Summary of Consolidated Financial Results for the Year Ended March 31, 2014[Japanese GAAP] (Unaudited)

May 8, 2014

Company Name: DAINIPPON SUMITOMO PHARMA CO., LTD.
Stock Exchange Listings: Tokyo
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 19, 2014
Date of Annual Shareholder's Meeting: June 19, 2014
Starting Date of Dividend Payments: June 20, 2014
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, 2014 （April 1, 2013 to March 31, 2014）

(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, 2014	387,693	11.5	42,142	68.3	40,631	65.8	20,060	99.7
Year ended March 31, 2013	347,724	(0.8)	25,043	22.8	24,505	29.8	10,043	16.4

Note: Comprehensive income (Millions of yen)
Year ended March 31, 2014: 45,165 21.5% Year ended March 31, 2013: 37,174 —%

	Earnings per share	Earnings per share (diluted)	Net income / Shareholders' equity (ROE)	Ordinary income / Total assets	Operating income / Net sales
Year ended March 31, 2014	¥50.49	—	5.4%	6.4%	10.9%
Year ended March 31, 2013	¥25.28	—	3.0%	4.2%	7.2%

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates (Millions of yen)
Year ended March 31, 2014 : — Year ended March 31, 2013 : —

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2014	659,032	398,540	60.5%	¥1,003.11
As of March 31, 2013	607,219	349,248	57.5%	¥879.03

Reference: Shareholders' Equity (Millions of yen)
As of March 31, 2014: 398,540 As of March 31, 2013: 349,248

(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, 2014	49,943	(26,208)	(27,164)	73,919
Year ended March 31, 2013	49,914	(55,020)	(20,221)	71,434

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, 2013	—	¥9.00	—	¥9.00	¥18.00	¥7,151	71.2%	2.1%
Year ended March 31, 2014	—	¥9.00	—	¥9.00	¥18.00	¥7,151	35.7%	1.9%
Year ending March 31, 2015 (Forecast)	—	¥9.00	—	¥9.00	¥18.00		59.6%	

3. Consolidated Financial Forecasts for the Year Ending March 31, 2015 （April 1, 2014 to March 31, 2015）

(% 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, 2014	178,000	(1.9)	12,000	(31.2)	11,500	(33.9)	6,300	(27.6)	¥15.86
Year ending March 31, 2015	352,000	(9.2)	20,000	(52.5)	19,000	(53.2)	12,000	(40.2)	¥30.20

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: Yes

② Changes due to changes in accounting standards other than (2),①: None

③ Changes in accounting estimates: None

④ Retrospective restatements: None

Note: For detail, please refer to 4.Consolidated Financial Statement, (5) Notes to Consolidated Financial Statements (Changes to accounting policies) on page 26 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, 2014: 397,900,154 shares

March 31, 2013: 397,900,154 shares

② Number of treasury stock at the end of period

March 31, 2014: 593,962 shares

March 31, 2013: 590,246 shares

③ Average number of shares during the period

March 31, 2014: 397,307,851 shares

March 31, 2013: 397,310,786 shares

(Reference)

Non-consolidated Financial Results for the year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

(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 31,2014	200,745	5.7	23,938	28.8	23,403	26.5	15,210	33.9
Year ended March 31,2013	189,962	(6.6)	18,583	(48.9)	18,502	(47.4)	11,356	(48.5)

	Earnings per share	Earnings per share (diluted)
Year ended March 31,2014	¥38.28	—
Year ended March 31,2013	¥28.58	—

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2014	568,152	385,897	67.9%	¥971.29
As of March 31, 2013	554,480	376,918	68.0%	¥948.68

Reference: Shareholders' Equity (Millions of yen)

As of March 31, 2014: 385,897 As of March 31, 2013: 376,918

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 9, 2014. The documents distributed at the presentation are scheduled to be posted on our website.

【Attachment Documents】

1. Operating Results and Financial Condition

(1) Analysis of Operating Results

(i) Overview of overall operating results

The Japanese economy showed a slow recovery trend, due to the rising stock value and the weakened yen triggered by the effects of monetary relaxation and economic policies this fiscal year. In the global economy also, in the US, there was a steady economy recovery trend, despite a sense of uncertainty in future employment. In China, the economy continues to grow step by step, overcoming partially poor economic performance. In Europe, the economy is now coming back from the stagnation evolved from the financial crisis.

In the pharmaceutical industry, the development cost continues to increase while the level of developing new medicines is becoming higher and higher. Moreover, generic medicines are used more than ever on the back of the global hold down of medical costs. Facing the continued severe business environments where the approval reviews are getting strict, new business domains are actively exploited as shown by practical realization of regenerative medical techniques.

Under such conditions, the DSP Group positioned four major products as strategic products in the domestic market, which are AIMIX® and AVAPRO®, therapeutic agents for hypertension, LONASEN® (generic name: blonanserin), an atypical antipsychotic, and TRERIEF®, a therapeutic agent for Parkinson's disease for further sales expansion, focusing on information providing activities for the purpose of maximizing the sales of METGLUCO®, a biguanide oral hypoglycemic, and other products.

In the overseas markets, Sunovion Pharmaceuticals Inc. (hereinafter, "Sunovion"), one of our subsidiary companies in the US, invested its management resources and developed business activities for LATUDA® (generic name: lurasidone hydrochloride), an atypical antipsychotic which was approved in June last year as an additional indication of bipolar I disorder depression. This March, Takeda Pharmaceutical Company Limited (hereinafter, "Takeda"), one of our partners, was granted the marketing authorization for LATUDA®, while the Company was granted the marketing authorization in Australia.

Sunovion obtained the approval in the US for APTIOM®, an antiepileptic drug in November last year.

For the launch in the US market of a therapeutic agent for solid cancer BBI608 being developed by Boston Biomedical, Inc., the DSP Group established Boston Biomedical Pharma, Inc. in October last year as a distributor in the US of anti-cancer drugs.

Consolidated net sales ended up with 387,693million yen (an 11.5 % increase from the previous fiscal year), overcoming the fall in revenue in the domestic market coming from a decrease in sales of GASMOTIN®, a gastroprokinetic due to the expiration of the patent duration, resulted from a drastic sales increase in the US market partially contributed by the boost in sales of LATUDA® and the weakened yen in spite of a decrease in sales of XOPENEX®, a short-acting beta-agonist due to the expiration of the exclusivity. The selling, general and administrative expenses increased, influenced by the weakened yen in spite of our continued efforts for a cost reduction. However, as a result of the large increase in net sales, the operating income was 42,142million yen (a 68.3% increase from the previous fiscal year) and the ordinary income was 40,631million yen (a 65.8% increase from the previous fiscal year). The net income reached 20,060million yen (a 99.7% increase from the previous fiscal year) after the extraordinary income of the gain on sales of investment securities and fair value adjustment of contingent consideration in the US and after the extraordinary loss from impairment and business structure improvement expenses.

