					Accumulated other comprehensive income (loss)			
	Issued number of shares of common stock	Number of treasury stocks	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income (loss)	Total net assets
BALANCE, APRIL 1, 2011	397,900	(587)	¥22,400	¥15,860	¥304,186	¥(649)	¥341,797	¥ 5,414	¥(23,228)	¥(17,814)	¥323,983
Cash dividends, ¥18.00 per share					(7,152)		(7,152)				(7,152)
Net income					8,630		8,630				8,630
Purchases of treasury stock		(2)				(0)	(0)				(0)
Sales of treasury stock		0			(0)	0	0				0
Net change in items other than shareholders' equity								2,602	(8,836)	(6,234)	(6,234)
BALANCE, APRIL 1, 2012	397,900	(589)	¥22,400	¥15,860	¥305,664	¥(649)	¥343,275	¥ 8,016	¥(32,064)	¥(24,048)	¥319,227
Cash dividends, ¥18.00 per share					**(7,151)**		**(7,151)**				**(7,151)**
Net income					**10,044**		**10,044**				**10,044**
Purchases of treasury stock		**(1)**				**(2)**	**(2)**				**(2)**
Sales of treasury stock		**0**			**(0)**	**0**	**0**				**0**
Net change in items other than shareholders' equity								**6,105**	**21,025**	**27,130**	**27,130**
BALANCE, MARCH 31, 2013	**397,900**	**(590)**	**¥22,400**	**¥15,860**	**¥308,557**	**¥(651)**	**¥346,166**	**¥14,121**	**¥(11,039)**	**¥ 3,082**	**¥349,248**

	Thousands of U.S. dollars (Note 1)							
	Shareholders' equity					Accumulated other comprehensive income (loss)			
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gains (losses) on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income (loss)	Total net assets
BALANCE, APRIL 1, 2012	$238,298	$168,723	$3,251,745	$(6,904)	$3,651,862	$ 85,276	$(341,106)	$(255,830)	$3,396,032
Cash dividends, U.S.$0.19 per share			**(76,074)**		**(76,074)**				**(76,074)**
Net income			**106,851**		**106,851**				**106,851**
Purchases of treasury stock				**(22)**	**(22)**				**(22)**
Sales of treasury stock			**(0)**	**0**	**0**				**0**
Net change in items other than shareholders' equity						**64,947**	**223,670**	**288,617**	**288,617**
BALANCE, MARCH 31, 2013	**$238,298**	**$168,723**	**$3,282,522**	**$(6,926)**	**$3,682,617**	**$150,223**	**$(117,436)**	**$ 32,787**	**$3,715,404**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	**2013**
OPERATING ACTIVITIES:			
Income before income taxes	**¥ 18,158**	¥ 16,328	**$ 193,170**
Adjustments for:			
Depreciation and amortization	**31,312**	36,468	**333,106**
Impairment loss	**417**	2,338	**4,436**
Amortization of goodwill	**3,773**	3,764	**40,138**
Provision for liability for retirement benefits, less payments	**(228)**	(130)	**(2,426)**
Interest and dividend income	**(1,091)**	(1,025)	**(11,606)**
Interest expense	**1,072**	1,123	**11,404**
Loss on valuation of investment securities	**—**	224	**—**
Restructuring	**4,841**	1,224	**51,500**
Changes in assets and liabilities:			
Increase (decrease) in receivables	**6,806**	5,824	**72,404**
Decrease (increase) in inventories	**(3,732)**	(2,585)	**(39,702)**
Increase (decrease) in payables	**(4,877)**	(2,490)	**(51,883)**
Other — net	**6,837**	1,570	**72,736**
Subtotal	**63,288**	62,633	**673,277**
Interest and dividend received	**1,442**	1,349	**15,340**
Interest paid	**(1,074)**	(1,106)	**(11,426)**
Payment for restructuring	**(3,627)**	—	**(38,585)**
Income taxes paid	**(10,115)**	(14,493)	**(107,606)**
Net cash provided by operating activities	**49,914**	48,383	**531,000**
INVESTING ACTIVITIES:			
Net decrease in time deposits	**(5,179)**	—	**(55,096)**
Purchases of property, plant and equipment	**(7,818)**	(6,715)	**(83,170)**
Purchases of intangible assets	**(2,209)**	(2,136)	**(23,500)**
Proceeds from sales of property, plant and equipment	**18**	1,945	**191**
Net decrease (increase) in marketable securities	**(4,926)**	5,348	**(52,404)**
Proceeds from sales of investment securities	**3**	363	**32**
Purchases of investment securities	**(2,344)**	(3,203)	**(24,936)**
Proceeds from redemption of investment securities	**265**	47	**2,819**
Purchase of investments in subsidiaries resulting in change in scope of consolidation (Note 3)	**(24,852)**	—	**(264,383)**
Payment of loan receivable	**(7,981)**	—	**(84,904)**
Other — net	**3**	(22)	**32**
Net cash used in investing activities	**(55,020)**	(4,373)	**(585,319)**
FINANCING ACTIVITIES:			
Net decrease in short-term bank loans	**—**	(50,000)	**—**
Proceeds from issuance of bonds	**—**	19,895	**—**
Proceeds from long-term debt	**—**	15,000	**—**
Repayment of long-term debt	**(13,000)**	(10,600)	**(138,298)**
Increase in treasury stock	**(2)**	(1)	**(21)**
Dividends paid	**(7,151)**	(7,149)	**(76,074)**
Other — net	**(68)**	(68)	**(725)**
Net cash used in financing activities	**(20,221)**	(32,923)	**(215,118)**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**4,582**	(1,776)	**48,745**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(20,745)**	9,311	**(220,692)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	**92,179**	82,868	**980,628**
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 3)	**¥ 71,434**	¥ 92,179	**$ 759,936**

The accompanying Notes to Consolidated Financial Statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Dainippon Sumitomo Pharma Co., Ltd. and Consolidated Subsidiaries
Years Ended March 31, 2013 and 2012

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Dainippon Sumitomo Pharma Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been translated at the rate of ¥94 to U.S.$1.00, the approximate rate of exchange at March 31, 2013. These translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

The Company and its consolidated subsidiaries (together, the "Group") have made certain reclassifications in the 2012 consolidated financial statements to conform to the classifications applied in 2013. These reclassifications have had no effect on the previously reported net income or retained earnings.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation

The consolidated financial statements include the accounts of the Company and its 15 significant subsidiaries. Under the control or influence concept, those companies in which the Company directly or indirectly is able to exercise control over operations are consolidated.

Investments in the unconsolidated subsidiaries and all affiliates 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.

