Summary of Consolidated Financial Results for the Year Ended March 31, 2013 [Japanese GAAP] (Unaudited)

May 9, 2013

Company Name: DAINIPPON SUMITOMO PHARMA CO., LTD.
Stock Exchange Listings: Tokyo, Osaka
Security Code Number: 4506 (URL:http://www.ds-pharma.co.jp)
Representative: Masayo Tada, Representative Director, President and Chief Executive Officer
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Filing Date of Financial Report: June 21, 2013
Date of Annual Shareholder's Meeting: June 21, 2013
Starting Date of Dividend Payments: June 24, 2013
Preparation of Supplementary Financial Data for Financial Results: Yes
Information Meeting for Financial Results to be held: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Year Ended March 31, 2013 （April 1, 2012 to March 31, 2013）

(1) Results of Operations

(% represents changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31, 2013	347,724	(0.8)	25,043	22.8	24,505	29.8	10,043	16.4
Year ended March 31, 2012	350,395	(7.7)	20,402	(34.1)	18,872	(34.0)	8,629	(48.6)

Note: Comprehensive income (Millions of yen)
Year ended March 31, 2013: 37,174 —% Year ended March 31, 2012: 2,396 —%

	Earnings per share	Earnings per share (diluted)	Net income / Shareholders' equity (ROE)	Ordinary income / Total assets	Operating income / Net sales
Year ended March 31, 2013	¥25.28	—	3.0%	4.2%	7.2%
Year ended March 31, 2012	¥21.72	—	2.7%	3.3%	5.8%

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (Millions of yen)
Year ended March 31, 2013 : — Year ended March 31, 2012 : —

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2013	607,219	349,248	57.5%	¥879.03
As of March 31, 2012	559,410	319,227	57.1%	¥803.47

Reference: Shareholders' Equity (Millions of yen)
As of March 31, 2013: 349,248 As of March 31, 2012: 319,227

(3) Cash Flows

(Millions of yen)

	Net cash provided by operating activities	Net cash used in investing activities	Net cash used in financing activities	Cash and cash equivalents at the end of period
Year ended March 31, 2013	49,914	(55,020)	(20,221)	71,434
Year ended March 31, 2012	48,382	(4,373)	(32,922)	92,179

2. Dividends

	Dividends per share					Dividends paid for the year (million)	Payout ratio	Dividends to net assets ratio
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual			
Year ended March 31, 2012	—	¥9.00	—	¥9.00	¥18.00	¥7,151	82.9%	2.2%
Year ended March 31, 2013	—	¥9.00	—	¥9.00	¥18.00	¥7,151	71.2%	2.1%
Year ending March 31, 2014 (Forecast)	—	¥9.00	—	¥9.00	¥18.00		55.0%	

3. Consolidated Financial Forecasts for the Year Ending March 31, 2014 （April 1, 2013 to March 31, 2014）

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

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Six months ending September 30, 2013	178,000	(0.4)	10,000	(49.9)	10,000	(49.8)	5,000	(54.3)	¥12.58
Year ending March 31, 2014	369,000	6.1	26,000	3.8	25,000	2.0	13,000	29.4	¥32.72

Notes:

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

(2) Changes in accounting policies, accounting estimates, and retrospective restatements

① Changes due to changes in accounting standards: None

② Changes due to changes in accounting standards other than (2),①: Yes

③ Changes in accounting estimates: Yes

④ Retrospective restatements: None

Note: For detail, please refer to 4.Consolidated Financial Statement, (5) Notes to Consolidated Financial Statements (Changes to accounting policies in cases where it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate) on page 25 of Attachment Documents.

(3) Number of shares outstanding (Common stock)

① Number of shares outstanding (Including treasury stock) at the end of period

March 31, 2013: 397,900,154 shares

March 31, 2012: 397,900,154 shares

② Number of treasury stock at the end of period

March 31, 2013: 590,246 shares

March 31, 2012: 588,699 shares

③ Average number of shares during the period

March 31, 2013: 397,310,786 shares

March 31, 2012: 397,312,069 shares

(Reference)

Non-consolidated Financial Results for the year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

(1) Results of Operations

(% represents changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31,2013	189,962	(6.6)	18,583	(48.9)	18,502	(47.4)	11,356	(48.5)
Year ended March 31,2012	203,460	(11.4)	36,336	(16.4)	35,184	(14.5)	22,058	(17.6)

	Earnings per share	Earnings per share (diluted)
Year ended March 31,2013	¥28.58	—
Year ended March 31,2012	¥55.52	—

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2013	554,480	376,918	68.0%	¥948.68
As of March 31, 2012	549,418	367,035	66.8%	¥923.80

Reference: Shareholders' Equity (Millions of yen)

As of March 31, 2013: 376,918 As of March 31, 2012: 367,035

Indication of audit procedure implementation status:

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

Explanation for Appropriate Use of Forecasts and Other Notes:

This document contains forward-looking statements which are based on management's assumptions and beliefs in light of the information currently available and involves risks and uncertainties, and are not the commitment made by the Company. Actual financial results may differ materially depending on a number of factors, including economic conditions.

The Company holds an earnings presentation for institutional investors and analysts on Friday, May 10, 2013. The documents distributed at the presentation are scheduled to be posted on our website.

【Attachment Documents】

1. Operating Results

(1) Analysis of Operating Results

(i) Overview of overall operating results

The Japanese economy during the current consolidated fiscal year remained sluggish under the influence of a prolonged economic slump in Europe and the strong yen, but since the political power transfer in December last year, a sign of recovery of the economy, such as a correction of the yen appreciation and an upward trend of share prices, has been seen, and the future economic and fiscal policy movements, including the countermeasures for breaking out of the deflation at an early stage, are attracting much attention. In the meantime, as for the world economy, the U.S. economy, while still having certain fiscal concerns, is on track to a gradual recovery, and the economies in Asian countries are showing a trend toward expansion as a whole. However, there exists a deep and strong anxiety about the European fiscal crisis, and the world economy is still progressing under uncertainty over the future.

In the pharmaceutical industry, in addition to sluggish new drug creation and increased development costs, stricter screening procedures for approval and the measures to curb medical expenses are going on around the world, and also in Japan, a move toward the measures to promote the use of generic products is accelerating, and a severe business environment continues to exist.

Under such circumstances, in Japan, the DSP Group not only endeavored to achieve further sales expansion of strategic products, such as AVAPRO®, a therapeutic agent for hypertension and LONASEN®, an atypical antipsychotic, but also launched AIMIX®, a therapeutic agent for hypertension, last December and focused its efforts on information provision activities aiming for market penetration at an early stage. In overseas markets, a U.S. subsidiary, Sunovion Pharmaceuticals Inc. (hereinafter, "Sunovion") strived for sales expansion primarily through LATUDA® (generic name: lurasidone hydrochloride), an atypical antipsychotic and increased sales in the United States In addition, LATUDA® was also launched in Canada last September.

As for the efforts for future business expansion, the DSP Group reinforced development pipelines and improved the research and development system in the oncology area by acquiring Boston Biomedical, Inc. (hereinafter, "BBI") in the United States in April last year and newly establishing the DSP Cancer Institute last September. In addition, to acquire pipelines in the respiratory area, Sunovion acquired Elevation Pharmaceuticals, Inc. (currently, Sunovion Respiratory Development Inc., hereinafter, "SRD") in the United States last September. Furthermore, in January this year, as a base for our business expansion in Southeast Asia, the Company set up its 100% subsidiary, Sunovion Pharmaceuticals Asia Pacific Pte. Ltd. in Singapore.

Business performance for the current fiscal year resulted in a decrease in net sales in Japan due to the impact of the drug price revision of pharmaceutical products although net sales in the United States progressed satisfactorily, and as a result, consolidated net sales amounted to 347,724 million yen (a 0.8 % decrease from the previous fiscal year). As a result of the entire DSP Group's concerted efforts to reduce expenses, and so forth, operating income amounted to 25,043 million yen (a 22.8 % increase from the previous fiscal year) and ordinary income amounted to 24,505 million yen (a 29.8 % increase from the previous fiscal year). In addition, with business structure improvement expenses incurred as a result of promoting organizational and operational reforms in Japan and the U.S. having been posted as extraordinary loss, net income for the current fiscal year amounted to 10,043 million yen (a 16.4 % increase from the previous fiscal year).

(ii) Status of each business segment

Business performance by reportable segment is as follows:

[Japan segment]

Although the sales of METGLUCO®, a biguanide oral hypoglycemic and TRERIEF®, a Parkinson's disease drug increased sharply and the sales of newly marketed AIMIX® contributed as well, due to the impact of the drug price revision and decreased sales of existing products, net sales amounted to 174,454 million yen (a 3.0 % decrease from the previous fiscal year). With regard to income, the drug price revision also had a significant impact, and although selling, general and administrative expenses decreased through the efforts to reduce expenses, segment income amounted to 60,644 million yen (an 8.7 % decrease from the previous fiscal year).

[North America segment]

More significant sales performance of LATUDA® than the original sales plan and milestone revenue relating to licenses have offset the sales decrease of XOPENEX®, a short-acting beta-agonist whose period of exclusivity expired, thus net sales amounted to 115,835 million yen (a 6.8 % increase from the previous fiscal year). As selling, general and administrative expenses decreased through the reduction effect of labor costs as a result of business structure improvement, segment income amounted to 15,045 million yen (in the previous fiscal year, a loss of 323 million yen).

[China segment]

In addition to the increased sales of MEROPEN®, a carbapenem antibiotic, ALMARL®, a therapeutic agent for hypertension, angina pectoris, and arrhythmia and GASMOTIN®, a gastroprokinetic, also increased sales. As a result, net sales amounted to 7,642 million yen (a 16.8 % increase from the previous fiscal year) and segment income amounted to 1,831 million yen (an 89.7 % increase from the previous fiscal year).