(ii) Status of each business segment

[Japan segment]

In addition to the four strategic products including AIMIX®, sales of METGLUCO® grew drastically. However, sales of existing products decreased partly because of the expiration of the patent duration and the decrease in sales of the commissioned manufacturing, which was not fully covered by the said sales growth. Consequently, net sales were 171,898 million yen (a 1.5 % decrease from the previous fiscal year). As the selling, general and administrative expenses, excluding research and development costs, were decreased by reduction efforts, segment income was 60,827 million yen (a 0.3 % increase from the previous fiscal year).

[North America segment]

Net sales increased to 145,271 million yen (a 25.4 % increase from the previous fiscal year) supported by a further increase in the sales of LATUDA® and the weakened yen covering the considerable decline in the sales of XOPENEX® due to the expiration of the exclusivity. The selling, general and administrative expenses, excluding research and development costs, decreased by the reduction in personnel costs after the business structure improvement and completion of partial patent depreciation on a local currency basis, however, the yen equivalent amount increased because of the weakened yen. Yet, the impact of sales growth is larger, and segment income was 33,876million yen (a 125.2 % increase from the previous fiscal year).

[China segment]

The sales of MEROPEN®, a carbapenem antibiotic continued to increase and ALMARL®, a therapeutic agent for hypertension, angina pectoris and arrhythmia, produced successful results. Additionally, benefiting from the weakened yen, net sales reached 11,928 million yen (a 56.1 % increase from the previous fiscal year), and segment income was 3,182 million yen (a 73.8 % increase from the previous fiscal year).

[Other Regions segment]

Though the export of MEROPEN® to major countries overseas decreased due to the expiration of the patent duration, industrial property revenue was generated because of the approval of LATUDA® in Europe. Consequently, net sales were 16,712 million yen (an 80.3 % increase from the previous fiscal year) and segment income was 11,358 million yen (a 161.6 % increase 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 were 41,883 million yen (a 3.4 % increase from the previous fiscal year) and segment income was 2,673 million yen (a 10.8 % decrease from the previous fiscal year).

(iii) Status of research and development activities

The DSP Group aims to produce innovative pharmaceutical products, designating the psychiatry and neurology area and the oncology area as focus therapeutic areas, which represent unmet medical needs. The DSP Group also introduce various active strategies, including its own in-house research, technology import, and joint research with venture companies and academia to prepare for business development in global pioneering fields and advanced technology fields.

In the initial research stage, the Company makes efforts to improve research efficiency by use of advanced technologies owned by itself, such as genomics, proteomics, and metabolomics, and to apply the leading-edge science, including iPS cells, for our future new products. The Company is now also promoting a joint research with the Center for iPS Cell Research and Application, Kyoto University aiming for development of treatment for rare intractable diseases. Furthermore, the Company actively participates in the Research Center Network for Realization of Regenerative Medicine, a project involving industry, government, and academia.

In the latter research stage and the development stage, the Company optimizes the portfolio of the entire DSP group from a 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 with lurasidone hydrochloride, an atypical antipsychotic, which is one of our global strategic products:

- In the US , approval of additional indication for bipolar I disorder depression was obtained in June last year and in Canada in March this year.
- In Europe, approval by means of centralized authorization procedure was obtained by Takeda in terms of the indication of schizophrenia in March this year. Taking this result, it is to be launched on the market as completion of procedures under pharmaceutical regulations in every country. In Switzerland, approval for schizophrenia was obtained by a local subsidiary company of Takeda in August last year.
- In Japan, Phase III clinical study for bipolar I disorder depression and bipolar disorder maintenance started in September last year.
- In China, Phase III clinical study for schizophrenia started in July last year.
- In Australia, approval for schizophrenia by the Company in March this year, and in Taiwan, an application for approval was made by the Company's local partner in terms of the indication of schizophrenia in October last year.

ii. With regard to APTIOM®, in the US, approval was obtained in November last year, and in Canada, an application for approval was made in June last year.

iii. With regard to blonanserin, an atypical antipsychotic, in China, an application for approval was made in September last year.

〔Oncology〕

i. With regard to BBI608, created targeting anti-cancer effect to cancer stem cells, there has been the following progress:

- Japan was added in development locations, where Phase III global clinical study is conducted for colorectal cancer, in August last year.
- In the US, Phase III clinical study of Gastric cancer (combination therapy) started in March this year.
- In Japan, Phase I clinical study of Gastric cancer (combination therapy) started in December last year.
- In the US and Canada, Phase I clinical study of Gastrointestinal cancer (combination therapy) started in November last year.

ii. With regard to WT2725, a therapeutic agent for solid cancer and hematologic cancer, Phase I clinical study of solid cancer started in Japan last September.

〔Other specialty area and new business area〕

i. With regard to EPI-743, a therapeutic agent for mitochondrial disease, in Japan, Phase II/III clinical studies of Leigh syndrome started in October last year.

ii. With regard to cell therapy and regenerative medicine, the Company concluded a joint development agreement in Japan with Healios K.K. in terms of iPS cell-derived retinal pigment epithelial cells for the treatment of age-related macular degeneration and other eye diseases in December last year. In February this year, the Company established a joint venture company called SighRegen K.K., with Healios to manufacture and promote the above treatment medicines.

〔Other areas〕

i. With regard to MEROPEN®, in Japan, approval for changing dosage was obtained in December last year.

ii. An application for addition of pediatric usage of METGLUCO® was made in October last year.

iii. With regard to SUREPOST®, a rapid-acting insulin secretagogue, a supplementary application for change of the approved indication to type 2 diabetes in December last year.

The DSP Group has been active in introducing development articles from outside and in joint research. In regard with the license agreement with Edison Pharmaceuticals, Inc. (hereinafter, “Edison”) relating to therapeutic agent for mitochondrial disease, in the US, the Company expanded its right by grant of an exclusive development and commercial rights of EPI-589 in North America for agreed-upon indications in adults in January this year. At the same time, the Company concluded a joint research agreement with Edison for discovery of novel candidate pharmaceutical compounds targeting cellular energy metabolism.

In addition to the above-mentioned ethical pharmaceuticals, the DSP 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, 2015

(Millions of yen)

	Fiscal 2013 Results	Fiscal 2014 Forecasts	Change	Change %
Net sales	387,693	352,000	(35,693)	(9.2)
Operating income	42,142	20,000	(22,142)	(52.5)
Ordinary income	40,631	19,000	(21,631)	(53.2)
Net income	20,060	12,000	(8,060)	(40.2)

<Net sales>

While efforts to increase sales of strategic products, such as Aimix® and Lonasen® in Japan and Latuda® in North America, are being carried out, the impact of drug prices revisions in Japan and of decreased sales owing to the expiration of exclusivity for Lunesta® in North America is expected to be significant, such that total sales is estimated to be 352.0 billion yen (35.7 billion yen down compared to the previous fiscal year).