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

There are 12 consolidated overseas subsidiaries. The fiscal year ends of all 12 companies are December 31. The Company uses the consolidated subsidiaries' financial statements as of December 31 to prepare the consolidated financial statements. For significant transactions which have occurred during the period between December 31 and March 31, necessary adjustments have been made to the consolidated financial statements.

b. Cash Equivalents

Cash equivalents are short-term investments that are readily convertible into cash and have no significant risk of change in value. Cash equivalents include time deposits and short-term, highly liquid investments, all of which mature within three months from the date of acquisition.

c. Marketable and Investment Securities

All marketable and investment securities are available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities. Available-for-sale securities are reported at fair value with unrealized gains and losses net of applicable taxes reported in a separate component of net assets. Non marketable available-for-sale

securities are stated at cost, determined by the moving average method. If the fair value of investment securities declines to below cost and the decline is material and other than temporary, the carrying value is reduced to net realizable value by a charge to income.

d. Inventories

Inventories are stated at the lower of weighted-average cost or net realizable value. Certain overseas consolidated subsidiaries use the FIFO (first-in, first-out) costing method for which inventories are stated at the lower of cost or net realizable value.

e. Property, Plant and Equipment (other than leased assets)

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation of all tangible fixed assets is computed using the straight-line method over the estimated useful life of the asset. Ranges of useful lives used in the computation of depreciation are as follows:

Buildings and structures	3–60 years
Machinery and equipment	2–17 years

f. Intangible Assets

Intangible assets are stated at cost less accumulated amortization, which is computed using the straight-line method over the estimated useful lives from the date they are available for use.

g. Goodwill

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

h. Leases

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

Capitalized finance leases are depreciated using the straight-line method over the lease period.

i. Long-Lived Assets

Long-lived assets presented as property, plant and equipment, and intangible assets on the consolidated balance sheets are carried at cost less depreciation and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss is measured as the amount by which the carrying amount exceeds its recoverable amount. The recoverable amount of an asset is the greater of its discounted cash flows and its fair value less cost to sell.

j. Retirement and Severance Benefits

Upon retirement or termination of employment, employees are normally entitled to lump-sum and/or annuity payments based on their rate of payment at the time of retirement or termination and length of service.

The Group has a lump-sum plan, a defined benefit pension plan and a defined contribution plan for employees. The asset and liability for retirement benefit is provided based on projected benefit obligations and the fair value of plan assets at the balance sheet date.

k. Research and Development Costs

Research and development costs are charged to income as incurred. Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2013 and 2012 were ¥59,844 million ($636,638 thousand) and ¥56,891 million, respectively.

l. Income Taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred tax assets and liabilities are measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted by the reporting date.

m. Foreign Currency Items

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

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

n. Derivative Financial Instruments

Foreign exchange contracts are utilized to hedge the exposure risk arising from fluctuations in foreign exchange rates. Derivative instruments are stated at fair value and accounted for using deferred hedge accounting. Recognition of gain or loss resulting from a change in fair value of a derivative financial instrument is deferred until the related loss or gain on the hedged item is recognized if the derivative financial instrument is used as a hedge and meets certain hedging criteria. Foreign exchange contracts that meet certain hedging criteria are accounted for under the allocation method. The allocation method requires recognized foreign currency receivables and payables to be translated using the corresponding foreign exchange contract rates. The effectiveness of hedges has been evaluated by comparing the accumulated changes in market value of hedged items with the accumulated changes in market value of hedging instruments. With regard to foreign exchange forward contracts, the effectiveness of such contracts has not been evaluated as important conditions for hedged items and hedging instruments are the same. The Group has established a hedging policy which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of derivatives transactions. The Group does not hold or issue derivative financial instruments for speculative trading purposes.

o. Per Share Information

Basic net income per share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding for the period. The number of shares used in the calculation of net income per share was 397,311 thousand and 397,312 thousand for the years ended March 31, 2013 and 2012, respectively.

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

p. Use of Estimates

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

q. Accounting Changes

Change to accounting policies based on other justified reasons than revision of accounting standards or amendment of respective law or regulation that are not distinguishable from change in accounting estimates

The Company and its consolidated subsidiaries in Japan traditionally applied the declining-balance method to the depreciation of tangible fixed assets other than buildings. But since the sales of products sold globally are expected to expand outside Japan, the Group has decided to apply, from the current consolidated fiscal year, the straight-line

method of depreciation to the Company and its consolidated subsidiaries in Japan in order to be more consonant with the depreciation methods adopted by the Group's increasingly important consolidated subsidiaries outside Japan.

The change of depreciation method resulted in a ¥1,694 million ($18,021 thousand) lower depreciation in the year ended March 31, 2013 than in the case had the declining-balance method been continued. Operating income and income before income taxes in the year ended March 31, 2013 are ¥1,186 million ($12,617 thousand) greater, respectively.

r. Accounting Standards That Have Not Been Applied Yet

Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, May 17, 2012) and Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidelines No. 25, May 17, 2012)

1) Summary

Under the amended rule, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss would be recognized within the net assets section, after adjusting for tax effects, and deficit or surplus would be recognized as a liability or asset without any adjustments. For determining the method of attributing expected benefit to periods, the Standard now allows companies to choose either the benefit formula basis or the straight-line basis. The method for determination of discount rate has also been amended.

2) Effective dates

Effective for the end of annual periods ending on or after March 31, 2014. Amendments relating to determination of retirement benefit obligations and current service costs are effective from the beginning of annual periods ending on or after March 31, 2015.

3) Effect of application of the standard

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

3. SUPPLEMENTARY CASH FLOW INFORMATION

1) *Cash and cash equivalents*

Cash and cash equivalents at March 31, 2013 and 2012 for purposes of the consolidated statements of cash flows consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and time deposits	**¥18,753**	¥12,953	**$199,500**
Time deposits with maturities over three months	**(6,152)**	—	**(65,447)**
Marketable securities with a maturity of three months or less when purchased	**58,833**	79,226	**625,883**
Cash and cash equivalents	**¥71,434**	¥92,179	**$759,936**

At March 31, 2013, a time deposit of ¥282 million ($3,000 thousand) is pledged as collateral for a letter of credit issued by a bank.

2) *Significant non-cash transactions*

As a result of the acquisitions of BBI dated April 24, 2012 and SRD dated September 5, 2012, the Company increased assets and liabilities in the amount of ¥52,106 million ($554,319 thousand) and ¥26,968 million ($286,894 thousand), respectively. The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the end of acquisitions and payments for acquisition of BBI and SRD, net of cash acquired, respectively.

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 417**	**$ 4,436**
Fixed assets	**48,215**	**512,926**
Goodwill	**3,474**	**36,957**
Current liabilities	**(208)**	**(2,213)**
Long-term liabilities	**(26,760)**	**(284,681)**
Net assets acquired	**25,138**	**267,425**
Cash and cash equivalent of BBI and SRD	**(286)**	**(3,042)**
Payment for acquisitions	**¥ 24,852**	**$ 264,383**

4. INVENTORIES

Inventories at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Finished goods and semi-finished goods	**¥45,357**	¥42,481	**$482,521**
Work-in-process	**3,570**	2,591	**37,979**
Raw materials and supplies	**13,762**	13,046	**146,404**
Total	**¥62,689**	¥58,118	**$666,904**

5. FINANCIAL INSTRUMENTS

1) *Policies for using financial instruments*

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

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

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

Marketable securities and investment securities consist primarily of negotiable certificates for deposit and stocks. Stocks are exposed to risks associated with changes in market prices. The market values of the securities and the financial standing of the issuers of these investments are regularly monitored. The shareholding status is also reviewed regularly, and relationships with the client companies are taken into account.