[Other Regions segment]

Export sales have decreased due to the fact that the period of duration of the patent of MEROPEN® in overseas major countries expired. As a result, net sales amounted to 9,267 million yen (a 39.1 % decrease from the previous fiscal year) and segment income amounted to 4,341 million yen (a 38.1 % decrease from the previous fiscal year).

In addition to the above-mentioned reportable segments, the DSP Group markets food ingredients, food additives, materials for chemical products, veterinary drugs, diagnostic agents, etc., and net sales of those types of business amounted to 40,525 million yen (a 0.5 % increase from the previous fiscal year) and segment income amounted to 2,996 million yen (a 5.2 % decrease from the previous fiscal year).

(iii) Status of research and development activities

The DSP Group has been carrying out drug discovery research, designating the psychiatry and neurology areas as “a key strategic area" and the specialty area for cancer, immune-related diseases, etc. that has increasing unmet medical needs, and requires a high level of expertise in each of research, development, and sales areas as “a frontier therapeutic area”. In the oncology area, the DSP Group has been striving to establish a global cancer research and development system in such manners as to newly establish the DSP Cancer Institute in Japan last September as an organization independent from the Drug Research Division and under the direct control of the president, and in the U.S. as to set up a new base near Boston in February this year so as to expand the scale of research activities of BBI.

At the initial stage of research, the Company is not only endeavoring to improve research efficiency by making use of advanced technologies owned by itself, such as genomics, proteomics, and metabolomics, as well as the supercomputer, KEI that started functioning in Kobe City last September, but also making efforts to apply state-of-the-art science, such as iPS cells, to drug discovery. The Company is currently promoting joint research with the Center for iPS Cell Research and Application

(CiRA), Kyoto University, aiming to create new treatments for rare intractable diseases, and actively participating in the cooperative industry-government-university project, Research on Intractable Diseases Making Use of Disease-Specific iPS Cells. As for regenerative medicine, the Company has been conducting joint research on spinal cord injuries with Keio University and, in addition, reached agreement with Retina Institute Japan, K.K., in March this year to have consultations about cooperation in the practical applications of iPS cell technology for the indications of retinal diseases.

At the latter stage of research and at the development stage, the Company is optimizing the portfolio of the entire DSP Group from the global point of view, focusing on the key therapeutic area and including other areas as well. In addition, the Company is actively implementing product life cycle management, including the development of formulations that aims to maximize product values. The progress status of main development projects during the current fiscal year is as follows:

〔Psychiatry and Neurology〕

i. There has been the following progress in terms of lurasidone hydrochloride, an atypical antipsychotic:
- In the United States, approval was obtained in April last year for a change to the upper limit of daily dosage of 160 mg.
- In the United States and Canada, an application for approval was made last August in terms of the additional indication of bipolar type I disorder depression.
- In Canada, approval for schizophrenia was obtained last June, and the agent was launched last September.
- In Europe, our business partner, Takeda Pharmaceutical Company Limited, made an application last September for approval by means of centralized authorization procedure in terms of the indications of schizophrenia.
- In Australia, an application for approval was made in March this year in terms of the indications of schizophrenia.

ii. With regard to STEDESA™, an antiepileptic agent, reapplication for approval was accepted in the United States in February this year.

iii. With regard to a transdermal tape that is a new formulation of LONASEN®, a Phase II clinical study started jointly with Nitto Denko Corporation in Japan last July.

iv. With regard to SEP-225289, a therapeutic agent for attention-deficit hyperactivity disorder (ADHD), a Phase II clinical study in the United States started last September.

v. With regard to SEP-363856, a treatment for schizophrenia, a Phase I clinical study in the United States started last August.

〔Oncology〕

i. With regard to BBI608, a therapeutic agent for colorectal cancer and solid cancer, which was created to achieve an antitumor effect on cancer stem cells, there have been the following developments:
- In the United States and Canada, an international joint Phase III clinical study for colorectal cancer started in January this year.
- In Japan, a Phase I clinical study for solid cancer started in March this year.

ii. With regard to amrubicin hydrochloride, an anticancer antibiotic, an application for approval was made in China last August.

〔Specialty areas other than Oncology〕

i. Through the acquisition of SRD, SUN-101, a therapeutic agent for chronic obstructive pulmonary disease (COPD) was obtained. Phase II clinical study is still going on in the United States.

ii. With regard to DSP-1747, a therapeutic agent for chronic liver diseases, Phase II clinical study of nonalcoholic steatohepatitis (NASH) in Japan started last October.

〔Other areas〕

i. Approval for AIMIX® in Japan was obtained last September, and the agent was launched last December.

ii. With regard to SUREPOST®, a rapid-acting insulin secretagogue, approval for the additional indications of combination therapy with biguanides and with thiazolidinediones in Japan was obtained in February this year.

iii. With regard to MEROPEN®, an application for approval in terms of a change in dosage was made in Japan in January this year.

iv. With regard to DSP-6952, a therapeutic agent for the irritable bowel syndrome (IBS) with constipation and chronic idiopathic constipation, a Phase II clinical study in Japan started last December.

The DSP Group has been actively introducing development articles from outside the DSP Group. During the current fiscal year, the Company signed a license agreement relating to the anti-cancer drug candidate compound targeting the Ras signaling pathway with Kobe University, National University Corporation, and KNC Laboratories Co., Ltd., last November. In addition, in March this year, the Company concluded a license agreement for the territory of Japan with Edison Pharmaceuticals, Inc. (U.S.A.) relating to the compound that is under development as a therapeutic agent for mitochondrial disease.

In addition to the above-mentioned ethical pharmaceuticals, the Group is conducting research and development of food ingredients, food additives, materials for chemical products, veterinary drugs, etc.

(iv) Forecasts for the year ending March 31, 2014

(Millions of yen)

	Fiscal 2012 Results	Fiscal 2013 Forecasts	Change	Change %
Net sales	347,724	369,000	21,275	6.1
Operating income	25,043	26,000	956	3.8
Ordinary income	24,505	25,000	494	2.0
Net income	10,043	13,000	2,956	29.4

<Net sales>

In the domestic pharmaceutical business, we will strive to raise the sales of strategic products and new products, while a slight decrease of sales is expected from the influence of generics etc. In North America, though there will be a decline in the sales of products whose period of exclusivity has expired, an increase is expected in comparison to the previous year due to the sales expansion of LATUDA® and outlook for the lower yen. As a result we expect total net sales will be 369 billion yen (21.3 billion yen up compared with the previous fiscal year.).

<Incomes>

Total amount of gross margin will increase according to an increase in sales. In addition, selling, general and administrative expenses will decrease by the effect of improving business structure, but the influence of lower yen will exceed the amount of reduction. As a result, we expect that operating income will be 26 billion yen (1 billion yen up compared to the previous fiscal year) and ordinary income will be 25 billion yen (0.5 billion yen up compared to the previous fiscal year). Net income will be 13 billion yen (3 billion yen up compared to the previous fiscal year) because the extraordinary loss that occurred in the previous year is not expected to accrue.

<Prior condition>

Foreign currency exchange rate used for the forecasts　1 USD = 100 yen, 1 RMB = 15 yen

(2) Analysis of Financial Condition

Analysis of the status of assets, liabilities, net assets, and cash flows

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

- Assets

Total assets increased by 47,808 million yen from the previous consolidated fiscal year-end, to 607,219 million yen, primarily due to an increase in intangible assets including in-process R&D accompanied with the acquisition of BBI and SRD and an increase in total assets in foreign subsidiaries including Sunovion because of yen depreciation.

- Liabilities

Total liabilities increased by 17,787 million yen from the previous consolidated fiscal year-end, to 257,970 million yen, primarily due to the increase in deferred tax liabilities accompanied with acquisition and accounts payable-other despite of the decrease in long-term loans payable by repayment.

- Net assets

Net assets increased by 30,021 million yen from the previous consolidated fiscal year-end, to 349,248 million yen, mainly because of improvement of foreign currency transaction adjustment from yen depreciation.

In addition, shareholders' equity ratio at the end of this period amounted to 57.5 %.

(b) Status of cash flows

- Net cash provided by operating activities

With the amount of net income before taxes and minority interests, depreciation and amortization, etc., exceeding the increase in inventories, corporate taxes paid, etc., cash flows from operating activities amounted to net proceeds of 49,914 million yen (net proceeds of 48,382 million yen in the previous consolidated fiscal year).

- Net cash used in investing activities

Disbursements for the acquisition of BBI and SRD primarily accounted for cash flows from investment activities amounting to a net disbursement of 55,020 million yen (net disbursement of 4,373 million yen in the previous consolidated fiscal year).

- Net cash used in financing activities

Cash flows from financing activities amounted to a net disbursement of 20,221 million yen (net disbursement of 32,922 million yen in the previous consolidated fiscal year) mainly due to the repayment of borrowings and dividends paid.

As a result of the foregoing, the balance of cash and cash equivalents as of the end of the current consolidated fiscal year decreased by 20,745 million yen to 71,434 million yen.

(Reference) Trend of cash flow indicators

	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Shareholder's equity ratio	82.9%	54.8%	54.9%	57.1%	57.5%
Shareholder's equity ratio (market value basis)	83.1%	54.3%	52.2%	62.3%	114.8%
Ratio of interest-bearing debt cash flow	8.5%	431.2%	218.4%	205.4%	195.9%
Interest coverage ratio [times]	648.1	42.7	37.4	57.9	56.9

Shareholders' equity ratio: Shareholders' equity / total assets

Shareholders' equity ratio (market value basis): total market capitalization / total assets

Ratio of interest-bearing debt to cash flow: interest-bearing debt / operating cash flow

Interest coverage ratio: operating cash flow / interest paid

Notes: 1. Each indicator is calculated on a consolidated basis.