<Incomes>

Gross profit is expected to decrease in line with a reduction in net sales. In addition, selling, general and administrative expenses will likely decline due to a reduction in costs attributed to business structure improvement and a decrease in patent amortization costs in North America.

As a result, we expect that operating income will be 20.0 billion yen (22.1 billion yen down compared to the previous fiscal year) and ordinary income will be 19.0 billion yen (21.6 billion yen down compared to the previous fiscal year). Net income will be 12.0 billion yen (8.1 billion yen down compared to the previous fiscal year) including extraordinary income (loss).

<Prior condition>

Foreign currency exchange rate used for the forecasts　1 USD = 100 yen, 1 RMB = 16 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

The impact of yen depreciation on the cash and time deposits, notes and accounts receivables, and goodwill and other intangible fixed assets of overseas subsidiaries have increased significantly. In addition, the amount of tangible fixed assets has increased due to the construction of the New Chemistry Research Building at Osaka Research Center. As a result, total assets have increased by 51,813 million yen from the previous fiscal year-end to 659,032 million yen.

- Liabilities

Despite the repayment of long-term debts and the partial redemption of straight corporate bonds, liabilities increased by 2,521 million yen from the previous fiscal year-end to 260,492 million yen primarily due to an increase in income taxes payable attributed to an increase in taxable earnings in Japan and to an increase in the reserve for sales rebates in the US.

- Net assets

Net assets increased by 49,292 million yen from the previous fiscal year-end to 398,540 million yen as a result of an increase in retained earnings and an increase in foreign currency translation adjustments brought about by a weakened yen.

In addition, the shareholders' equity ratio as of the current fiscal year-end amounted to 60.5%.

(b) Status of cash flows

- Net cash provided by operating activities

Cash flow from operating activities increased by 28 million yen compared to previous fiscal year for a gain in proceeds of 49,943 million yen thanks in part to an increase in current-term net income before income taxes and minority interests.

- Net cash used in investing activities

While tangible fixed assets of the New Chemistry Research Building at Osaka Research Center were purchased, net cash used in investment activities declined by 28,811 million yen from the previous fiscal year to 26,208 million yen due to the disbursement of a large amount of funds in connection with the purchase of investments in subsidiaries resulting from change in scope of consolidation previous fiscal year.

- Net cash used in financing activities

While debts were repaid and dividends were paid during the previous fiscal year, net cash used in financial activities increased by 6,942 million yen compared to previous fiscal year to 27,164 million yen due to the additional impact this fiscal year of the redemption of corporate bonds.

As a result of adding an impact amount of negative 2,035 million yen as brought about by changes in the fiscal year-end of subsidiaries and an impact amount of positive 7,950 million yen as brought about by foreign currency translations applied to cash and cash equivalents, the balance of cash and cash equivalents as of the current fiscal year-end stood at 73,919 million yen for an increase of 2,485 million yen over the previous fiscal year-end.

(Reference) Trend of cash flow indicators

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
Shareholder's equity ratio	54.8%	54.9%	57.1%	57.5%	60.5%
Shareholder's equity ratio (market value basis)	54.3%	52.2%	62.3%	114.8%	98.9%
Ratio of interest-bearing debt cash flow	431.2%	218.4%	205.4%	195.9%	172.9%
Interest coverage ratio [times]	42.7	37.4	57.9	56.9	60.2

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, 2014.

(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 10 affiliated companies as of March 31, 2014. 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.

Our non-consolidated subsidiary company Create Vaccine Company., Ltd. is a joint venture company established in July last year with Japan BCG Laboratory. The company is committed to development of tuberculosis vaccine with National Institute of Biomedical Innovation and the authorized NPO Aeras.

SighRegen K.K. is a joint venture company that the Company established in February this year with Helios K.K. It will manufacture and market the pharmaceutical products developed by the collaborative study of regenerative medical techniques.

(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. One of the consolidated subsidiary companies of the said company completed its liquidation. Therefore, the 7 companies are now committed to manufacturing, sales, development, and all other management of pharmaceutical products.

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

As a subsidiary company of Dainipppon Sumitomo Pharma America Holdings, Inc., Boston Biomedical Pharma, Inc. was newly established in October last year to prepare for sales of anti-cancer drugs in the US.

(3) China

In China, a consolidated subsidiary, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., manufactures (subdivide packaging) and sells ethical pharmaceuticals. In addition, with regard to a non-consolidated subsidiary, Sumiyaku China Co., Ltd., its liquidation process was completed in September last year.

(4) Other Regions

Sunovion Pharmaceuticals Europe Ltd., a non-consolidated subsidiary company, reorganized its structure in February this year, to be ready for launching products in England.

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.

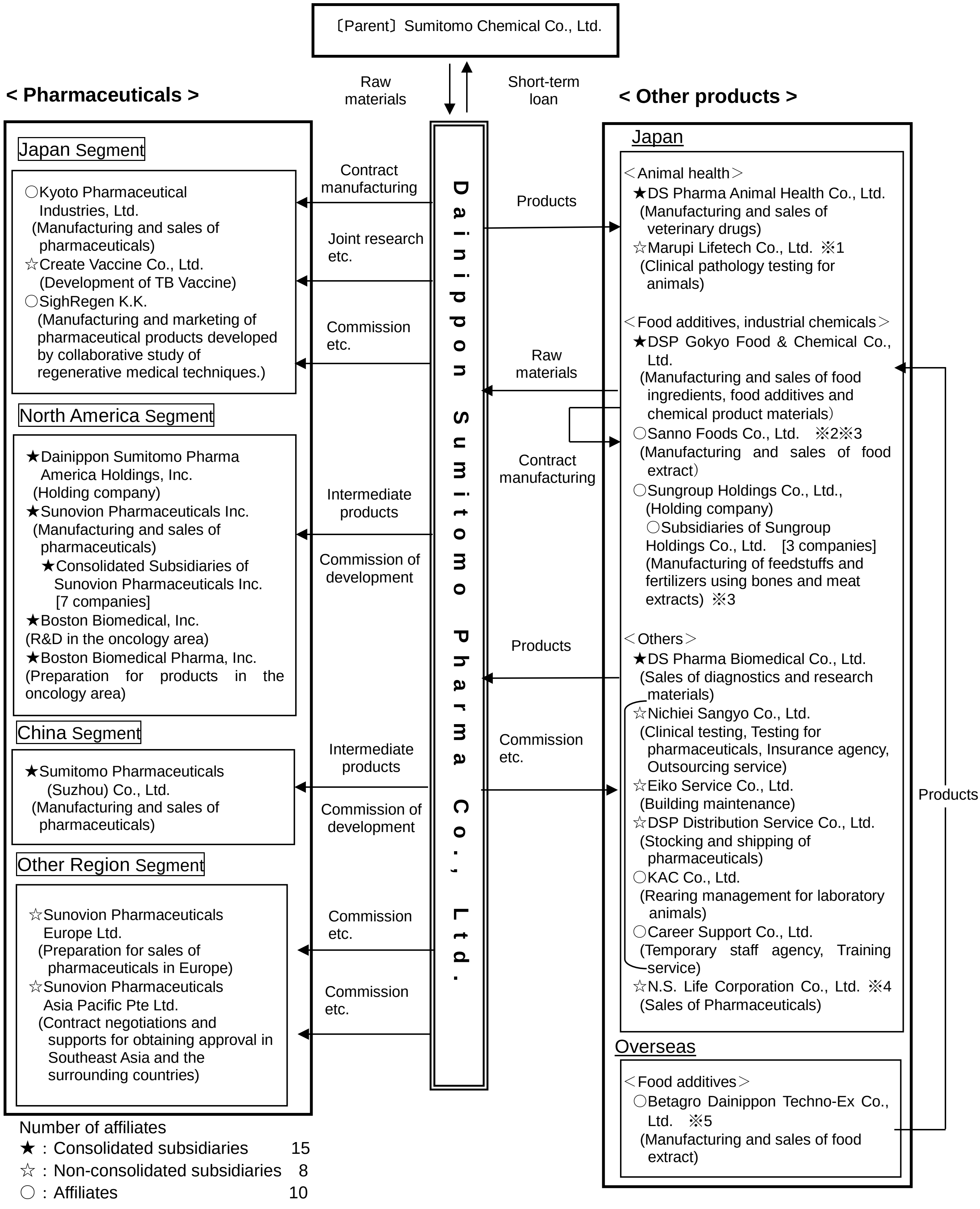
A non-consolidated subsidiary, Marupi Lifetech Co., Ltd., is engaged in clinical pathology testing operations for animals.