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

Almost all income taxes payable are due within two months.

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

Derivative financial instruments of the Group include foreign exchange contracts for the purpose of hedging risks of fluctuations in exchange rates of receivables and payables denominated in foreign currencies. With respect to foreign exchange contracts, the Finance & Accounting Division formulates an implementation plan for hedging foreign currency risks every half year pursuant to the regulations for management of foreign currency risks. Upon reporting to the Representative Director and President, transactions are then executed and applicable entries posted. The results of derivative transactions are also reported to the Representative Director and President. See "Derivative Financial Instruments" as stated in the above "Summary of Significant Accounting Policies" for information on hedging instruments, hedged items, hedging policy, and the method by which the effectiveness of hedging is evaluated, as they relate to hedge accounting.

3) *Supplemental information on fair values*

Fair values of financial instruments include the values based on market prices, and the values deemed as market prices obtained by the reasonable estimate when the financial instruments do not have market prices. Since certain assumptions are considered in the calculation of such amounts, the adoption of different assumptions may cause prices to vary.

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2013 and 2012 were as follows:

	Millions of yen		
	2013		
	Book values	Fair values	Difference
(1) Cash and time deposits	**¥ 18,753**	**¥ 18,753**	**¥ —**
(2) Trade notes	**2,897**	**2,897**	**—**
(3) Trade accounts	**95,093**	**95,093**	**—**
(4) Due from parent company, unconsolidated subsidiaries and affiliates	**34,574**	**34,574**	**—**
(5) Marketable securities and investment securities	**121,725**	**121,725**	**—**
Total assets	**¥273,042**	**¥273,042**	**¥ —**
(1) Trade notes	**176**	**176**	**—**
(2) Trade accounts	**44,518**	**44,518**	**—**
(3) Due to parent company, unconsolidated subsidiaries and affiliates	**2,118**	**2,118**	**—**
(4) Income taxes payable	**2,115**	**2,115**	**—**
(5) Bonds payable	**70,000**	**71,280**	**1,280**
(6) Long-term debt (*)	**45,000**	**45,144**	**144**
Total liabilities	**¥163,927**	**¥165,351**	**¥1,424**
Derivative transactions	**¥ —**	**¥ —**	**¥ —**

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

	Millions of yen		
	2012		
	Book values	Fair values	Difference
(1) Cash and time deposits	¥ 12,953	¥ 12,953	¥ —
(2) Trade notes	2,971	2,971	—
(3) Trade accounts	99,653	99,653	—
(4) Due from parent company, unconsolidated subsidiaries and affiliates	25,050	25,050	—
(5) Marketable securities and investment securities	125,872	125,872	—
Total assets	¥266,499	¥266,499	¥ —
(1) Trade notes	151	151	—
(2) Trade accounts	42,488	42,488	—
(3) Due to parent company, unconsolidated subsidiaries and affiliates	2,280	2,280	—
(4) Income taxes payable	5,437	5,437	—
(5) Bonds payable	70,000	70,791	791
(6) Long-term debt (*)	58,000	58,032	32
Total liabilities	¥178,356	¥179,179	¥ 823
Derivative transactions	¥ —	¥ —	¥ —

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

	Thousands of U.S. dollars		
	2013		
	Book values	Fair values	Difference
(1) Cash and time deposits	**$ 199,500**	**$ 199,500**	**$ —**
(2) Trade notes	**30,819**	**30,819**	**—**
(3) Trade accounts	**1,011,628**	**1,011628**	**—**
(4) Due from parent company, unconsolidated subsidiaries and affiliates	**367,808**	**367,808**	**—**
(5) Marketable securities and investment securities	**1,294,947**	**1,294,947**	**—**
Total assets	**$2,904,702**	**$2,904,702**	**$ —**
(1) Trade notes	**1,872**	**1,872**	**—**
(2) Trade accounts	**473,596**	**473,596**	**—**
(3) Due to parent company, unconsolidated subsidiaries and affiliates	**22,532**	**22,532**	**—**
(4) Income taxes payable	**22,500**	**22,500**	**—**
(5) Bonds payable	**744,681**	**758,298**	**13,617**
(6) Long-term debt (*)	**478,723**	**480,255**	**1,532**
Total liabilities	**$1,743,904**	**$1,759,053**	**$15,149**
Derivative transactions	**$ —**	**$ —**	**$ —**

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

(A) Basis of determining fair value of financial instruments, and matters pertaining to securities and derivative transactions

Assets

(1) Cash and time deposits

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

(2) Trade notes, (3) Trade accounts, (4) Due from parent company, unconsolidated subsidiaries and affiliates

As these assets are settled on a short-term basis, fair value is approximately equal to book value and is calculated according to the applicable book value.

(5) Marketable securities and investment securities

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

Liabilities

(1) Trade notes, (2) Trade accounts, (3) Due to parent company, unconsolidated subsidiaries and affiliates, (4) Income taxes payable

As these liabilities are settled on a short-term basis, fair value is approximately equal to book value and is calculated according to the applicable book value.

(5) Bonds payable

The fair value of corporate bonds is calculated according to market price.

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

Derivative transactions
See Note 7 on "Derivative Transactions."

(B) Financial instruments for which the ascertainment of a fair value is deemed to be exceedingly difficult and are not included in "(5) Marketable securities and investment securities" are as follows:

	Amount on consolidated balance sheet		
	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unlisted shares	**¥1,989**	¥ 479	**$21,160**
Investment in unconsolidated subsidiaries and affiliates	**980**	973	**10,426**
Investment in limited partnership	**2,808**	1,850	**29,872**

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

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

(C) Scheduled redemption amounts after March 31, 2013 and 2012 for monetary claims and securities with a fixed period of maturity

	Millions of yen			
	2013			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and time deposits	**¥ 18,753**	**¥ —**	**¥ —**	**¥ —**
Trade notes	**2,897**	**—**	**—**	**—**
Trade accounts	**95,093**	**—**	**—**	**—**
Due from parent company, unconsolidated subsidiaries and affiliates	**34,574**	**—**	**—**	**—**
Marketable securities and investment securities:				
Available-for-sale securities with terms of maturity (Negotiable certificates of deposit)	**26,941**	**—**	**—**	**—**
Available-for-sale securities with terms of maturity (Bonds)	**29,193**	**—**	**—**	**42**
Total	**¥207,451**	**¥ —**	**¥ —**	**¥42**