2. Total market capitalization is calculated based on the number of shares outstanding, less treasury stock.

3. Operating cash flow is based on the net cash provided by operating activities in the consolidated statements of cash flows less the amounts of "interest paid" and "income taxes paid".

4. Interest-bearing debt includes all consolidated balance sheet liabilities which are subject to an interest payment. Interest paid equal to the "interest paid" of the consolidated statements of cash flows.

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

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

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

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

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

The Company further plans to declare a cash dividend of ¥18 per share for the next term (the same amount as declared for the current term) in order to continue to provide regular dividends to the Company's shareholders.

(4) Business Risks

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

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

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

(iv) Risk relating to the sale of products

The Group can envision scenarios in which sales of its pharmaceutical products are threatened to decrease due to a competition with the products of the same area of other manufacturers or a launching of generic products following the expiration of a patent period or otherwise. Such cases could have a significant and negative impact on the Group's 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, and the licensing in and out of products under development, as well as for collaborative research and other purposes. The termination, for whatever reason, of such partnerships could have a significant and negative impact on the Group's operating results and financial position.

(vii) Prerequisites for primary business activities

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

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

(viii) Risk relating to litigation

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

(ix) Closedown or shutdown of a plant

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

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

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

(xi) Impact of impairment of fixed assets

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

(xii) Transactions with the parent company

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

Furthermore, during the year we also made short-term loans to our parent company to raise capital efficiency.

The Company's policy is to continue these transactions and other ties with the parent company.

However, changes in these agreements, including changes in the transaction terms specified therein, could have a significant and negative impact on the Group's operating results and financial position.

(xiii) Risk relating to overseas operation

The Group conducts global business activity mainly in regions 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.

There are risks other than those described above, and the risks listed here do not include all of the risks faced by the DSP Group.

2. Summary of the Business of the Group

The DSP Group consists of the Company, the parent company, 23 subsidiaries (15 consolidated subsidiaries and 8 non-consolidated subsidiaries), and 5 affiliated companies as of March 31, 2013. The description of the main business of the Group, the summary of the positioning relating to the relevant business of each company being part of the Group and its relationship with business segments are as follows:

(1) Japan

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

(2) North America

Under the initiative of the consolidated subsidiary and holding company, Dainippon Sumitomo Pharma America Holdings, Inc., a consolidated subsidiary, Sunovion Pharmaceuticals Inc., manufactures, purchases, and sells ethical pharmaceutical products. Its eight consolidated subsidiaries manufacture, sell, and develop ethical pharmaceuticals.

A consolidated subsidiary, Boston Biomedical, Inc., involves in research and development in the oncology area.

(3) China

In China, a consolidated subsidiary, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., manufactures (subdivide packaging) and sells ethical pharmaceuticals. In addition, a non-consolidated subsidiary, Sumiyaku China Co., Ltd., which sold ethical pharmaceuticals, suspended operations and is scheduled to be liquidated in the future.

(4) Other Regions

In Europe, a non-consolidated subsidiary, Dainippon Sumitomo Pharma Europe Ltd. (the trade name is to be changed to Sunovion Pharmaceuticals Europe Ltd. in April, 2013), develops the Company's products.

In Southeast Asia and the surrounding countries, a non-consolidated subsidiary, Sunovion Pharmaceuticals Asia Pacific Pte Ltd., negotiates contracts with business partners and provides support for obtaining approval for the Company's products.

(5) Other

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

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

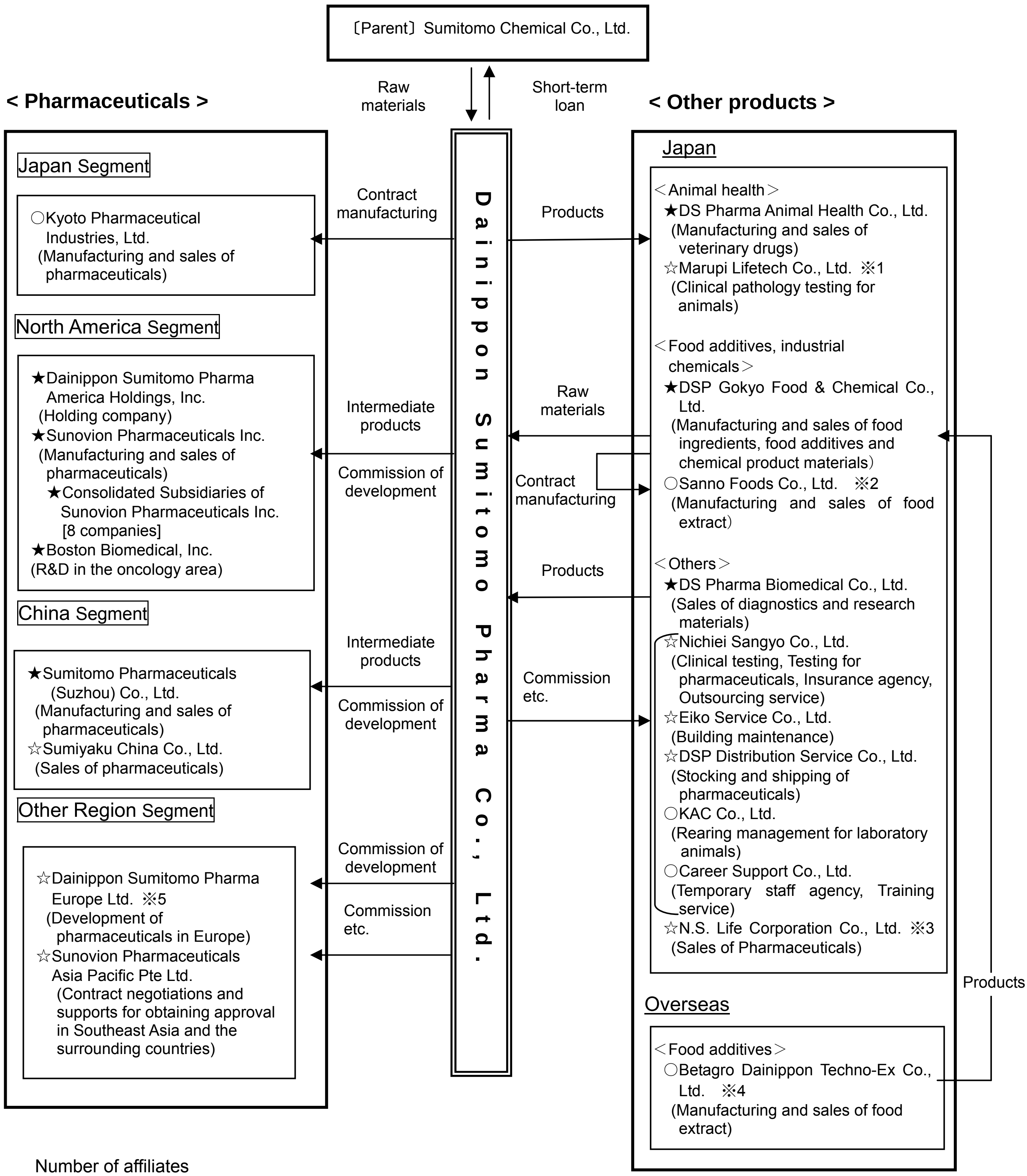
Clinical diagnostic products, machinery, and equipment for research and testing are manufactured, purchased, and sold by a consolidated subsidiary, DS Pharma Biomedical Co., Ltd., from which part of diagnostic products are purchased and sold by the Company.

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

An affiliated company, Sanno Foods Co., Ltd., manufactures food extract products and provides them to DSP Gokyo Food & Chemical Co., Ltd.

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

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



Number of affiliates

★ : Consolidated subsidiaries 15
☆ : Non-consolidated subsidiaries 8
○ : Affiliates 5

※1 : Marupi Lifetech Co., Ltd. is a subsidiary company of DS Pharma Animal Health Co. Ltd.
※2 : Sanno Foods Co., Ltd. is an affiliate company of DSP Gokyo Food & Chemical Co., Ltd.
※3 : NS Life Corporation Co., Ltd. is a subsidiary company of Nichiei Sangyo Co., Ltd.
※4 : Betagro Dainippon Techno-Ex Co., Ltd. is an affiliate company of DSP Gokyo Food & Chemical Co., Ltd.
※5 : Dainippon Sumitomo Pharma Europe Ltd. has changed its name to Sunovion Pharmaceuticals Europe Ltd. in April 2013.

3. Management Policy

(1) Fundamental Management Policy of the Company

The Company has set our corporate mission, "To broadly contribute to society through value creation based on innovative research and development activities for the betterment of healthcare and fuller lives of people worldwide" and in order to accomplish this corporate mission, we are striving to conduct business activities based on the following management missions:

■ To contribute to healthcare and peoples well-being based upon the principles of patient-oriented management and innovative research

■ To continuously strive to maximize corporate value through constant business development and to fulfill shareholder expectations

■ To create an environment in which employees can fulfill their potential and increase their creativity

■ To maintain the trust of society and to contribute to the realization of a better global environment

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

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

The Company maintains it as its corporate mission to broadly contribute to society through value creation based on research and development activities for the betterment of healthcare and fuller lives of people. To accomplish this mission, at the time of formulating the 1st Mid-term Business Plan ("MTBP") in 2007, the DSP Group set up a mid to long term vision of its envisioned company status ten years later (hereinafter, "the Vision for 2017") which consisted of three aims: "establish a solid foundation for domestic business", "expand the international business operation", and "enrich the R&D product pipeline", and has been promoting its business activities aiming to "be an internationally competitive R&D oriented pharmaceutical company" and "have two solid streams of revenue, from domestic operation and from international operation" as the future vision of fifteen years later.

In 2010, the DSP Group formulated the 2nd MTBP for the five years ending with fiscal 2014 and has been carrying out its operations. In fiscal 2012 which is the halfway point thereof, domestic net sales and income increased almost as planned, and in North America as well, Sunovion, which was acquired in fiscal 2009, expanded sales steadily. The DSP Group also made significant progress in research and development through the acquisition of BBI in April last year, giving the DSP Group promising compounds and a drug discovery platform in the oncology area.