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

An affiliated company, Sungroup Holdings Co., Ltd., which is a holding company established in May last year, manage the three affiliated companies to produce bones and meat extracts feedstuffs and fertilizers to provide for DSP Gokyo Food & Chemical Co., Ltd.

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

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



※1 : 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 : Sanno Foods Co., Ltd., Sun Group Holding Co., Ltd. and its affiliates, Sun Base Food Co., Ltd. and another company all merged (absorption-type merger), and the surviving company, Sun Base Food Co., Ltd. changed its trade name to Suntegre Co., Ltd.

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

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

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, 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," in 2013, and has formulated the 3rd Mid-term Business Plan ("MTBP") for the five years from fiscal 2013 to 2017 for attaining its vision. In the 3rd MTBP, the DSP Group has set the following five basic policies ready to challenge innovations. As the business goal of 2017, the final year of the 3rd MTBP, the DSP Group will strive to achieve net sales of 450 billion yen, operating income of 80 billion yen, and EBITDA (earnings before interest, taxes, depreciation and amortization, and extraordinary income / loss) of 110 billion yen.

①Basic Policies of the 3rd MTBP

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

②Strategies and Business Activities of the 3rd MTBP

In the 3rd MTBP, the DSP Group continues its business activities, promoting the six strategies, i.e., *product strategy, therapeutic area strategy, regional strategy, R&D strategy, investment strategy* and *financial strategy* along with *strengthening of business foundation* and *promotion of CSR management*, for the purpose of attaining the management goal and realizing the visions.

In the first half of the 3rd MTBP, the DSP Group predicts the fiscal year 2014 to be a particularly tough year in finance because it has to face drug price revision in Japan and expiration of the exclusivity of LUNESTA®, a sedative hypnotic in North America. However, the DSP Group is determined to steadily promote its business by further strengthening its sales activities in domestic and overseas markets and making concerted efforts to reduce cost in the entire DSP Group while by paving the way for business structure improvement through accelerating implementation of all the strategies from a mid-term standpoint.

Specifically, riding on the strength of AIMIX®, the Company aims further growth of three hypertension treatment medicines including AVAPRO® and AMLODIN®, a therapeutic agent for hypertension and angina pectoris in Japan. The Company also maintains the business scale by intensively investing its management resources to the growing products such as LONASEN®, TRERIEF® in the psychiatry and neurology area, METGLUCO® and SUREPOST® in the diabetes area.

In North America, the DSP Group makes efforts to accelerate the sales expansion of LATUDA® to raise it to be a blockbuster, which was approved for additional indication of bipolar I disorder depression in June last year . At the same time, the DSP Group works hard to minimize the influence of sales decrease of the existing products including LUNESTA® whose exclusivity expired in April this year by early sales expansion of APTIOM® which was launched in April this year.

In China, the DSP Group expects the sales to grow and will earn profit from MEROPEN® and other products.

In Europe, the DSP Group will start sales organization of LATUDA® and increase its market share in the UK steadily and smoothly. In Southeast Asia and the Oceania region, the DSP Group will also investigate opportunities for business by creating a foundation with lurasidone hydrochloride.

In regard with research and development of the 3rd MTBP, the DSP Group will actively invest its management resources to the focus therapeutic area, which are the psychiatry and neurology areas and the oncology area, to the specialty are of rare intractable diseases, and to the new business area of cell therapy and regenerative medicine.

In the psychiatry and neurology areas, the DSP Group selects the post-LATUDA candidates and invests to the selected one in the global market, while continuing active development of LATUDA® in the domestic market. Focusing largely on improvement of current treatments that do not sufficiently result in adequate symptom relief, as well as on the treatment of the patients who do not respond enough to existing medicines, the DSP Group continues to promote research and development of therapeutic agents in schizophrenia, depression, Alzheimer's disease and other disorders.

In the oncology area, the DSP Group maximizes its efforts toward successful development in North America of BBI608, the first-in-class anti-cancer drug targeting cancer stem cells. The Company accelerates the development speed for BBI608 in Japan, utilizing the effects of its enforced and intensified clinical development system at a maximum to expedite the product launch following that in the market of North America. Furthermore, the DSP Group aims to develop innovative products on a continuing basis by the efficient research and development for compound succeeding to BBI608. For the launch of BBI608 in North America, Boston Biomedical Pharma, Inc. plays a central part to build up the distribution system.

In the specialty area, the Company continues the research and development of treatment for rare intractable diseases, developing EPI-743 and EPI-589, therapeutic agents for mitochondrial disease introduced from Edison and going forward with the joint research with the said company. The Company also will be actively committed to development of DSP-1747, a therapeutic agent for liver disease introduced from Intercept Pharmaceuticals, Inc. in the US, for nonalcoholic steatohepatitis (NASH) for which no drug has been currently approved.

The DSP Group is ready to accelerate product development in the new business area. As for the cell therapy, the Company will actively develop SB623, a therapeutic agent for stroke recovery of which the Company has concluded the option agreement for the license with SanBio, Inc., towards its commercialization during the 3rd MTBP. As for the regenerative medicine, the Company aims to be a global pioneer in the treatment of eye diseases with iPS cells by promoting the collaborative development with Healios. As for the vaccine business, the Company will construct the business basis through advanced technologies of its own.