	Millions of yen			
	2012			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and time deposits	¥ 12,953	¥—	¥—	¥—
Trade notes	2,971	—	—	—
Trade accounts	99,653	—	—	—
Due from parent company, unconsolidated subsidiaries and affiliates	25,050	—	—	—
Marketable securities and investment securities:				
Available-for-sale securities with terms of maturity (Negotiable certificates of deposit)	45,900	—	—	—
Available-for-sale securities with terms of maturity (Bonds)	19,892	81	—	40
Total	¥206,419	¥81	¥—	¥40

	Thousands of U.S. dollars			
	2013			
	Within 1 year	From 1 year to 5 years	From 5 years to 10 years	Over 10 years
Cash and time deposits	**$ 199,500**	**$ —**	**$ —**	**$ —**
Trade notes	**30,819**	**—**	**—**	**—**
Trade accounts	**1,011,628**	**—**	**—**	**—**
Due from parent company, unconsolidated subsidiaries and affiliates	**367,808**	**—**	**—**	**—**
Marketable securities and investment securities:				
Available-for-sale securities with terms of maturity (Negotiable certificates of deposit)	**286,606**	**—**	**—**	**—**
Available-for-sale securities with terms of maturity (Bonds)	**310,564**	**—**	**—**	**447**
Total	**$2,206,925**	**$ —**	**$ —**	**$447**

6. MARKETABLE SECURITIES AND INVESTMENT SECURITIES

Marketable securities and investment securities as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Current:			
Government / local government bonds	**¥16,648**	¥ 2,721	**$177,106**
Corporate bonds	**12,545**	17,171	**133,457**
Negotiable certificates of deposits	**26,941**	45,900	**286,606**
MMF	**30,329**	33,326	**322,650**
Total	**¥86,463**	¥99,118	**$919,819**
Noncurrent:			
Equity securities	**¥35,220**	¥26,633	**$374,681**
Government and corporate bonds	**—**	81	**—**
Trust fund investments and other	**4,839**	2,369	**51,479**
Total	**¥40,059**	¥29,083	**$426,160**

The carrying amount and aggregate fair value of marketable securities and investment securities at March 31, 2013 and 2012 were as follows:

	Millions of yen			
	2013			
	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale securities:				
Equity securities	**¥14,410**	**¥20,824**	**¥14**	**¥35,220**
Bonds and debentures	**29,210**	**3**	**20**	**29,193**
Other securities	**28**	**15**	**1**	**42**

	Millions of yen			
	2012			
	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale securities:				
Equity securities	¥14,402	¥12,349	¥118	¥26,633
Bonds and debentures	20,133	3	163	19,973
Other securities	26	14	0	40

	Thousands of U.S. dollars			
	2013			
	Cost	Unrealized gains	Unrealized losses	Fair value
Available-for-sale securities:				
Equity securities	**$153,298**	**$221,532**	**$149**	**$374,681**
Bonds and debentures	**310,745**	**32**	**213**	**310,564**
Other securities	**298**	**160**	**11**	**447**

The Company recognized ¥224 million as impairment losses of equity securities in available-for-sale securities with determinable fair value in the year ended at March 31, 2012.

Proceeds from sales of available-for-sale securities were ¥40,422 million ($430,021 thousand) and ¥39,812 million for the years ended March 31, 2013 and 2012 respectively. On those sales, gross realized gains computed on a moving average cost basis were ¥7 million ($74 thousand) for the year ended March 31, 2013, and gains and losses were ¥118 million and ¥1 million respectively for the year ended March 31, 2012.

At March 31, 2013, investment securities of ¥48 million ($511 thousand) were pledged as collateral for accounts payable of ¥102 million ($1,085 thousand). At March 31, 2012, investment securities of ¥51 million were pledged as collateral for accounts payable of ¥206 million.

7. DERIVATIVE TRANSACTIONS

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

Derivative transactions as of March 31, 2013 and 2012 were as follows:

Currency related

2013

Hedge accounting method	Transaction type	Main hedged items	Contract amount		Portion over 1 year		Fair value	
			Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Appropriation of foreign exchange forward contracts	Foreign exchange contracts							
	Buy contracts							
	USD	Trade accounts payable	**¥137**	**$1,457**	**—**	**—**	**(*)**	**(*)**
	EUR		**76**	**809**	**—**	**—**	**(*)**	**(*)**
	GBP		**2**	**21**	**—**	**—**	**(*)**	**(*)**

2012

Hedge accounting method	Transaction type	Main hedged items	Contract amount		Portion over 1 year		Fair value	
			Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars	Millions of yen	Thousands of U.S. dollars
Appropriation of foreign exchange forward contracts	Foreign exchange contracts							
	Sell contracts	Trade accounts receivable						
	USD		¥13	$158	—	—	(*)	(*)
	Buy contracts	Trade accounts payable						
	USD		¥66	$805	—	—	(*)	(*)
	EUR		47	573	—	—	(*)	(*)

(*) As forward exchange contracts subject to appropriation are processed in an integrated manner together with the hedged trade accounts receivable and payable, the fair value of the forward exchange contract is included in the fair value of the applicable trade accounts payable items and stated accordingly. (See Note 5)

8. LONG-TERM DEBT

Long-term debt at March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unsecured loans from banks and financial institutions, due 2013 to 2017 with average interest rate of 0.65%	**¥ 45,000**	¥ 58,000	**$ 478,723**
Unsecured bonds due 2014 with average interest rate of 0.53%	**10,000**	10,000	**106,383**
Unsecured bonds due 2016 with average interest rate of 0.78%	**30,000**	30,000	**319,149**
Unsecured bonds due 2016 with average interest rate of 0.54%	**10,000**	10,000	**106,383**
Unsecured bonds due 2018 with average interest rate of 1.11%	**10,000**	10,000	**106,383**
Unsecured bonds due 2018 with average interest rate of 0.82%	**10,000**	10,000	**106,383**
Total	**¥115,000**	¥128,000	**$1,223,404**
Less current portion	**(20,000)**	(10,000)	**(212,766)**
Long-term debt, less current portion	**¥ 95,000**	¥118,000	**$1,010,638**

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2014	**¥ 20,000**	**$ 212,766**
2015	**10,000**	**106,383**
2016	**35,000**	**372,340**
2017	**22,000**	**234,043**
2018 and thereafter	**28,000**	**297,872**
Total	**¥115,000**	**$1,223,404**

Other liabilities include deposits received from customers in the amount of ¥4,655 million ($49,521 thousand) as of March 31, 2013, bearing interest at an average rate of 4.00%, and ¥3,348 million as of March 31, 2012, bearing interest at an average rate of 1.52%.

9. INCOME TAXES

The Group is subject to Japanese national and local income taxes which, in the aggregate, resulted in a statutory tax rate of approximately 38.0% and 40.6% for the years ended March 31, 2013 and 2012, respectively.