However, toward fiscal 2014, which is the last fiscal year of the 2nd MTBP, it is becoming difficult to achieve the business goals of net sales of 420 billion yen and operating income of 70 billion yen due to the factors, such as a sharply increased risk of long-listed products in Japan decreasing their earnings and a delay in launching a new product in North America. Furthermore, the DSP Group's business structure is substantially changing in preparation for the future with its entry into the oncology area.

Taking such circumstances into consideration, the DSP Group has formulated the 3rd MTBP for the five years beginning with fiscal 2013. In the 3rd MTBP, to not only achieve the Vision for 2017 but also promote further growth, the DSP Group has set its new vision, "Aspire to be a globally active R&D-based company" and "Contribute to medical care through leading-edge technologies," and is committed to taking on a challenge to achieve innovations.

① Business Goals of the 3rd MTBP

Billions of yen

	FY 2012 Actual	FY 2015 (Reference)	FY 2017 (Goals)
Net Sales	347.7	350.0	450.0
[Pharmaceuticals]	[307.2]	[300.0]	[400.0]
Operating Income	25.0	30.0	80.0
EBITDA	60.3	50.0	110.0
R&D Costs	59.8	65.0	80.0

Note: 1. Exchange rate: 1 USD=80JPY, 1 RMB=12JPY
2. EBITDA: Earnings before Interest, Taxes, Depreciation and Amortization, and Extraordinary income / loss.

② 3rd MTBP Basic Policies and Strategies

In the 3rd MTBP, the DSP Group is going to promote its business activities based on the following basic policies and strategies:

[Basic Policies]

i. Establish a robust revenue base in Japan
ii. Further expand overseas business and maximize earnings
iii. Expand global pipeline
iv. Continuously pursue operational efficiency and CSR
v. Build an active corporate culture and develop talent

[Strategies]

i. Therapeutic area Strategy/Product Strategy

The DSP Group is committed to the psychiatry, neurology, and oncology areas and continues to actively invest management resources in such areas throughout the period of the 3rd MTBP.

In the psychiatry and neurology areas, by maximizing the product value through additional efficacy and by expanding business areas, the DSP Group aims to bring up a global strategic product, LATUDA® to a blockbuster. In the oncology area, the DSP Group aims to successfully complete the development and expand the business of BBI608 and BBI503 that are under development to be recognized as the world’s first cancer therapeutic agent that has an antitumor efficacy to cancer stem cells. In addition, the DSP Group intends to not only successfully develop post-LATUDA candidates primarily in the psychiatry, neurology, and oncology areas but also expand business on a global scale with new medicines as the growth driver by proactively promoting in-licensing and strategic alliances.

ii. Regional Strategies

The DSP Group will place a priority on maintaining and expanding business in Japan and North America. In Japan, resources will be concentrated on the growth products, such as AIMIX®, METGLUCO®, and SUREPOST® in the cardiovascular and diabetes areas, and LONASEN® and TRERIEF® in the psychiatry and neurology areas so as to maintain the scale of business operations. Furthermore, during the latter half of the 3rd MTBP, the DSP Group intends to increase sales by launching our global product, lurasidone hydrochloride and BBI608 in Japan, and will also proactively promote in-licensing and alliances. In North America, the DSP Group intends to minimize the impact of the sales decline of existing products by expanding sales of LATUDA® and launching STEDESA™. During the latter half of the 3rd MTBP, the DSP Group will significantly advance its North American business with the launch and quick expansion of its oncology business. Meanwhile, the DSP Group will continue to invest to expand its business in North America. In China, the DSP Group aims to expand business gradually through the launch of products that are currently under development. In Europe, the DSP Group will start selling lurasidone hydrochloride through its own sales organization in the United

Kingdom and will consider the possibility of expanding business into several other European countries. In Southeast Asia, the DSP Group will also create a foundation with lurasidone hydrochloride to enter into business in Thailand and Malaysia via Singapore as a sales base and, furthermore, investigate opportunities for business expansion in the Oceania region.

iii. R&D Strategies

In the 3rd MTBP, in addition to the psychiatry and neurology areas, the DSP Group sets the oncology area as the key strategic area and will channel all energies into innovative drug discovery. In the psychiatry and neurology areas, the DSP Group will focus the improvement of current treatments that do not sufficiently result in adequate symptom relief, as well as the treatment of the patients who do not respond enough to existing medicines, and promote research and development of therapeutic agents in schizophrenia, depression, Alzheimer's disease, and other disorders. In the oncology area, under the global and consistent R&D system established by BBI and the DSP Cancer Institute, the DSP Group aims to lead the world in the cancer stem cell area and continually create innovative products. In addition, the DSP Group will apply leading-edge science, such as iPS cells to drug discovery, while strengthening activities in cell therapy and regenerative medicines to develop medicines for refractory diseases.

As for clinical development, the DSP Group will strengthen the global seamless management and promote development in a speedier and more efficient manner.

iv. Returns to Shareholders and Investment Strategies/Financial Strategies

The DSP Group forecasts operating cash flow of 240 billion yen in the five years of the 3rd MTBP. Based on integrated and sustainable improvement of corporate value and shareholder value, in addition to stability, the Company will consider increases in dividends in line with improved business performance. As for investment strategies and financial strategies, the DSP Group will secure cash according to need by using leverage to actively make new investments in domestic, North American, European, and new business operations.

v. Strengthening of Business Foundation and Promotion of CSR Management

The DSP Group will improve its corporate structure in a streamlined manner by not only pursuing improvement of business efficiency through the rationalization of labor costs and general expenses, improvement of asset efficiency, organizational simplification, promotion of rearrangement of strongholds, etc., but also working to build such a strong corporate culture that encourages actions to take on a new challenge in order to establish a robust business management structure that can respond flexibly to changes in the business environment. At the same time, the DSP Group will ensure further reinforcement of its Corporate Mission, Management Mission and Declaration of Conduct, strengthen its corporate governance globally, promote social contribution activities in and out of Japan, improve the vitality of employees, and promote communication with various stakeholders.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2012		As of March 31, 2013	
Assets				
Current assets:				
Cash and time deposits		12,953		18,753
Notes and accounts receivable	*5	101,955	*5	97,182
Marketable securities		99,118		86,463
Merchandise and finished goods		42,480		45,357
Work-in-process		2,591		3,570
Raw materials and supplies		13,045		13,762
Deferred tax assets		31,782		30,097
Short-term loans		25,000		34,401
Others		5,433		3,958
Allowance for doubtful receivables		(110)		(105)
Total current assets		334,250		333,438
Fixed assets:				
Property, plant and equipment:				
Buildings and structures		91,115		92,586
Accumulated depreciation and impairment loss		(50,753)		(52,662)
Buildings and structures, net		40,361		39,923
Machinery, equipment and carriers		76,854		76,740
Accumulated depreciation and impairment loss		(66,997)		(67,325)
Machinery, equipment and carriers, net		9,856		9,414
Land		10,248		10,277
Construction in progress		2,121		5,799
Others		28,104		28,613
Accumulated depreciation and impairment loss		(23,994)		(24,165)
Others, net		4,109		4,447
Total property, plant and equipment		66,697		69,862
Intangible assets:				
Goodwill		64,311		71,293
Patent rights	*4	32,524	*4	17,383
In-process research and development		5,659		50,664
Others		5,211		6,968
Total intangible assets		107,706		146,310
Investments and other assets:				
Investment securities	*1,*2	29,855	*1,*2	40,838
Deferred tax assets		11,624		7,569
Others	*2	9,331	*2	9,246
Allowance for doubtful receivables		(55)		(47)
Total investments and other assets		50,755		57,607
Total fixed assets		225,159		273,780
Total assets		559,410		607,219

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Liabilities		
Current liabilities:		
Notes and accounts payable	*1,*5 16,860	*1,*5 14,253
Current portion of bonds payable	—	10,000
Current portion of long-term loans payable	10,000	10,000
Income taxes payable	5,437	2,115
Reserve for bonuses	7,592	7,610
Reserve for sales returns	3,657	5,650
Reserve for sales rebates	18,527	19,153
Accounts payable-other	30,009	34,771
Others	13,881	21,276
Total current liabilities	105,965	124,831
Long-term liabilities:		
Bonds payable	70,000	60,000
Long-term loans payable	48,000	35,000
Deferred tax liabilities	330	14,494
Liability for retirement benefits	10,790	11,030
Others	5,097	12,615
Total long-term liabilities	134,217	133,139
Total liabilities	240,183	257,970
Net assets		
Shareholders' equity:		
Common stock	22,400	22,400
Capital surplus	15,860	15,860
Retained earnings	305,664	308,556
Treasury stock	(649)	(651)
Total shareholders' equity	343,275	346,165
Accumulated other comprehensive income (loss)		
Unrealized gains on available-for-sale securities, net of tax	8,016	14,121
Foreign currency translation adjustment	(32,064)	(11,038)
Total accumulated other comprehensive income (loss)	(24,047)	3,082
Total net assets	319,227	349,248
Total liabilities and net assets	559,410	607,219

(2) Consolidated Statements of (Comprehensive) Income

Consolidated Statements of Income

(Millions of yen)