The DSP Group recognizes promotion of CSR management and strengthening of business foundation for the most significant management issue. With regard to promotion of CSR management, the DSP Group will ensure further reinforcement of its Corporate Mission, Management Mission and Declaration of Conduct, and more specifically, establish high level corporate ethics, ensure transparency of management, 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. With regard to strengthening of business foundation, the DSP Group has been 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. in order to establish a robust business management structure that can respond flexibly to changes in the business environment. In addition, the DSP Group will improve its corporate structure in a streamlined manner by building such a strong corporate culture that encourages actions to take on a new challenge.

③Returns to Shareholders and New Investment

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. The DSP Group forecasts operating cash flow of 240 billion yen in the five years of the 3rd MTBP, and will also secure cash if needed by using leverage in order to be active in obtaining products and chemical compounds from outside as well as in making new investments in domestic, North American, new business, European and other operations.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Assets		
Current assets:		
Cash and time deposits	※1 18,753	※1 22,746
Notes and accounts receivable	※4 97,182	111,662
Marketable securities	86,463	81,952
Merchandise and finished goods	45,357	46,377
Work-in-process	3,570	2,408
Raw materials and supplies	13,762	10,356
Deferred tax assets	30,097	37,281
Short-term loans receivable	34,401	41,720
Others	3,958	5,225
Allowance for doubtful receivables	(105)	(120)
Total current assets	333,438	359,611
Fixed assets:		
Property, plant and equipment:		
Buildings and structures	92,586	100,804
Accumulated depreciation and impairment loss	(52,662)	(56,396)
Buildings and structures, net	39,923	44,407
Machinery, equipment and carriers	76,740	77,479
Accumulated depreciation and impairment loss	(67,325)	(67,833)
Machinery, equipment and carriers, net	9,414	9,646
Land	10,277	8,396
Construction in progress	5,799	3,080
Others	28,613	32,271
Accumulated depreciation and impairment loss	(24,165)	(25,113)
Others, net	4,447	7,157
Total property, plant and equipment	69,862	72,689
Intangible assets:		
Goodwill	71,293	80,669
In-process research and development	50,664	56,071
Others	24,352	20,055
Total intangible assets	146,310	156,796
Investments and other assets:		
Investment securities	※1, ※2 40,838	※1, ※2 50,823
Asset for retirement benefit	—	4,685
Deferred tax assets	7,569	8,602
Others	※2 9,246	※2 5,865
Allowance for doubtful receivables	(47)	(41)
Total investments and other assets	57,607	69,935
Total fixed assets	273,780	299,421
Total assets	607,219	659,032

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Liabilities		
Current liabilities:		
Notes and accounts payable	※1, ※4 14,253	※1 11,713
Current portion of bonds payable	10,000	—
Current portion of long-term loans payable	10,000	10,000
Income taxes payable	2,115	10,524
Reserve for bonuses	7,610	7,786
Reserve for sales returns	5,650	9,894
Reserve for sales rebates	19,153	26,421
Accounts payable-other	34,771	35,937
Others	21,276	18,930
Total current liabilities	124,831	131,207
Long-term liabilities:		
Bonds payable	60,000	60,000
Long-term loans payable	35,000	25,000
Deferred tax liabilities	14,494	15,704
Reserve for retirement benefit	11,030	—
Liability for retirement benefit	—	13,892
Others	12,615	14,687
Total long-term liabilities	133,139	129,284
Total liabilities	257,970	260,492
Net assets		
Shareholders' equity:		
Common stock	22,400	22,400
Capital surplus	15,860	15,860
Retained earnings	308,556	318,861
Treasury stock	(651)	(656)
Total shareholders' equity	346,165	356,465
Accumulated other comprehensive income (loss)		
Unrealized gains on available-for-sale securities, net of tax	14,121	17,247
Deferred gains or losses on hedges	—	(0)
Foreign currency translation adjustment	(11,038)	26,792
Remeasurements of defined benefit plans	—	(1,964)
Total accumulated other comprehensive income (loss)	3,082	42,074
Total net assets	349,248	398,540
Total liabilities and net assets	607,219	659,032

(2) Consolidated Statements of (Comprehensive) Income

Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Net sales	347,724	387,693
Cost of sales	※1 101,694	※1 104,117
Gross profit	246,029	283,576
Reversal of reserve for sales returns	8	16
Gross profit-net	246,038	283,592
Selling, general and administrative expenses		
Salaries	34,964	34,669
Provision for reserve for bonuses	5,132	5,735
Retirement benefit expenses	4,959	4,248
Depreciation and amortization	25,165	14,353
Research and development costs	※2 59,844	※2 69,804
Others	90,928	112,639
Total selling, general and administrative expenses	220,994	241,450
Operating income	25,043	42,142
Non-operating income		
Interest income	330	314
Dividend income	760	784
Foreign exchange gains	734	―
Insurance income	227	229
Others	1,007	764
Total non-operating income	3,060	2,093
Non-operating expenses		
Interest expense	1,071	1,007
Contribution	1,904	1,669
Others	622	928
Total non-operating expenses	3,598	3,604
Ordinary income	24,505	40,631
Extraordinary income		
Gain on sales of investment securities	―	2,773
Fair value adjustment of contingent consideration	―	※3 1,284
Total extraordinary income	―	4,057
Extraordinary loss		
Impairment loss	※4 416	※4 7,638
Business structure improvement expenses	※5 4,840	※5 2,341
Loss on litigation	※6 1,090	―
Total extraordinary loss	6,347	9,979
Income before income taxes and minority interests	18,158	34,709
Income taxes-current	6,788	14,784
Income taxes-deferred	1,325	(135)
Income taxes	8,114	14,648
Income before minority interests	10,043	20,060
Net income	10,043	20,060

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Income before minority interests	10,043	20,060
Other comprehensive income		
Unrealized gains (losses) on available-for-sale securities, net of tax	6,104	※1 2,853
Deferred gains or losses on hedges	—	(0)
Foreign currency translation adjustment	21,025	※1 22,251
Total other comprehensive income	※2 27,130	※2 25,104
Comprehensive income	37,174	45,165
Comprehensive income attributable to		
Comprehensive income attributable to owners of the parent	37,174	45,165
Comprehensive income attributable to minority interests	—	—

(3) Consolidated Statements of Changes in Net Assets

Year ended March 31, 2013

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2012	22,400	15,860	305,664	(649)	343,275
Changes during the fiscal year					
Cash dividends			(7,151)		(7,151)
Net income			10,043		10,043
Purchases of treasury stock				(1)	(1)
Sales of treasury stock			(0)	0	0
Increase (decrease) due to change in fiscal period of consolidated subsidiaries					–
Changes in items other than shareholders' equity (net)					
Total changes during the fiscal year	–	–	2,892	(1)	2,890
Balance as of March 31, 2013	22,400	15,860	308,556	(651)	346,165