Significant components of deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Deferred tax assets:			
Liability for retirement benefits	**¥ 2,537**	¥ 2,592	**$ 26,989**
Accrued enterprise taxes	**190**	516	**2,021**
Accrued bonuses to employees	**2,823**	2,821	**30,032**
Reserve for sales rebates	**6,421**	7,200	**68,309**
Loss on devaluation of investment securities	**1,039**	601	**11,053**
Research and development costs	**7,687**	10,380	**81,777**
Inventories	**2,374**	2,163	**25,255**
Net operating loss carried forward	**5,649**	8,830	**60,096**
Amortization of intangible assets	**11,962**	9,543	**127,255**
Tax credit for research and development expenses of overseas subsidiaries	**11,464**	10,113	**121,957**
Other	**11,075**	11,404	**117,820**
Gross deferred tax assets	**63,221**	66,163	**672,564**
Valuation allowance	**(4,358)**	(4,005)	**(46,362)**
Total deferred tax assets	**¥ 58,863**	¥ 62,158	**$ 626,202**
Deferred tax liabilities:			
Unrealized gains on available-for-sale securities	**¥ (7,347)**	¥ (4,236)	**$ (78,160)**
Deferred gain on sales of fixed assets	**(854)**	(883)	**(9,085)**
Tax effect of intangible assets related to business combination	**(26,165)**	(13,962)	**(278,351)**
Refund of capital surplus of a subsidiary	**(471)**	—	**(5,011)**
Undistributed earnings of foreign subsidiaries	**(112)**	—	**(1,191)**
Other	**(807)**	—	**(8,585)**
Total deferred tax liabilities	**¥(35,756)**	¥(19,081)	**$(380,383)**
Net deferred tax assets	**¥ 23,107**	¥ 43,077	**$ 245,819**

A reconciliation between the statutory tax rates and the effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2013 and 2012 was as follows:

	2013	2012
Normal statutory tax rate	**38.0%**	40.6%
Increase (decrease) in taxes due to:		
Expenses not deductible for tax purposes	**6.5**	11.4
Non-taxable dividend income	**(1.0)**	(2.6)
Tax credits for research and development costs	**(9.0)**	(23.2)
Amortization of goodwill	**7.9**	9.4
Change in valuation allowance	**(0.5)**	(0.1)
Effect of revised corporate tax rate	**1.1**	10.9
Tax effects attributable to investments in subsidiaries	**0.6**	—
Other	**1.1**	0.7
Effective tax rate	**44.7%**	47.1%

10. RETIREMENT AND SEVERANCE BENEFITS

The liability for employees' retirement benefits at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Projected benefit obligation	**¥(81,912)**	¥(81,097)	**$(871,404)**
Fair value of plan assets	**72,511**	67,106	**771,394**
Unrecognized prior service cost	**(532)**	(757)	**(5,660)**
Unrecognized actuarial gain	**2,998**	7,471	**31,894**
Net retirement benefit obligation	**¥ (6,935)**	¥ (7,277)	**$ (73,776)**
Prepaid pension cost	**4,095**	3,513	**43,564**
Liability for employees' retirement benefits	**¥(11,030)**	¥(10,790)	**$(117,340)**

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Service cost	**¥ 3,204**	¥ 3,108	**$ 34,085**
Interest cost	**1,614**	1,596	**17,170**
Expected return on plan assets	**(1,261)**	(1,232)	**(13,415)**
Amortization of prior service cost	**(218)**	(218)	**(2,319)**
Recognized actuarial loss	**893**	893	**9,500**
Net periodic retirement benefit costs	**¥ 4,232**	¥ 4,147	**$ 45,021**
Contribution payments to a defined contribution pension plan	**2,586**	2,199	**27,511**
Total	**¥ 6,818**	¥ 6,346	**$ 72,532**

Retirement benefit cost for early retirement option of ¥4,784 million ($50,894 thousand), which was included in restructuring expense for the year ended March 31, 2013, was incurred in addition to the above.

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

Assumptions used for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Method of attributing benefits to periods of service	**Straight-line basis**	Straight-line basis
Discount rate	**2.0%**	2.0%
Expected rate of return on plan assets	**2.0%**	2.0%
Amortization period for prior service cost	**15 years**	15 years
Recognition period for actuarial gain/loss	**15 years**	15 years

11. SHAREHOLDERS' EQUITY

Under the Japanese Corporate Law ("the Law") and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal reserve must be set aside as additional paid-in capital or legal reserve. Legal reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, legal reserve and additional paid-in capital could be used to eliminate or reduce a deficit by a resolution of the shareholders' meeting or could be capitalized by a resolution of the Board of Directors. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal reserve may not be distributed as dividends, but may be transferred to other capital surplus and retained earnings respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Law and regulations.

At the annual shareholders' meeting held on June 21, 2013, the shareholders approved year-end cash dividends of ¥9.00 ($0.10) per share, amounting to ¥3,576 million ($38,043 thousand). These appropriations have not been accrued in the consolidated financial statements as of March 31, 2013. Such appropriations are recognized in the period in which they are approved by the shareholders. Together with the interim cash dividends, the total annual dividends were ¥18.00 ($0.19) per share.

12. TRANSACTIONS WITH PARENT COMPANY, UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

Transactions of the Group with the parent company, Sumitomo Chemical Co., Ltd., unconsolidated subsidiaries and affiliates for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Sales	**¥ 209**	¥ 149	**$ 2,223**
Purchases	**7,700**	8,485	**81,915**

13. RELATED PARTY TRANSACTIONS

Major transactions of the Group with the parent company, Sumitomo Chemical Co., Ltd., for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Sales of products	**¥ —**	¥ 8	**$ —**
Purchases of products	**3,826**	4,971	**40,702**
Payment of other expenses	**1,222**	1,195	**13,000**
Sales of other assets	**101**	1	**1,074**
Loans	**34,401**	25,000	**365,968**
Interest income	**82**	85	**872**

The balances due to or from the parent company, Sumitomo Chemical Co., Ltd., at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Receivables	**¥34,572**	¥25,006	**$367,787**
Payables	**1,358**	1,506	**14,447**

14. LEASES

Pro forma information for leased property including acquisition cost, accumulated depreciation, obligations under finance leases and depreciation expense for finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Machinery and equipment:			
Acquisition cost	**¥ 25**	¥ 239	**$ 266**
Accumulated depreciation	**(23)**	(210)	**(245)**
Net leased property	**¥ 2**	¥ 29	**$ 21**

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Obligations under finance leases:			
Due within one year	**¥1**	¥27	**$11**
Due after one year	**0**	2	**0**
Total	**¥1**	¥29	**$11**

The minimum lease payments under non-cancelable operating leases as of March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Due within one year	**¥ 99**	¥—	**$ 1,053**
Due after one year	**2,902**	—	**30,873**
Total	**¥3,001**	¥—	**$31,926**

15. BUSINESS COMBINATIONS

Business combination through acquisition

Boston Biomedical, Inc.