		Year ended March 31, 2012		Year ended March 31, 2013
Net sales		350,395		347,724
Cost of sales	*1	98,845	*1	101,694
Gross profit		251,550		246,029
Reversal of reserve for sales returns		—		8
Provision for reserve for sales returns		11		—
Gross profit-net		251,539		246,038
Selling, general and administrative expenses				
Salaries		36,549		34,964
Provision for reserve for bonuses		5,128		5,132
Depreciation and amortization		27,555		25,165
Research and development costs	*2	56,890	*2	59,844
Others		105,013		95,887
Total selling, general and administrative expenses		231,136		220,994
Operating income		20,402		25,043
Non-operating income				
Interest income		347		330
Dividend income		676		760
Real estate rent		219		193
Foreign exchange gains		102		734
Others		739		1,042
Total non-operating income		2,086		3,060
Non-operating expenses				
Interest expense		1,122		1,071
Contribution		1,590		1,904
Others		903		622
Total non-operating expenses		3,616		3,598
Ordinary income		18,872		24,505
Extraordinary income				
Gain on sales of property, plant and equipment		1,240		—
Total extraordinary income		1,240		—
Extraordinary loss				
Business structure improvement expenses	*3	1,224	*3	4,840
Loss on litigation		—	*4	1,090
Impairment loss	*5	2,337	*5	416
Loss on valuation of investment securities		223		—
Total extraordinary loss		3,785		6,347
Income before income taxes and minority interests		16,327		18,158
Income taxes-current		12,291		6,788
Income taxes-deferred		(4,593)		1,325
Income taxes		7,698		8,114
Income before minority interests		8,629		10,043
Net income		8,629		10,043

Consolidated Statements of Comprehensive Income (Loss)

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Income before minority interests	8,629	10,043
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities, net of tax	2,602	6,104
Foreign currency translation adjustment	(8,836)	21,025
Total other comprehensive income (loss)	* (6,233)	* 27,130
Comprehensive income (loss)	2,396	37,174
Comprehensive income (loss) attributable to		
Comprehensive income (loss) attributable to owners of the parent	2,396	37,174
Comprehensive income (loss) attributable to minority interests	—	—

(3) Consolidated Statements of Changes in Net Assets

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Shareholders' equity		
Common stock		
Balance at the end of previous period	22,400	22,400
Changes in items during the period		
Total changes in items during the period	—	—
Balance at the end of current period	22,400	22,400
Capital surplus		
Balance at the end of previous period	15,860	15,860
Changes in items during the period		
Total changes in items during the period	—	—
Balance at the end of current period	15,860	15,860
Retained earnings		
Balance at the end of previous period	304,186	305,664
Changes in items during the period		
Cash dividends	(7,151)	(7,151)
Net income	8,629	10,043
Sales of treasury stock	(0)	(0)
Total changes in items during the period	1,477	2,892
Balance at the end of current period	305,664	308,556
Treasury stock		
Balance at the end of previous period	(648)	(649)
Changes in items during the period		
Purchases of treasury stock	(1)	(1)
Sales of treasury stock	0	0
Total changes in items during the period	(1)	(1)
Balance at the end of current period	(649)	(651)
Total shareholders' equity		
Balance at the end of previous period	341,798	343,275
Changes in items during the period		
Cash dividends	(7,151)	(7,151)
Net income	8,629	10,043
Purchases of treasury stock	(1)	(1)
Sales of treasury stock	0	0
Total changes in items during the period	1,476	2,890
Balance at the end of current period	343,275	346,165

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Accumulated other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities, net of tax		
Balance at the end of previous period	5,413	8,016
Changes in items during the period		
Net changes in items other than shareholders' equity	2,602	6,104
Total changes in items during the period	2,602	6,104
Balance at the end of current period	8,016	14,121
Foreign currency translation adjustment		
Balance at the end of previous period	(23,228)	(32,064)
Changes in items during the period		
Net changes in items other than shareholders' equity	(8,836)	21,025
Total changes in items during the period	(8,836)	21,025
Balance at the end of current period	(32,064)	(11,038)
Total accumulated other comprehensive income (loss)		
Balance at the end of previous period	(17,814)	(24,047)
Changes in items during the period		
Net changes in items other than shareholders' equity	(6,233)	27,130
Total changes in items during the period	(6,233)	27,130
Balance at the end of current period	(24,047)	3,082
Total net assets		
Balance at the end of previous period	323,983	319,227
Changes in items during the period		
Cash dividends	(7,151)	(7,151)
Net income	8,629	10,043
Purchases of treasury stock	(1)	(1)
Sales of treasury stock	0	0
Net changes in items other than shareholders' equity	(6,233)	27,130
Total changes in items during the period	(4,756)	30,021
Balance at the end of current period	319,227	349,248

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Net cash provided by operating activities:		
Income before income taxes and minority interests	16,327	18,158
Depreciation and amortization	*1 36,468	*1 31,312
Impairment loss	2,337	416
Amortization of goodwill	3,764	3,773
Provision for liability for retirement benefits, less payments	(129)	(228)
Provision for other liabilities	5,058	128
Interest and dividend income	(1,024)	(1,090)
Interest expense	1,122	1,071
Loss (gain) on sales of property, plant, and equipment	(1,240)	—
Loss (gain) on valuation of investment securities	223	—
Business structure improvement expenses	1,224	4,840
Loss on litigation	—	1,090
Decrease (increase) in notes and accounts receivable	4,998	7,066
Decrease (increase) in inventories	(2,584)	(3,731)
Increase (decrease) in notes and accounts payable	1,252	(2,742)
Increase (decrease) in accounts payable-other	(3,738)	(1,873)
Other-net	(1,426)	5,096
Subtotal	62,632	63,288
Interest and dividend received	1,348	1,442
Interest paid	(1,105)	(1,073)
Payment for business structure improvement expenses	—	(3,627)
Income taxes paid	(14,492)	(10,115)
Net cash provided by operating activities	48,382	49,914
Net cash provided used in investing activities:		
Decrease (increase) in time deposits	—	(8,071)
Proceeds from redemption of time deposits	—	2,892
Purchases of marketable securities	(35,772)	(45,075)
Proceeds from sales of marketable securities	6,203	166
Proceeds from redemption of marketable securities	34,916	39,982
Purchases of property, plant and equipment	(6,715)	(7,817)
Proceeds from sales of property, plant and equipment	1,944	18
Purchases of intangible assets	(2,136)	(2,208)
Purchases of investment securities	(3,202)	(2,343)
Proceeds from sales of investment securities	362	2
Proceeds from redemption of investment securities	46	264
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(24,852)
Payment of loan receivable	—	(7,981)
Other-net	(20)	2
Net cash provided used in investing activities	(4,373)	(55,020)

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Net cash used in financing activities:		
Net increase (decrease) in short-term loans payable	(50,000)	–
Proceeds from long-term loans payable	15,000	–
Repayment of long-term debt	(10,600)	(13,000)
Proceeds from issuance of bonds	19,895	–
Net decrease (increase) in treasury stock	(1)	(1)
Dividends paid	(7,149)	(7,151)
Other-net	(67)	(68)
Net cash used in financing activities	(32,922)	(20,221)
Effect of exchange rate changes on cash and cash equivalents	(1,775)	4,582
Net increase (decrease) in cash and cash equivalents	9,311	(20,745)
Cash and cash equivalents at the beginning of period	82,868	92,179
Cash and cash equivalents at the end of period	*2 92,179	*2 71,434

(5) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Significant Basic Items for Preparing Consolidated Financial Statements)

1. Scope of consolidation

Of 23 subsidiaries, 15 companies are consolidated subsidiaries. The names of the major consolidated subsidiaries are omitted as they are set out in the “2. Summary of the Business of the group.”

As a result of the acquisition of BBI and SRD, they are newly consolidated.

8 non-consolidated companies have been excluded from the scope of consolidation because they are small companies and their exclusion does not have a material impact on our consolidated financial statements.

2. Application of the equity method

8 non-consolidated companies and 5 affiliated companies have been excluded from the scope of the application of the equity method as their exclusion does not have a material impact on our consolidated financial statements.

3. Fiscal year of consolidated subsidiaries

There are 12 consolidated overseas subsidiaries.

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

4. Accounting policies and methods

(1) Valuation standards and methods of significant assets

(i) Securities

Available-for-sale securities

With market values

Market value method based on the market price as of the last day of the consolidated fiscal period (All valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated using the moving-average method.)

Without market values

Moving-average cost method

(ii) Inventories

Inventories held for sale in the regular course of business

Weighted average cost method (Book values are calculated using the lower of cost or market principle) Certain consolidated subsidiaries use the FIFO (first-in, first-out) costing method (Book values are calculated using the lower of cost or market principle).

(2) Depreciation and amortization of significant depreciable assets

(i) Property, plant and equipment (excluding leased assets)

Straight-line method

The estimated useful life of each asset is as follows:

Buildings and structures: 3 to 60 years

Machinery, equipment and carriers: 2 to 17 years

(ii) Intangible assets (excluding lease assets)

Straight-line method

The estimated useful life of each asset is based on usable period

(iii) Lease assets

Lease assets relate to finance lease transactions that do not transfer ownership

The straight-line method is used where the lease period is taken as the useful life and the residual value is zero.

Finance lease transactions which do not transfer ownership, which started on or before March 31, 2008, are accounted for in the same manner as ordinary operating lease transactions.

(3) Accounting for significant allowance/reserves

(i) Allowance for doubtful receivables

In order to provide for losses arising from uncollectable receivables and other bad debts, we review the loan loss ratio of general claims and collectability on an individual basis of particular loans, such as those with a higher probability of default, and accrue provisions for the amounts that we estimate will be uncollectable.

(ii) Reserve for bonuses

In order to provide for the payment of employee bonuses, the amounts that we estimate will be paid are accrued.

(iii) Reserve for sales returns

A reserve is accrued for profits from expected sales returns. In certain consolidated subsidiaries, a reserve is accrued for losses from expected sales returns.

(iv) Reserve for sales rebates

A reserve for sales rebates is accrued in order to provide for the disbursement of sales rebates for public programs, wholesalers, other contracts.

(v) Liability for retirement benefits

In order to provide for the retirement benefits of employees, amounts are accrued based on the projected benefit obligations and estimated value of pension assets as of the end of the consolidated fiscal year.