	Accumulated other comprehensive income (loss)					Total net assets
	Unrealized gains (losses) on available-for-sale securities, net of tax	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	
Balance as of April 1, 2012	8,016	–	(32,064)	–	(24,047)	319,227
Changes during the fiscal year						
Cash dividends						(7,151)
Net income						10,043
Purchases of treasury stock						(1)
Sales of treasury stock						0
Increase (decrease) due to change in fiscal period of consolidated subsidiaries						–
Changes in items other than shareholders' equity (net)	6,104	–	21,025	–	27,130	27,130
Total changes during the fiscal year	6,104	–	21,025	–	27,130	30,021
Balance as of March 31, 2013	14,121	–	(11,038)	–	3,082	349,248

Year ended March 31, 2014

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2013	22,400	15,860	308,556	(651)	346,165
Changes during the fiscal year					
Cash dividends			(7,151)		(7,151)
Net income			20,060		20,060
Purchases of treasury stock				(6)	(6)
Sales of treasury stock		0		0	0
Increase (decrease) due to change in fiscal period of consolidated subsidiaries			(2,603)		(2,603)
Changes in items other than shareholders' equity (net)					
Total changes during the fiscal year	—	0	10,305	(5)	10,299
Balance as of March 31, 2014	22,400	15,860	318,861	(656)	356,465

	Accumulated other comprehensive income (loss)					Total net assets
	Unrealized gains (losses) on available-for-sale securities, net of tax	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	
Balance as of April 1, 2013	14,121	—	(11,038)	—	3,082	349,248
Changes during the fiscal year						
Cash dividends						(7,151)
Net income						20,060
Purchases of treasury stock						(6)
Sales of treasury stock						0
Increase (decrease) due to change in fiscal period of consolidated subsidiaries						(2,603)
Changes in items other than shareholders' equity (net)	3,126	(0)	37,830	(1,964)	38,992	38,992
Total changes during the fiscal year	3,126	(0)	37,830	(1,964)	38,992	49,292
Balance as of March 31, 2014	17,247	(0)	26,792	(1,964)	42,074	398,540

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Net cash provided by operating activities:		
Income before income taxes and minority interests	18,158	34,709
Depreciation and amortization	※1 31,312	※1 21,723
Impairment loss	416	7,638
Amortization of goodwill	3,773	5,053
Increase (decrease) in reserve for retirement benefit	(228)	―
Increase (decrease) in liability for reitrement benefit	―	(777)
Provision for other liabilities	128	8,330
Interest and dividend income	(1,090)	(1,099)
Interest expense	1,071	1,007
Loss (gain) on sales of investment securities	―	(2,773)
Business structure improvement expenses	4,840	2,341
Loss on litigation	1,090	―
Decrease (increase) in notes and accounts receivable	7,066	(15,185)
Decrease (increase) in inventories	(3,731)	4,919
Increase (decrease) in notes and accounts payable	(2,742)	(3,355)
Increase (decrease) in accounts payable-other	(1,873)	(862)
Other-net	5,096	(164)
Subtotal	63,288	61,503
Interest and dividend received	1,442	1,308
Interest paid	(1,073)	(962)
Business structure improvement expenses paid	(3,627)	(4,873)
Income taxes paid	(10,115)	(7,032)
Net cash provided by operating activities	49,914	49,943
Net cash provided by (used in) investing activities:		
Decrease (increase) in time deposits	(8,071)	(96)
Proceeds from withdrawal of time deposits	2,892	6,266
Purchases of marketable securities	(45,075)	(42,452)
Proceeds from sales of marketable securities	166	3,505
Proceeds from redemption of marketable securities	39,982	43,596
Purchases of property, plant and equipment	(7,817)	(10,332)
Proceeds from sales of property, plant and equipment	18	50
Purchases of intangible assets	(2,208)	(11,224)
Purchases of investment securities	(2,343)	(9,144)
Proceeds from sales of investment securities	2	2,809
Proceeds from redemption of investment securities	264	93
Purchase of investments in subsidiaries	―	(2,825)
Purchases of investments in subsidiaries resulting from change in scope of consolidation	※3 (24,852)	―
Payments of loans receivable	(7,981)	(6,407)
Other-net	2	(47)
Net cash provided by (used in) investing activities	(55,020)	(26,208)

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Net cash used in financing activities:		
Repayment of long-term debt	(13,000)	(10,000)
Redemption of bonds	—	(10,000)
Net decrease (increase) in treasury stock	(1)	(5)
Dividends paid	(7,151)	(7,152)
Other-net	(68)	(6)
Net cash used in financing activities	(20,221)	(27,164)
Effect of exchange rate changes on cash and cash equivalents	4,582	7,950
Net increase (decrease) in cash and cash equivalents	(20,745)	4,520
Cash and cash equivalents at the beginning of period	92,179	71,434
Increase (decrease) in cash and cash equivalents resulting from change in the fiscal year-end of subsidiaries	—	(2,035)
Cash and cash equivalents at the end of period	※2 71,434	※2 73,919

(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

In 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."

In connection with its establishment this fiscal year, Boston Biomedical Pharma Inc. is included in the scope of consolidation. At the same time, Sepracor N.V. has been removed from the scope of consolidation due to the completion of its liquidation.

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 10 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

Among consolidated subsidiaries, Boston Biomedical, Inc. and Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., correspond to a settlement date of December 31. For Boston Biomedical, Inc. financial statements as of the date of settlement are used and any material transactions arising in the period between the date of preparation and the date of settlement shall be handled by making adjustments as required for consolidation in preparing consolidated financial statements. For Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., consolidated financial statements shall be prepared based on financial statements for which a provisional settlement of accounts has been performed according to full-year business results as of the consolidated date of settlement.

In order to achieve a more appropriate disclosure of consolidated financial information, the date of settlement for Sunovion Pharmaceuticals Inc. and its nine consolidated subsidiaries has been changed to March 31. For Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., the method of consolidation has been changed to one in which a provisional settlement of accounts is performed according to full-year business results as of the consolidated date of settlement on March 31. In accordance with these changes, business results for the twelve-month period from April 1, 2013, to March 31, 2014, for the said consolidated subsidiaries have been consolidated for this fiscal year. Gains or losses for the three-month period from January 1, 2013, to March 31, 2013, have been directly posted to "Retained earnings" on the consolidated balance sheet and described as "Increase (decrease) due to change in fiscal period of consolidated subsidiaries" on consolidated statements of changes in net assets. In addition, increase (decrease) of cash and cash equivalents in this period has been described as "Increase (decrease) in cash and cash equivalents resulting from change in the fiscal year-end of subsidiaries" on consolidated statements of cash flows.

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.

(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.

(4) Accounting for retirement benefits

(i) Method of attributing expected retirement benefits to periods;

When calculating retirement benefit obligations, the straight-line method is used for attributing expected retirement benefits to periods through March 31, 2014.

(ii) Method of expenses for actuarial differences and past service costs;

Unrecognized past 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 (fifteen 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 (fifteen years).