a. Summary of the business combination

1. Name of the acquired company and the contents of its business operations
   Name of the acquired company: Boston Biomedical, Inc.
   Contents of the business operations: Research and development in the oncology area
2. Main reason for the business combination
   To acquire innovative development pipelines in the oncology area, as well as to acquire BBI's excellent drug-discovery platforms and development capabilities.
3. Date of business combination
   April 24, 2012 (U.S. time)
4. Legal form of business combination
   Acquisition of shares for cash consideration
5. Name of the company after combination
   Boston Biomedical, Inc.
6. Ratio of voting rights acquired
   Ratio of voting rights owned prior to the acquisition of shares: 0%
   Ratio of voting rights after acquisition: 100%
7. Main grounds for reaching a decision on the acquiring company
   The Company acquired 100% of BBI's shares in exchange for cash.

b. Terms of performance of the acquired company included in the consolidated financial statements

From April 24, 2012 to December 31, 2012

c. Acquisition cost of the acquired company and the breakdown thereof

	Millions of yen	Thousands of U.S. dollars
Compensation for acquisition	**¥16,512**	**$175,660**
Cost directly required for the acquisition	**759**	**8,074**
Acquisition cost	**¥17,271**	**$183,734**

This is an acquisition by means of cash.

d. Amount of goodwill, reason for recognition, amortization method and amortization period

1. Amount of goodwill: ¥142 million ($1,511 thousand)
2. Reason for recognition: As the acquisition cost exceeded the net amount allocated to the acquired assets and assumed liabilities, the difference has been posted as goodwill.
3. Amortization method and amortization period: Straight-line method over 20 years
4. The amount of goodwill is a temporarily calculated amount.

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

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 284**	**$ 3,021**
Fixed assets	**28,743**	**305,777**
Total assets	**29,027**	**308,798**
Current liabilities	**158**	**1,681**
Long-term liabilities	**11,598**	**123,383**
Total liabilities	**¥11,756**	**$125,064**

f. Content of the contingent consideration for acquisition set out in the business combination contract and the accounting treatment policy for the current and subsequent consolidated fiscal years

1. Content of the contingent consideration for acquisition

   The contingent consideration for acquisition is a contract under which an additional payment shall be made upon the achievement of a predetermined milestone.

2. Accounting treatment policy for the relevant and subsequent consolidated fiscal years

   In the event an additional payment has been made, the Group deems it as having been paid at the time of acquisition and modifies the goodwill amount and the accumulated amortization amount.

g. Amount allocated to intangible fixed assets other than goodwill and weighted-average depreciation period for the entity is as follows:

	Amount		
Description	Millions of yen	Thousands of U.S. dollars	Depreciation period
In-process research and development	¥28,483	$303,011	Estimated useful life

h. Allocation of acquisition cost

The allocation of acquisition cost was not completed at the end of the consolidated financial year ended March 31, 2013 and the cost is recognized based on reasonable information available at that point of time.

i. Estimated impact on the consolidated statement of income in the current consolidated fiscal year, if it is assumed that the business combination was concluded on April 1, 2012, and the method of calculation

	Millions of yen	Thousands of U.S. dollars
Sales	**¥ 24**	**$ 225**
Income before income taxes	**(886)**	**(9,426)**
Net income	**(886)**	**(9,426)**

(Method by which estimated amounts were calculated)

The estimated amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on the first day of this consolidated fiscal year and information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of impact have not been audited.

Elevation Pharmaceuticals, Inc.

a. Summary of the business combination

1. Name of the acquired company and the contents of its business operations
   Name of the acquired company: Elevation Pharmaceuticals, Inc.
   Contents of the business operations: Development of aerosol therapy for respiratory disease
2. Main reason for the business combination
   To acquire strong pipelines in the respiratory area
3. Date of business combination
   September 5, 2012 (U.S. time)
4. Legal form of business combination
   Acquisition of shares for cash consideration
5. Name of the company after combination
   Sunovion Respiratory Development Inc.
6. Ratio of voting rights acquired
   Ratio of voting rights owned prior to the acquisition of shares: 0%
   Ratio of voting rights after acquisition: 100%
7. Main grounds for reaching a decision on the acquiring company
   Sunovion acquired 100% of SRD's shares in exchange for cash.

b. Terms of performance of the acquired company included in the consolidated financial statements

From September 5, 2012 to December 31, 2012

c. Acquisition cost of the acquired company and the breakdown thereof

The acquisition cost of the acquired company is ¥7,867 million ($83,691 thousand), and it is an acquisition by means of cash.

d. Amount of goodwill, reason for recognition, amortization method, amortization period

1. Amount of goodwill: ¥3,332 million ($35,447 thousand)
2. Reason for recognition: As the acquisition cost exceeded the net amount allocated to the acquired assets and assumed liabilities, the difference has been posted as goodwill.
3. Amortization method and amortization period: Straight-line method over 20 years
4. The amount of goodwill is a temporarily calculated amount.

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

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 133**	**$ 1,415**
Fixed assets	**22,946**	**244,106**
Total assets	**23,079**	**245,521**
Current liabilities	**50**	**532**
Long-term liabilities	**15,162**	**161,298**
Total liabilities	**¥15,212**	**$161,830**

f. Content of the contingent consideration for acquisition set out in the business combination contract and the accounting treatment policy for the current and subsequent consolidated fiscal years

1. Content of the contingent consideration for acquisition
   The contingent consideration for acquisition is a contract under which an additional payment shall be made upon the achievement of a predetermined milestone.

2. Accounting treatment policy for the relevant and subsequent consolidated fiscal years
The above-mentioned contingent consideration for acquisition has been recognized according to U.S. accounting standards.

g. Amount allocated to intangible fixed assets other than goodwill and weighted-average depreciation period for the entity is as follows:

	Amount		
Description	Millions of yen	Thousands of U.S. dollars	Depreciation period
In-process research and development	¥18,416	$195,915	Estimated useful life

h. Allocation of acquisition cost

The allocation of acquisition cost was not completed at the end of the consolidated financial year ended March 31, 2013 and the cost is recognized based on reasonable information available at that point of time.

i. Estimated impact on the consolidated statement of income in the current consolidated fiscal year, if it is assumed that the business combination was concluded on April 1, 2012 and the method of calculation

	Millions of yen	Thousands of U.S. dollars
Sales	**¥ —**	**$ —**
Income before income taxes	**(1,385)**	**(14,734)**
Net income	**(1,385)**	**(14,734)**

(Method by which estimated amounts were calculated)
The estimated amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on the first day of this consolidated fiscal year and information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of impact have not been audited.

16. SEGMENT INFORMATION

1) *Outline of reportable segments*

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

The Group assesses its pharmaceutical business performance according to the reportable segments of the Group which consist of the following four segments: Japan, North America, China, Other regions.

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

Accounting method for business segment reporting is the same as presentation on Note 2 "Summary of Significant Accounting Policies." Income by reportable segment is calculated based on operating income before R&D costs. Inter-segment sales and transfers are calculated based on current market prices.

Assets and liabilities by reportable segment are not shown because such information is not used to make decisions regarding resource allocation and performance measurement.