Unrecognized prior service costs are treated as an expense and recognized using the straight-line method, based on the average number of remaining service years of employees when incurred (15 years).

Unrecognized actuarial gains and losses are treated as an expense and recognized from the following consolidated fiscal year using the straight-line method based on the average number of remaining service years of employees when incurred (15 years).

(4) Standards applicable to the conversion of material foreign currency-denominated assets and liabilities into Japanese yen

Monetary receivables and payables denominated in foreign currencies are translated into yen at the spot exchange rate on the last day of the consolidated fiscal year. Any foreign exchange gain or loss resulting from translation is charged to income.

Assets and liabilities of overseas subsidiaries are translated into yen at the spot exchange rate in effect at the balance sheet date. Revenue and expenses are translated at the average exchange rate for the period into yen. Differences arising from translations are recognized as foreign currency translation adjustment in net asset section.

(5) Significant hedge accounting method

(i) Hedge accounting method

The DSP Group uses the deferred hedge accounting method. Foreign exchange forward contracts are accounted for by recognizing gains and losses on foreign monetary rights or obligations, preset price, when the contracts conditions are satisfied.

(ii) Hedging instruments and hedged items

- Hedging instruments

  Foreign exchange forward contracts

- Hedged items

Monetary assets and liabilities denominated in foreign currencies and monetary assets and liabilities specifically related to anticipated transactions, denominated in foreign currencies, which are covered by an agreement.

(iii) Hedging policy

Foreign exchange forward contract are conducted pursuant to internal rules and regulations in order to hedge foreign currency risks.

(iv) Method of evaluating the effectiveness of hedges

The effectiveness has been evaluated by comparing the accumulated changes in market value of hedged items with the accumulated changes in market value of hedging instruments. With regard to foreign exchange forward contracts, the effectiveness of such contracts has not been evaluated as important conditions for hedged items and hedging instruments are the same.

(6) Amortization of goodwill and negative goodwill

Goodwill has been amortized on a straight-line basis over a period of 20 years.

(7) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows represents cash and deposits (excluding the time deposits with a term longer than 3 months), and short-term investment maturing within 3 months from the acquisition date.

(8) Other significant accounting policies for consolidated financial statements

Accounting for consumption taxes

All financial statement items are net of consumption taxes.

(Changes to accounting policies in cases where it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate)

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, we have decided to apply, starting with the current 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 at our increasingly important consolidated subsidiaries outside Japan.

The change of depreciation method resulted in a 1,693 million yen lower depreciation in the year ended March 31, 2013 than in the case had the declining-balance method been continued. Operating income, ordinary income, and income before income taxes and minority interests in the year ended March 31, 2013 are 1,185 million yen greater respectively.

(Accounting standards that have not been applied yet)

“Accounting Standards concerning to Retirement Benefits” (Accounting Standards No. 26 of May 17, 2012) and “Application Guidelines for Accounting Standards concerning Retirement Benefits” (Application Guidelines for Accounting Standards No. 25 of May 17, 2012)

(1) Summary

The present accounting standards are the revised standards, after taking into consideration the standpoint of improving financial reporting and international trends, focusing on the treatment method of unrecognized actuarial differences and unrecognized prior service costs, calculation method of projected benefit obligations and service costs, and the enhancement of disclosure.

(2) Scheduled date of application

The application is scheduled for implementation from the end of the fiscal year in March 31, 2014. However, as for the revision of the calculation method of projected benefit obligations and service costs, the application is scheduled for implementation from the beginning of the fiscal year ending March 31, 2015.

(3) Influence by the application of the relevant accounting standards

The amount of influence is under evaluation at the time of preparing the current consolidated financial statements.

(Change of the indication method)

(Consolidated balance sheet)

As for “In-process research and development” that was included in “Other” of “Intangible assets” in the previous fiscal year, because it has exceeded five-hundredths of the total amount of assets, we have effected a change to independently indicate from the current consolidated fiscal year. In addition, because “Deferred tax liabilities” that were included in “Other” of “Long-term liabilities” in the previous fiscal year have exceeded one-hundredth of the total amount of liabilities and net assets, we have effected a change to indicate separately from the current consolidated fiscal year. To reflect such changes of the indication method, we have rearranged the consolidated financial statements for the previous consolidated fiscal year.

As a result, in the consolidated balance sheet for the previous consolidated fiscal year, 10,871 million yen indicated in “Other” of “Intangible assets” has been rearranged as 5,659 million yen in “In-process research and development” and 5,211 million yen in “Other.” In addition, 5,427 million yen indicated in “Other” of “Long-term liabilities” has been rearranged as 330 million yen of “Deferred tax liabilities” and 5,097 million yen of “Other.”

(Consolidated statements of income)

As for “Foreign exchange gains” that were included in “Other” of “Non-operating income” in the previous fiscal year because it has exceeded ten-hundredths of the total amount of non-operating income, we have effected a change to independently indicate from the current consolidated fiscal year. To reflect such changes of the indication method, we have rearranged the consolidated financial statements for the previous consolidated fiscal year.

As a result, in the consolidated balance sheet for the previous consolidated fiscal year, 842 million yen indicated in “Other” of “Non-operating income” has been rearranged as 102 million yen in “Foreign exchange gains” and 739 million yen in “Other.”

(Notes to consolidated balance sheets)

* 1. Assets pledged as collateral are as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Cash and time deposit (time deposit)	―	281
Investment securities	51	48

Note: Time deposit has pledged as collateral for L/C issued by bank.

Secured liabilities are as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Accounts payable	205	102

* 2. Investment in non-consolidated subsidiaries and affiliates are as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Investment securities (stock)	772	779
Investments in capital (included in “Others” under “Investments and other assets”)	200	200

* 3. Contingent liabilities

(1) Debt guarantees covering amounts borrowed by non-consolidated companies from financial institutions have been extended as follows:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Sanno Food Co., Ltd.	280	263

(2) Debt guarantees covering amounts of housing funds borrowed by employees from financial institutions have been extended as follows:

(Millions of yen)

As of March 31, 2012	As of March 31, 2013
167	136

* 4. Patent rights include distributorship, etc.

* 5. Accounting for notes mature on the settlement date

Notes that reach maturity on the settlement date are settled as of the conversion date of the notes. The following notes mature on the settlement date will be included in the accounts of this consolidated fiscal year because the final date of this consolidated fiscal year was a bank holiday.

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Notes receivable	469	412
Notes payable	65	65

(Notes to consolidated statements of income)

* 1. Inventory is stated at value after devaluation corresponding to reduced profitability, the following loss on (reversal of) valuation of inventories is included in the "Cost of sales":

Year ended March 31, 2012 (April 1,2011 to March 31, 2012)	Year ended March 31, 2013 (April 1,2012 to March 31, 2013)
(451)	1,776

* 2. Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)

The total amount of research and development costs equals 56,890 million yen and has been included in "Selling, general and administrative expenses."

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

The total amount of research and development costs equals 59,844 million yen and has been included in "Selling, general and administrative expenses."

* 3. Business structure improvement expenses

Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)

Conducting the review of the business structure in the U.S. subsidiary, business structure improvement expenses occurred.

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

Improving the business structure and organization in the Company and the U.S. subsidiaries, business structure improvement expenses occurred.

This business structure improvement expenses involves Impairment loss of 169 million yen, while the disclosure of Impairment loss has been omitted as there is less quantitative materiality.

* 4. Loss on litigation

Year ended March 31, 2013 (April 1, 2012, to March 31, 2013)

Loss on litigation is the expenses incurred in connection with the lawsuits involving U.S. subsidiary.

* 5. Impairment loss Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)

Among the fixed assets owned by the DSP Group, business assets are grouped by segment, with individual assets constituting the smallest grouping unit for idle assets, patents, and other such assets.

In the year ended March 31, 2012, the DSP Group posted impairment losses with respect to the following assets.

(Millions of yen)

Usage for	Item	Location	Impairment loss amount
Exclusive rights with respect to Pharmaceuticals	Patents	U.S.	2,337

The recoverability of patents deemed to be lacking in future profitability was assessed, and a part of their unamortized balance has been posted as impairment losses. The recoverable amounts of these assets are measured according to value in use (discount rate 13.0%).

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

Among the fixed assets owned by the DSP Group, business assets are grouped by segment, with individual assets constituting the smallest grouping unit for idle assets, patents, and other such assets.

In the year ended March 31, 2013, the DSP Group posted impairment losses with respect to the following assets.

(Millions of yen)

Usage for	Item	Location	Impairment loss amount
Results of research and development with respect to compound in development	In-process research and development	U.S.	416

The recoverability of in-process research and development deemed to be lacking in future profitability was assessed, and a part of their book value has been posted as impairment losses. The recoverable amounts of these assets are measured according to value in use (discount rate 14.0%).