(iii) Adopting a simple method for small enterprises

For some consolidated subsidiaries, a simple method based on the use of a method by which total payments pertaining to retirement benefits as required for personal reasons as of the end of the term are treated as retirement benefit obligations is applied to the calculation of liabilities for retirement benefits and retirement benefit costs.

(5) 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 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 consolidated 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.

(6) 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.

(7) Amortization of goodwill and negative goodwill

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

(8) 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.

(9) 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)

From the year ended March 31, 2014, the Company has applied the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Guidance for the Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012) (excluding, however, the provisions found in the body text of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance for the Accounting Standard for Retirement Benefits). Under the new standard, the Company revised its method of accounting for retirement benefit obligations, recording the amount deducting the plan assets from these obligations as net defined benefit liability, and accordingly, recording unrecognized actuarial differences and unrecognized past service costs as net defined benefit liability.

With regard to the application of the Accounting Standard for Retirement Benefits, in accordance with the provisions on transitional implementation indicated in Paragraph 37 of the Accounting Standard for Retirement Benefits, the impact of these changes is included in remeasurements of defined benefit plans within accumulated other comprehensive income as of March 31, 2014.

Consequently, 4,685 million yen of assets pertaining to retirement benefits and 13,892 million yen of liabilities pertaining to retirement benefits were posted at the end of this fiscal year. In addition, the accumulated other comprehensive income amount declined by 1,964 million yen.

The impact on per-share information has been stated in the applicable section.

(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

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)

“Patent rights” under “intangible fixed assets,” which had been separately noted up until the previous fiscal year, are to be included in “Others” under “Intangible fixed assets” from this fiscal year because it has become less than five-hundredths of the total amount of assets. In order to reflect this change in indication method, the consolidated financial statements for the previous fiscal year was subject to a rearrangement. Consequently, the amounts of 17,383 million yen as indicated for “Patent rights” and 6,968 million yen as indicated for “Others” under “Intangible fixed assets” in the consolidated balance sheet for the previous fiscal year were merged into the amount of 24,352 million yen in “Others” under “Intangible fixed assets.”

(Consolidated statements of income)

“Retirement benefit expenses,” which had been included in “Others” under “Selling, general and administrative expenses” until previous fiscal year, are to be noted up from this fiscal year because Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of October 30, 1976) has revised. In order to reflect this change in indication method, the consolidated financial statements for the previous fiscal year was subject to a rearrangement. Consequently, the amounts of 95,887 million yen as indicated for “Others” under “Selling, general and administrative expenses” in the consolidated statements of income for the previous fiscal year were separated into the amount of 4,959 million yen in “Retirement benefit expenses” and the amount of 90,928 million yen in “Others.”

(Notes to consolidated balance sheets)

* 1. Assets pledged as collateral are as follows:

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Cash and time deposit (time deposit)	281	446
Investment securities	48	53

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, 2013	As of March 31, 2014
Accounts payable	102	80

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

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Investment securities (stock)	779	1,197
Investments in capital (included in "Others" under "Investments and other assets")	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, 2013	As of March 31, 2014
Sanno Food Co., Ltd.	263	30

(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, 2013	As of March 31, 2014
136	119

* 4. 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 previous fiscal year because the final date of previous fiscal year was a bank holiday.

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Notes receivable	412	—
Notes payable	65	—

(Notes to consolidated statements of income)

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

(Millions of yen)

Year ended March 31, 2013 (April 1,2012 to March 31, 2013)	Year ended March 31, 2014 (April 1,2013 to March 31, 2014)
1,776	1,036

* 2. 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."

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

The total amount of research and development costs equals 69,804 million yen and has been included in "Selling, general and administrative expenses."

* 3. Fair value adjustment of contingent consideration

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

Contingent consideration constitute future disbursements to arise in response to the attainment of specific milestones and a liability recognized according to US-GAAP where an overseas subsidiary becomes an acquiring company through a merger. As fair values of contingent consideration changed significantly owing to revisions of business plans, the amount of this change has been indicated as extraordinary income.

* 4. Impairment loss

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, In-process research and development, 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	US	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%).

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

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, In-process research and development, and other such assets.

In the year ended March 31, 2014, 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	US	4,272
Welfare facilities	Buildings and structures, Land and Others	Japan	2,984
Production facilities	Construction in progress	US	366
Production facilities	Buildings and structures, Machinery, equipment and carriers and Others	Japan	15

Upon evaluating the recoverability of idled tangible fixed assets, tangible fixed assets for which future profitability has been deemed to be lacking, and in-process research and development for which future profitability has been deemed through a review of the applicable business plan to be lacking, a part of their book value has been posted as impairment losses.

The recoverable value of tangible fixed assets (Welfare facilities) was measured according to the net sales value which was evaluated according to the appraised value as obtained from a real-estate appraiser. The recoverable value of tangible fixed assets for which future profitability has been deemed to be lacking (Production facilities) was evaluated according to the utility value while it was determined to be zero due to the lack of any likelihood of future cash flow.

The recoverable value of in-process research and development was measured according to value in use (discount rate 11.5%).

* 5. Business structure improvement expenses

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

Improving the business structure and organization in the Company and the US 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.

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

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

* 6. 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 US subsidiary.

(Notes to consolidated statements of comprehensive income)

* 1. The reason why difference arises with "Changes in items other than shareholders' equity (net)" on Consolidated Statement of Changes in Net Assets in this year is the change of fiscal year end of some subsidiaries in this fiscal year.

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

(Millions of yen)

	Year ended March 31, 2013	Year ended March 31, 2014
Valuation difference on available-for-sale securities		
Amount recognized in the period under review	8,861	6,489
Amount of recycling	(51)	(2,777)
Before income tax effect adjustment	8,809	3,711
Amount of income tax effect	(2,704)	(857)
Valuation difference on available-for-sale securities, net of tax	6,104	2,853
Deferred gains or losses on hedges		
Amount recognized in the period under review	—	(0)
Amount of income tax effect	—	—
Deferred gains or losses on hedges	—	(0)
Foreign currency translation adjustment		
Amount recognized in the period under review	21,025	22,251
Foreign currency translation adjustment	21,025	22,251
Total other comprehensive income	27,130	25,104

(Notes to consolidated statements of changes in net assets)

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 fiscal year and for which the effective date of distribution falls in the following 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 21, 2013 Annual shareholders' meeting	Common stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2013	June 24, 2013

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

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

(Thousands of shares)

	Number of shares as of April 1, 2013	Increase during the period	Decrease during the period	Number of shares as of March 31, 2014
Issued shares				
Common stock	397,900	―	―	397,900
Total	397,900	―	―	397,900
Treasury stock				
Common stock	590	4	0	593
Total	590	4	0	593

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

2. Dividends

(1) Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Record date	Effective date of distribution
June 21, 2013 Annual shareholders' meeting	Common stock	3,575 million yen	9.00 yen	March 31, 2013	June 24, 2013
October 30, 2013 Meeting of the Board of Directors	Common stock	3,575 million yen	9.00 yen	September 30, 2013	December 2, 2013

(2) Dividends for which the base date belongs to the current fiscal year and for which the effective date of distribution falls in the following 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 19, 2014 Annual shareholders' meeting	Common stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2014	June 20, 2014

(Notes to consolidated statements of cash flows)

*1. 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.