(Change in the method of calculating of income (loss) by business segment)

The Company and its consolidated subsidiaries in Japan traditionally applied the declining-balance method to the depreciation of tangible fixed assets other than buildings. The Group has decided to apply the straight-line method from the current consolidated fiscal year.

As a result, income of segment has increased by ¥603 million ($6,415 thousand) in “Japan,” ¥9 million ($96 thousand) in “North America,” ¥13 million ($138 thousand) in “China,” ¥38 million ($404 thousand) in “Other Regions” and ¥24 million ($255 thousand) in “Other Business.” R&D cost that is not included in each segment has decreased by ¥499 million ($5,309 thousand).

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

Segment information for the Group for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen						
	2013						
	Japan	North America	China	Other Regions	Subtotal	Other Business	Total
Net sales							
Sales to customers	**¥174,454**	**¥115,835**	**¥7,642**	**¥9,268**	**¥307,199**	**¥40,525**	**¥347,724**
Intersegment sales and transfers	**257**	**—**	**—**	**—**	**257**	**86**	**343**
Total	**174,711**	**115,835**	**7,642**	**9,268**	**307,456**	**40,611**	**348,067**
Income of segment	**60,645**	**15,046**	**1,831**	**4,341**	**81,863**	**2,997**	**84,860**
Others							
Depreciation and amortization	**4,156**	**23,454**	**231**	**242**	**28,083**	**177**	**28,260**

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

	Millions of yen						
	2012						
	Japan	North America	China	Other Regions	Subtotal	Other Business	Total
Net sales							
Sales to customers	¥179,880	¥108,432	¥6,542	¥15,209	¥310,063	¥40,333	¥350,396
Intersegment sales and transfers	201	—	—	—	201	84	285
Total	180,081	108,432	6,542	15,209	310,264	40,417	350,681
Income (loss) of segment	66,446	(324)	965	7,010	74,097	3,162	77,259
Others							
Depreciation and amortization	6,029	25,324	362	698	32,413	153	32,566

	Thousands of U.S. dollars						
	2013						
	Japan	North America	China	Other Regions	Subtotal	Other Business	Total
Net sales							
Sales to customers	**$1,855,894**	**$1,232,287**	**$81,298**	**$98,596**	**$3,268,075**	**$431,116**	**$3,699,191**
Intersegment sales and transfers	**2,734**	**—**	**—**	**—**	**2,734**	**915**	**3,649**
Total	**1,858,628**	**1,232,287**	**81,298**	**98,596**	**3,270,809**	**432,031**	**3,702,840**
Income of segment	**645,160**	**160,064**	**19,479**	**46,180**	**870,883**	**31,883**	**902,766**
Others							
Depreciation and amortization	**44,213**	**249,511**	**2,457**	**2,574**	**298,755**	**1,883**	**300,638**

4) Reconciliation of differences between total of reportable segments and the amount on consolidated financial statements

Net sales	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Reportable segments total	**¥307,456**	¥310,264	**$3,270,809**
Net sales of "Other Business" category	**40,611**	40,417	**432,031**
Elimination of intersegment transactions	**(343)**	(285)	**(3,649)**
Net sales on consolidated statements of income	**¥347,724**	¥350,396	**$3,699,191**

Income	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Reportable segments total	**¥ 81,863**	¥ 74,097	**$ 870,883**
Income of "Other Business" category	**2,996**	3,162	**31,872**
Research and development costs	**(59,844)**	(56,891)	**(636,638)**
Elimination of intersegment transactions	**29**	34	**309**
Operating income on consolidated statements of income	**¥ 25,044**	¥ 20,402	**$ 266,426**

Other items	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Depreciation and amortization			
Reportable segments total	**¥28,083**	¥32,413	**$298,755**
Other Business	**177**	153	**1,883**
Adjustment	**1,996**	2,895	**21,234**
The amount on consolidated financial statements	**¥30,256**	¥35,461	**$321,872**
Amortization of goodwill			
Reportable segments total	**¥ 3,773**	¥ 3,764	**$ 40,138**
Other Business	**—**	—	**—**
Adjustment	**—**	—	**—**
The amount on consolidated financial statements	**¥ 3,773**	¥ 3,764	**$ 40,138**

5) *Other information*

Sales information by product or service for the Group for the years ended March 31, 2013 and 2012 was as follows:

Sales to customers	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Pharmaceuticals	**¥307,199**	¥310,063	**$3,268,075**
Other products	**40,525**	40,333	**431,116**
Total	**¥347,724**	¥350,396	**$3,699,191**

Geographical segment information for the Group for the years ended March 31, 2013 and 2012 was as follows:

Net sales	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Japan	**¥219,537**	¥220,153	**$2,335,500**
U.S.	**109,182**	107,010	**1,161,511**
Other regions	**19,005**	23,233	**202,180**
Total	**¥347,724**	¥350,396	**$3,699,191**

Property, plant and equipment	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Japan	**¥60,705**	¥59,293	**$645,798**
Other regions	**9,157**	7,404	**97,415**
Total	**¥69,862**	¥66,697	**$743,213**

Sales information by major customer for the Group for the years ended March 31, 2013 and 2012 was as follows:

Net sales	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
McKesson Corporation / North America	**¥43,480**	¥43,808	**$462,553**
Mediceo Corporation / Japan	**36,298**	37,814	**386,149**
Alfresa Corporation / Japan	**36,297**	37,934	**386,138**

6) *Information on impairment loss of long-lived assets, amortization and unamortized balance of goodwill by reportable segment*

	Millions of yen						
	2013						
	Japan	North America	China	Other Regions	Subtotal	Other Business	Total
Impairment loss	**—**	**¥ 417**	**—**	**—**	**¥ 417**	**—**	**¥ 417**
Amortization of goodwill	**—**	**3,773**	**—**	**—**	**3,773**	**—**	**3,773**
Balance of goodwill	**—**	**71,294**	**—**	**—**	**71,294**	**—**	**71,294**

	Millions of yen						
	2012						
	Japan	North America	China	Other Regions	Subtotal	Other Business	Total
Impairment loss	—	¥ 2,338	—	—	¥ 2,338	—	¥ 2,338
Amortization of goodwill	—	3,764	—	—	3,764	—	3,764
Balance of goodwill	—	64,311	—	—	64,311	—	64,311

	Thousands of U.S. dollars						
	2013						
	Japan	North America	China	Other Regions	Subtotal	Other Business	Total
Impairment loss	**—**	**$ 4,436**	**—**	**—**	**$ 4,436**	**—**	**$ 4,436**
Amortization of goodwill	**—**	**40,138**	**—**	**—**	**40,138**	**—**	**40,138**
Balance of goodwill	**—**	**758,447**	**—**	**—**	**758,447**	**—**	**758,447**

17. IMPAIRMENT LOSS

Impairment loss of intangible assets for the years ended March 31, 2013 and 2012 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Intangible assets			
Patent rights	**¥ —**	¥2,338	**$ —**
In-process research and development	**417**	—	**4,436**

Note: Discount rates for measuring the recoverable amount: 14.0% in 2013 (13.0% in 2012)

18. RESTRUCTURING

Restructuring allocated in the year ended March 31, 2013 was attributable to improving the business structure and organization in the Company and Sunovion, and involves impairment loss of ¥169 million ($1,798 thousand). Restructuring allocated in the year ended March 31, 2012 was attributable to the review of the business structure in Sunovion.