(Notes to consolidated statements of comprehensive income (loss))

* Amount of recycling and amount of income tax effect associated with other comprehensive income (loss)

(Millions of yen)

	Year ended March 31, 2012	Year ended March 31, 2013
Valuation difference on available-for-sale securities		
Amount recognized in the period under review	2,950	8,861
Amount of recycling	354	(51)
Before income tax effect adjustment	3,304	8,809
Amount of income tax effect	(702)	(2,704)
Valuation difference on available-for-sale securities, net of tax	2,602	6,104
Foreign currency translation adjustment		
Amount recognized in the period under review	(8,836)	21,025
Foreign currency translation adjustment	(8,836)	21,025
Total other comprehensive income (loss)	(6,233)	27,130

(Notes to consolidated statements of changes in net assets)

Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)

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

(Thousands of shares)

	Number of shares as of April 1, 2011	Increase during the period	Decrease during the period	Number of shares as of March 31, 2012
Issued shares				
Common stock	397,900	—	—	397,900
Total	397,900	—	—	397,900
Treasury stock				
Common stock	587	1	0	588
Total	587	1	0	588

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

2. Dividends

(1) Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Record date	Effective date of distribution
June 24, 2011 Annual shareholders' meeting	Common stock	3,575 million yen	9.00 yen	March 31, 2011	June 27, 2011
October 31, 2011 Meeting of the Board of Directors	Common stock	3,575 million yen	9.00 yen	September 30, 2011	December 1, 2011

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

Resolution	Type of share	Total dividend amount	Source of funds for dividend distribution	Dividend amount per share	Record date	Effective date of distribution
June 22, 2012 Annual shareholders' meeting	Common stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2012	June 25, 2012

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

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

(Thousands of shares)

	Number of shares as of April 1, 2012	Increase during the period	Decrease during the period	Number of shares as of March 31, 2013
Issued shares				
Common stock	397,900	—	—	397,900
Total	397,900	—	—	397,900
Treasury stock				
Common stock	588	1	0	590
Total	588	1	0	590

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

2. Dividends

(1) Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Record date	Effective date of distribution
June 22, 2012 Annual shareholders' meeting	Common stock	3,575 million yen	9.00 yen	March 31, 2012	June 25, 2012
October 31, 2012 Meeting of the Board of Directors	Common stock	3,575 million yen	9.00 yen	September 30, 2012	December 3, 2012

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

Resolution schedule	Type of share	Total dividend amount	Source of funds for dividend distribution	Dividend amount per share	Record date	Effective date of distribution
June 21, 2013 Annual shareholders' meeting	Common stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2013	June 24, 2013

(Notes to consolidated statements of cash flows)

*1. Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)

"Depreciation and amortization" includes 1,006 million yen, amortized amount of long-term prepaid expenses.

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

"Depreciation and amortization" includes 1,056 million yen, amortized amount of long-term prepaid expenses.

* 2. Reconciliation of balance of "cash and cash equivalents at the end of period" and the amounts of items stated in the consolidated balance sheet are as follows:

(Millions of yen)

	Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)
Cash and time deposit accounts	12,953	18,753
Time deposits with maturities exceeding 3 months	—	(6,151)
Short-term investments with a maturity within 3 months from acquisition date (marketable securities)	79,226	58,832
Cash and cash equivalent	92,179	71,434

(Retirement benefit)

1. Outline of adopted retirement benefit plans

The Company and certain consolidated subsidiaries have set up a retirement lump-sum grant plan, a defined benefit corporate pension plan and others as defined benefit-type plans. In addition, a defined contribution pension plan has been set up as a defined contribution type plan. A retirement benefit trust has also been set up by the Company.

2. Liability for retirement benefits

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
(a) Liabilities for retirement benefits	(81,096)	(81,911)
(b) Pension assets *1	67,106	72,510
(c) Unfunded liability for retirement benefits [(a) + (b)]	(13,990)	(9,401)
(d) Unrecognized actuarial differences	7,471	2,998
(e) Unrecognized past service liability (reduction in liability)	(757)	(532)
(f) Net retirement benefit obligations [(c) + (d) + (e)]	(7,276)	(6,935)
(g) Prepaid pension expense	3,513	4,095
(h) Reserve for retirement benefits [(f) – (g)]	(10,790)	(11,030)

Notes: 1. A pension benefit trust has been set up.
2. In calculating the liability for retirement benefits for certain consolidated subsidiaries, a simplified method has been adopted.

3. Retirement benefit expenses

(Millions of Yen)

	Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)
(a) Service cost *1, 2, 3	3,108	3,204
(b) Interest expense	1,595	1,613
(c) Expected returns on plan assets	(1,231)	(1,260)
(d) Amortization of actuarial differences	893	892
(e) Amortization of prior service costs	(218)	(218)
(f) Retirement benefit expenses [(a) + (b) + (c) + (d) + (e)]	4,146	4,232
(g) Others*4	2,199	2,585
(h) Total [(f) + (g)]	6,346	6,818

Notes: 1. Includes retirement funds for received loan employees payable to the originating company.
2. Excludes retirement funds payable by the company to which loan employees are dispatched.
3. Retirement benefit expenses incurred by consolidated subsidiaries that have adopted a simplified method are posted to “(a) Service costs.”
4. “(g) Others” consists of installment payments made to defined contribution pensions and other payments.

4. Basis for calculating the liability for retirement benefits

(a) Period allocation method for estimated retirement benefits

Fixed amount method

(b) Discount rate

Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)
2.0%	2.0%

(c) Expected returns on plan assets

Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)
2.0%	2.0%

(d) Amortization period of prior service costs

15 years (treated as an expense and recognized using the straight-line method, based on the average number of remaining service years of employees when incurred)

(e) Amortization period of actuarial differences

15 years (treated as an expense and recognized from the following consolidated fiscal year using the straight-line method based on the average number of remaining service years of employees when incurred)

(Tax effect accounting)

1. Breakdown of deferred tax assets and deferred tax liabilities by main cause of occurrence:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Deferred tax assets		
Reserve for bonuses	2,821	2,823
Reserve for sales rebates	7,199	6,421
Accrued enterprise taxes	515	189
Liabilities for employees' retirement benefits	2,592	2,537
Loss on valuation of investment securities	601	1,039
Research and development costs	10,380	7,686
Inventories	2,163	2,374
Net operating loss carried forward	8,830	5,649
Amortization of intangible assets	9,751	11,962
Tax credit for R&D costs of overseas subsidiaries	10,113	11,464
Others	11,194	11,074
Subtotal of deferred tax assets	66,163	63,221
Amount of valuation allowance	(4,004)	(4,358)
Total of deferred tax assets	62,158	58,863
Deferred tax liabilities		
Unrealized gains on available-for-sale securities, net of tax	(4,236)	(7,346)
Reserve for advanced depreciation of fixed assets	(883)	(854)
Valuation of intangible assets	(13,962)	(26,165)
Refund of capital surplus of a subsidiary	—	(471)
Undistributed earnings of foreign subsidiaries	—	(111)
Others	—	(807)
Total deferred tax liabilities	(19,081)	(35,756)
Net amount of deferred tax assets	43,077	23,107

Note: Net amount of deferred tax assets is included the following consolidated balance sheet items:

(Millions of yen)

	As of March 31, 2012	As of March 31, 2013
Current assets – deferred tax assets	31,782	30,097
Fixed assets – deferred tax assets	11,624	7,569
Current liabilities – deferred tax liabilities	—	(66)
Fixed liabilities – deferred tax liabilities	(330)	(14,494)

2. Reconciliation of effective tax rate:

	As of March 31, 2012	As of March 31, 2013
Statutory tax rate	40.6%	38.0%
(Adjustments)		
Entertainment expenses and other items that are excluded from nontaxable expenses	11.4%	6.5%
Dividend income and other items that are excluded from taxable income	(2.6%)	(1.0%)
Tax credit for R&D expenses	(23.2%)	(9.0%)
Residence tax on per-capita basis	0.8%	0.7%
Amortization of goodwill	9.4%	7.9%
Change in valuation allowance	(0.1%)	(0.5%)
Adjustment on deferred tax assets due to change in income tax rate	10.9%	1.1%
Increase(decrease) of tax effect concerned with undistributed earnings of subsidiary	—	0.6%
Others	(0.1%)	0.4%
Actual effective tax rate	47.1%	44.7%

(Business combination)

Business combination through acquisition

1 Boston Biomedical, Inc.

(1) 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 area of cancer, 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 right acquired

Ratio of voting right owned prior to the acquisition of shares: 0%

Ratio of voting right after acquisition: 100%

⑦ Main grounds for reaching a decision on the company to be acquired

It is because the Company acquired 100% of BBI's shares in exchange for cash.

(2) Terms of performance of the acquired company included in the consolidated financial statements

From April 24, 2012, to December 31, 2012

(3) Acquisition cost of the acquired company and the breakdown thereof

Compensation for acquisition	16,512 million yen
Cost directly required for the acquisition	758 million yen
Acquisition cost	17,270 million yen

This is the acquisition by means of cash.

(4) Amount of acquired goodwill, cause for accrual, amortization method, and amortization period

① Amount of goodwill

142 million yen

② Cause for accrual

As the acquisition cost exceeds the net amount allocated to the acquired assets and assumed debts, such excess amount 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.

(5) Total assets acquired and liabilities assumed on the date of business combination and the main breakdown thereof

Current assets	283 million yen
Fixed assets	28,743 million yen
Total assets	29,027 million yen
Current liabilities	158 million yen
Fixed liabilities	11,598 million yen
Total liabilities	11,756 million yen

(6) Content of the conditional compensation 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 conditional compensation for acquisition

The conditional compensation for acquisition is a contract under which an additional payment shall be made according to a specific milestone-achieving level after business combination.

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

In the event an additional payment has been made, we deem it as having been paid at the time of acquisition and modify the acquisition value, as well as the goodwill amount and the goodwill depreciation amount.

(7) Amount allocated to intangible fixed assets other than goodwill, the breakdown thereof by main types and weighted-average depreciation period for the entirety and by main types

Breakdown by main types	Amount	Depreciation period
In-process research and development	28,483 million yen	Availability period

(8) Allocation of acquisition cost

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

(9) 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

Sales	24 million yen
Ordinary income	(885) million yen
Net income	(885) million yen

(Method by which estimated amounts were calculated)

The estimated amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on 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.

2 Elevation Pharmaceuticals, Inc.

(1) Summary of the business combination

①Name 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.

⑥Ratio of voting right acquired

Ratio of voting right owned prior to the acquisition of shares: 0%

Ratio of voting right after acquisition: 100%

⑦ Main grounds for reaching a decision on the company to be acquired

It is because Sunovion acquired 100% of SRD's shares in exchange for cash.

(2) Terms of performance of the acquired company included in the consolidated financial statements

From September 5, 2012 to December 31, 2012

(3) Acquisition cost of the acquired company and the breakdown thereof

The acquisition cost of the acquired company is 7,866 million yen, and it is an acquisition by means of cash.

(4) Amount of acquired goodwill, cause for accrual, amortization method, and amortization period

① Amount of goodwill incurred

3,332 million yen

②Cause for accrual

As the acquisition cost exceeds the net amount allocated to the acquired assets and assumed debts, such excess amount has been posted as goodwill.

③Amortization method and amortization period

Straight-line method over 20 years

④ The amount of goodwill is a temporarily calculated amount.

(5) Total assets acquired and liabilities assumed on the date of business combination and the main breakdown thereof

Current assets	132 million yen
Fixed assets	22,946 million yen
Total assets	23,079 million yen
Current liabilities	49 million yen
Fixed liabilities	15,162 million yen
Total liabilities	15,212 million yen

(6) Content of the conditional compensation 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 conditional compensation for acquisition

The conditional compensation for acquisition is a contract under which an additional payment shall be made according to a specific milestone-achieving level after business combination.

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

The above-mentioned conditional compensation for acquisition has been recognized according to U.S. accounting standards.

(7) Amount allocated to intangible fixed assets other than goodwill, the breakdown thereof by main types and weighted-average depreciation period for the entirety and by main types

Breakdown by main types	Amount	Depreciation period
In-process research and development	18,415 million yen	Availability period

(8) Allocation of acquisition cost

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

(9) 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

Sales	—
Ordinary income	(1,384) million yen
Net income	(1,384) million yen

(Method by which estimated amounts were calculated)

The estimated amounts were calculated according to the difference between information on sales and income calculated on the assumption that the business combination was concluded on 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.

(Segment information)

1. Outline of reportable segments

The Company's reportable segments are the components of the DSP 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 DSP Group assesses our pharmaceutical business performance by markets such as Japan, North America, China, and the like. The reportable segments of the Group consist of the following four segments: Japan, North America, China, Other regions.

2. Method of calculating sales and income (loss), identifiable assets, and other items by reportable segments

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

Assets and liabilities by reportable segment are not shown because they are not supplied to make decisions about resources to be allocated to the segment and assess their performance.

(Change of the method of calculate of income (loss) by reportable segments)

As described in "Changes to accounting policies in cases where it is difficult to distinguish between a change in an accounting policy and a change in an accounting estimate" previously, 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 we have decided to apply, starting with the first quarter of the consolidated fiscal year, the straight-line method.

As a result, income of segment has increased by 602 million yen in "Japan," 9 million yen in "North America," 13 million yen in "China," 38 million yen in "Other Regions" and 23 million yen in "Other Business." R&D cost that is not included in each segment has decreased by 498 million yen.

3. Information on sales, income (loss), assets, liabilities, and other items by reportable segment

Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	179,879	108,431	6,541	15,208	310,061	40,334	350,395
Intersegment sales and transfers	200	—	—	—	200	84	284
Total	180,080	108,431	6,541	15,208	310,262	40,418	350,680
Income (loss) of segment	66,445	(323)	965	7,009	74,096	3,162	77,259
Others							
Depreciation and amortization	6,028	25,323	362	697	32,412	153	32,566
Amortization of Goodwill	—	3,764	—	—	3,764	—	3,764

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.

Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	174,454	115,835	7,642	9,267	307,199	40,525	347,724
Intersegment sales and transfers	257	—	—	—	257	85	342
Total	174,711	115,835	7,642	9,267	307,456	40,610	348,067
Income (loss) of segment	60,644	15,045	1,831	4,341	81,863	2,996	84,859
Others							
Depreciation and amortization	4,155	23,453	231	242	28,082	177	28,259
Amortization of Goodwill	—	3,773	—	—	3,773	—	3,773

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

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

(Millions of yen)

Net sales	Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)
Reportable segments total	310,262	307,456
Net sales of "Other Business"	40,418	40,610
Elimination of intersegment transaction	(284)	(342)
Net sales on consolidated statements of income	350,395	347,724

(Millions of yen)

Income	Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)
Reportable segments total	74,096	81,863
Income of "Other Business"	3,162	2,996
Research and development costs*	(56,890)	(59,844)
Elimination of intersegment transaction	34	28
Operating income on consolidated statements of income	20,402	25,043

Note: Because the group manages R&D costs globally, they are not included in each segment.

(Millions of yen)

Other items	Reportable segments total		Other Business		Adjustment		Amount recorded on consolidated financial statements	
	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2012	Year ended March 31, 2013	Year ended March 31, 2012	Year ended March 31, 2013
Depreciation and amortization	32,412	28,082	153	177	2,894	1,995	35,461	30,255
Amortization of Goodwill	3,764	3,773	—	—	—	—	3,764	3,773

[Relative information]

Year ended March 31, 2012(April 1, 2011 to March 31, 2012)

1. Products and services information

(Millions of yen)

	Pharmaceuticals	Other products	Total
Sales to customers	310,061	40,334	350,395

2. Geographic segment information

(1) Net sales

(Millions of yen)

Japan	U.S.	Others	Total
220,153	107,010	23,232	350,395

Note: Net sales are allocated into countries or regions based on customer locations.

(2) Tangible fixed assets

(Millions of yen)

Japan	Others	Total
59,292	7,404	66,697

3. Information by major clients

(Millions of yen)

Name of customer	Net sales	Name of relative segment
McKesson Corporation	43,807	North America
Alfresa Corporation	37,933	Japan
Mediceo Corporation	37,814	Japan

Year ended March 31, 2013(April 1, 2012 to March 31, 2013)

1. Products and services information

(Millions of yen)

	Pharmaceuticals	Other products	Total
Sales to customers	307,199	40,525	347,724

2. Geographic segment information

(1) Net sales

(Millions of yen)

Japan	U.S.	Others	Total
219,537	109,181	19,005	347,724

Note: Net sales are allocated into countries or regions based on customer locations.

(2) Tangible fixed assets

(Millions of yen)

Japan	Others	Total
60,705	9,157	69,862

3. Information by major clients

(Millions of yen)

Name of customer	Net sales	Name of relative segment
McKesson Corporation	43,479	North America
Mediceo Corporation	36,297	Japan
Alfresa Corporation	36,297	Japan

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

Year ended March 31, 2012(April 1, 2011 to March 31, 2012)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Impairment loss	—	2,337	—	—	2,337	—	—	2,337

Year ended March 31, 2013(April 1, 2012 to March 31, 2013)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Impairment loss	—	416	—	—	416	—	—	416

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

Year ended March 31, 2012(April 1, 2011 to March 31, 2012)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Amortization	—	3,764	—	—	3,764	—	—	3,764
Balance at end of period	—	64,311	—	—	64,311	—	—	64,311

Year ended March 31, 2013(April 1, 2012 to March 31, 2013)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Amortization	—	3,773	—	—	3,773	—	—	3,773
Balance at end of period	—	71,293	—	—	71,293	—	—	71,293

(Information of affiliated parties)

(1)Transactions between company submitting consolidated financial statements and affiliated parties

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

Year ended March 31, 2012(April 1, 2011 to March 31, 2012)

Type	Name of company	Location	Capital or amount invested	Business contents or employment	Ratio of voting rights (or ownership)	Relationship with affiliated party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Parent company	Sumitomo Chemical Co., Ltd.	Chuo-ku, Tokyo	89,699 million yen	Production and sales of chemical products	Direct ownership: 50.22%	・Supplier of raw materials ・Leasing land, etc. ・Purchasing plant utilities, etc. ・Lending funds	Lending funds	25,000 million yen	Short-term loans to affiliates	25,000 million yen

Note: Transaction terms and policies for determining transaction terms, etc.

With respect to the lending of funds, a reasonable rate of interest is determined, by considering the market rate of interest.

Year ended March 31, 2013(April 1, 2012 to March 31, 2013)

Type	Name of company	Location	Capital or amount invested	Business contents or employment	Ratio of voting rights (or ownership)	Relationship with affiliated party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Parent company	Sumitomo Chemical Co., Ltd.	Chuo-ku, Tokyo	89,699 million yen	Production and sales of chemical products	Direct ownership: 50.22%	・Supplier of raw materials ・Leasing land, etc. ・Purchasing plant utilities, etc. ・Lending funds	Lending funds	25,000 million yen	Short-term loans to affiliates	25,000 million yen

Note: Transaction terms and policies for determining transaction terms, etc.

With respect to the lending of funds, a reasonable rate of interest is determined, by considering the market rate of interest.

(2) Transactions between consolidated subsidiaries of company submitting consolidated financial statements and affiliated parties

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

Year ended March 31, 2012(April 1, 2011 to March 31, 2012)

Not applicable.

Year ended March 31, 2012(April 1, 2012 to March 31, 2013)

Type	Name of company	Location	Capital or amount invested	Business contents or employment	Ratio of voting rights (or ownership)	Relationship with affiliated party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Parent company	Sumitomo Chemical Co., Ltd.	Chuo-ku, Tokyo	89,699 million yen	Production and sales of chemical products	Direct ownership: 50.22%	･Lending funds	Lending funds	9,401 million yen	Short-term loans to affiliates	9,401 million yen

Note: Transaction terms and policies for determining transaction terms, etc.

With respect to the lending of funds, a reasonable rate of interest is determined, by considering the market rate of interest.

(Per-share information)

	Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)
Net assets per share	803.47 yen	879.03 yen
Net income per share	21.72 yen	25.28 yen

Notes: 1. No diluted net income per share is stated as no potential dilution exists.

2. The basis for the calculation of the net income per share is as follows:

	Year ended March 31, 2012 (April 1, 2011 to March 31, 2012)	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)
Net income per share		
Net income (millions of yen)	8,629	10,043
Amount not belonging to common shareholders (millions of yen)	―	―
Net income related to common stocks (millions of yen)	8,629	10,043
Average number of common stock during the period (thousands of shares)	397,312	397,310

(Significant subsequent event)

Not applicable.