19. OTHER COMPREHENSIVE INCOME (LOSS)

Components of other comprehensive income (loss) for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unrealized gains on available-for-sale securities			
Amount arising during the period under review	**¥ 8,861**	¥ 2,950	**$ 94,266**
Reclassification adjustment for gain (losses) included in net income	**(51)**	354	**(543)**
Before income tax effect adjustment	**8,810**	3,304	**93,723**
Amount of income tax effect	**(2,705)**	(702)	**(28,776)**
Unrealized gains on available-for-sale securities, net of tax	**¥ 6,105**	¥ 2,602	**$ 64,947**
Foreign currency translation adjustment			
Amount arising during the period under review	**¥21,025**	¥(8,836)	**$223,670**
Reclassification adjustment for gain (losses) included in net income	**—**	—	**—**
Foreign currency translation adjustment	**21,025**	(8,836)	**223,670**
Total other comprehensive income (loss)	**¥27,130**	¥(6,234)	**$288,617**

20. CONTINGENT LIABILITIES

Contingent liabilities for guarantees of indebtedness of an affiliate, and employees' housing loans guaranteed at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Guarantees of indebtedness	**¥264**	¥281	**$2,809**
Loans guaranteed	**137**	167	**1,457**

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Dainippon Sumitomo Pharma Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income, statements of comprehensive income (loss), statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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 comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Dainippon Sumitomo Pharma Co., Ltd. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2q. "Accounting Changes" to the consolidated financial statements which describes the Company and its consolidated subsidiaries in Japan changed the depreciation method of tangible fixed assets other than buildings during the current consolidated fiscal year.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 26, 2013
Osaka, Japan

Corporate Data

(As of July 31, 2013)

Name	Dainippon Sumitomo Pharma Co., Ltd.
Establishment	May 14, 1897
Date of Merger	October 1, 2005
Osaka Head Office	6-8 Doshomachi 2-chome, Chuo-ku, Osaka 541-0045, Japan TEL: +81-6-6203-5321 FAX: +81-6-6202-6028
Tokyo Head Office	13-1, Kyobashi 1-chome, Chuo-ku, Tokyo 104-8356, Japan TEL: +81-3-5159-2500 FAX: +81-3-5159-2945
Capital	¥22.4 billion
Employees[1]	7,129 (consolidated), 4,502 (non-consolidated)
Total Number of Shares Issued[2]	397,900,154
Total Number of Shareholders	27,479[2]
Stock Exchange Listing	Tokyo stock exchange
Securities Code	4506
Independent Public Accountants	KPMG AZSA LLC
Fiscal Year-end	March 31
Ordinary General Meeting of Shareholders	June

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

Notes: 1. As of June 30, 2013
2. As of March 31, 2013

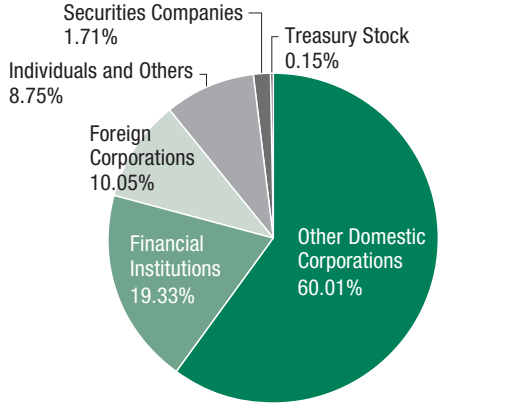
Principal Shareholders

(As of March 31, 2013)

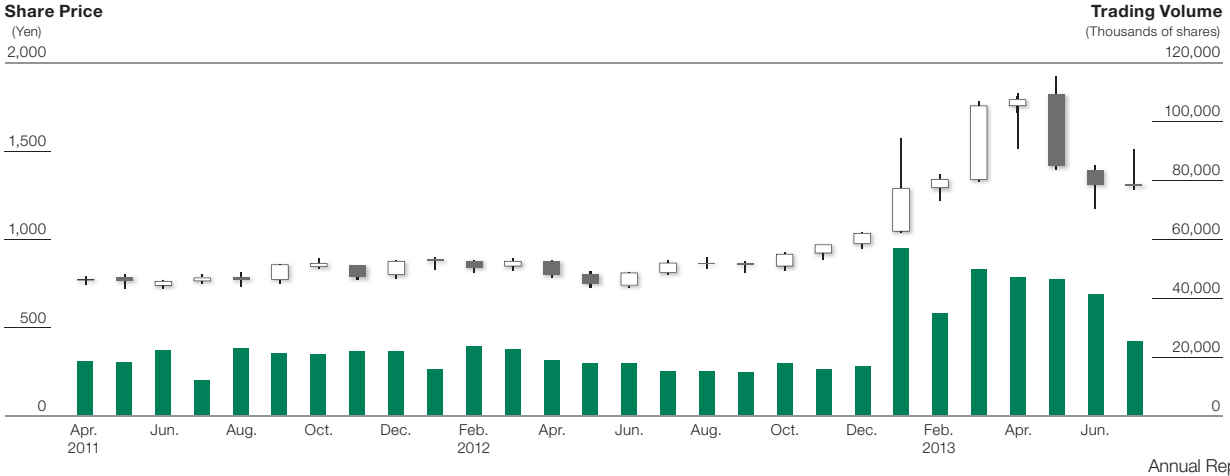
Name	No. of Shares Held (Thousands of Shares)	Percentage of Shareholding
Sumitomo Chemical Co., Ltd.	199,434	50.20
Inabata & Co., Ltd.	27,282	6.87
The Master Trust Bank of Japan, Ltd. (Trust Account)	15,265	3.84
Nippon Life Insurance Company	9,477	2.39
Japan Trustee Services Bank, Ltd. (Trust Account)	8,982	2.26
Japan Trustee Services Bank, Ltd. (Trust Account for Sumitomo Mitsui Banking Corporation's retirement benefits)	7,000	1.76
Sumitomo Life Insurance Company	5,776	1.45
Dainippon Sumitomo Pharma Employee Shareholding Association	4,441	1.12
Aioi Nissay Dowa General Insurance Co., Ltd.	4,435	1.12
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	3,920	0.99

Note: Percentage of shareholding is calculated excluding treasury stock (590,246 shares).

Composition of Shareholders (As of March 31, 2013)



Share Price Range and Trading Volume



DAINIPPON SUMITOMO PHARMA

Dainippon Sumitomo Pharma Co., Ltd.
http//www.ds-pharma.com

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Note: As of July 1, 2013, DSP adopted the Osaka/Tokyo twin head office structure.