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

"Depreciation and amortization" includes 1,134 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, 2013 (April 1, 2012 to March 31, 2013)	Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)
Cash and time deposit accounts	18,753	22,746
Time deposits with maturities exceeding 3 months	(6,151)	(446)
Short-term investments with a maturity within 3 months from acquisition date (marketable securities)	58,832	51,619
Cash and cash equivalents	71,434	73,919

*3 Assets and liabilities of newly consolidated subsidiaries by acquisition of shares

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

The breakdown of the fair value of assets and liabilities at the point of consolidation and payments for acquisition of Boston Biomedical, Inc. and Sunovion Respiratory Development Inc., net of cash acquired, are as follow:

	(Millions of yen)
Current assets	416
Fixed assets	48,215
Goodwill	3,474
Current liabilities	(208)
Long-term liabilities	(26,760)
Net assets acquired	25,137
Cash and cash equivalents	(285)
Payment for acquisitions	24,852

(Retirement benefit)

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

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)

(a) Liabilities for retirement benefits	(81,911)
(b) Pension assets *1	72,510
(c) Unfunded liability for retirement benefits [(a) + (b)]	(9,401)
(d) Unrecognized actuarial differences	2,998
(e) Unrecognized past service liability (reduction in liability)	(532)
(f) Net retirement benefit obligations [(c) + (d) + (e)]	(6,935)
(g) Prepaid pension expense	4,095
(h) Reserve for retirement benefits [(f) – (g)]	(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)

(a) Service costs *1, 2, 3	3,204
(b) Interest expense	1,613
(c) Expected returns on plan assets	(1,260)
(d) Amortization of actuarial differences	892
(e) Amortization of prior service costs	(218)
(f) Retirement benefit expenses [(a) + (b) + (c) + (d) + (e)]	4,232
(g) Others*4	2,585
(h) Total [(f) + (g)]	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.
5. In addition to the above, Business structure improvement expenses of 4,784 millions of yen was recorded as Extraordinary loss.

4. Basis for calculating the liability for retirement benefits

(a) Period allocation method for estimated retirement benefits

Straight-line method

(b) Discount rate

2.0%

(c) Expected returns on plan assets

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 fiscal year using the straight-line method based on the average number of remaining service years of employees when incurred)

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

1. Outline of the adopted retirement benefit plans

In order to provide for retirement benefits for employees, the Company and consolidated subsidiaries have adopted savings-type and non-savings-type defined benefit plans and defined contribution plans.

With defined benefit corporate pension plans (all constitute savings-type plans), a lump-sum payment or pension will be provided according to wage and service length.

A retirement benefit trust has been set up for some defined benefit corporate pension plans. For retirement lump-sum plans, a lump sum will be provided as a retirement benefit according to wage level and service length.

For defined benefit corporate pension plans and retirement lump-sum plans offered by some consolidated subsidiaries, liabilities pertaining to retirement benefits and retirement benefit costs are calculated according to a simple method.

2. Defined benefit system

(1) Adjustment table for the balance of beginning and end of period of retirement benefit obligations (excluding plans to which a simple method has been applied.)

	(millions of yen)
Retirement benefit obligations at beginning of period	80,675
Service costs	3,094
Interest costs	1,613
Accrued amount of actuarial differences	4,295
Amount of retirement benefits paid	(4,164)
Accrued amount of past service costs	(1,805)
Others	(5)
Retirement benefit obligations at end of period	83,703

(2) Adjustment table for the balance of beginning and end of period of pension assets (excluding plans to which a simple method has been applied)

	(millions of yen)
Pension assets at beginning of period	71,356
Expected investment return	1,326
Accrued amount of actuarial differences	1,473
Amount contributed by employer	3,396
Amount of retirement benefits paid	(3,027)
Other	(40)
Pension assets at end of period	74,484

(3) Adjustment table for the balance of beginning and end of period of liabilities pertaining to retirement benefits as they correspond to plans to which a simple method has been applied

	(millions of yen)
Liabilities pertaining to retirement benefits at beginning of period	82
Retirement benefit costs	(7)
Amount of retirement benefits paid	(2)
Amount contributed to plans	(44)
Other	(40)
Liabilities pertaining to retirement benefits at end of period	(11)

(4) Adjustment table for the balance of end of period of retirement benefit obligations and pension assets and liabilities and assets pertaining to retirement benefits posted to the consolidated balance sheet

	(millions of yen)
Retirement benefit obligations under savings-type plans	71,105
Pension assets	(75,791)
	(4,685)
Retirement benefit obligations under non-savings-type plans	13,892
Net amount of liabilities and assets posted to the consolidated balance sheet	9,206
Liabilities for retirement benefit	13,892
Assets for retirement benefit	(4,685)
Net amount of liabilities and assets posted to the consolidated balance sheet	9,206

Note: Includes plans to which a simple method has been applied.

(5) Amounts of retirement benefit costs and the corresponding breakdown items

	(millions of yen)
Service costs	3,094
Interest costs	1,613
Expected investment return	(1,326)
Processed amount of costs associated with actuarial differences	648
Processed amount of past service costs	(215)
Retirement benefit costs calculated according to the simple method	(7)
Retirement benefit costs pertaining to defined benefit plans	3,807

(6) Accumulated adjustment amount pertaining to retirement benefits

The breakdown of items posted to the accumulated adjustment amount pertaining to retirement benefits (before tax-effect deductions) is as follows:

	(millions of yen)
Unrecognized past service costs	(2,121)
Unrecognized actuarial differences	5,170
Total	3,049

(7) Matters relating to pensions assets

(i) Main breakdown of pension assets

The percentage of total pension assets accounted for by each main classification is as follows:

Bond certificate	58.2%
Shares	14.2%
Cash and deposits	6.7%
General account	11.8%
Other	9.1%
Total	100%

Note: Retirement benefit trusts set up for corporate pension plans account for 7.6 percent of total pension assets.

(ii) Method of setting the long-term expected investment rate of return

In order to determine the long-term expected investment rate of return for pension assets, the distribution of current and projected pension assets and the present and long-term future projected rates of return as derived from various assets comprising pension assets have been taken into account.

(8) Matters relating to the bases of actuarial calculations

Key bases of actuarial calculations as of the current fiscal year-end (indicated on a weighted-average basis)

Discount rate	1.5%
Long-term expected investment rate of return	2.0%

3. Defined contribution system

The amount of required contributions to the defined contribution plans of the Company and consolidated subsidiaries was 2,399 million yen.

(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, 2013	As of March 31, 2014
Deferred tax assets		
Reserve for bonuses	2,823	2,698
Reserve for sales rebates	6,421	11,133
Accrued enterprise taxes	189	846
Liabilities for employees' retirement benefits	2,537	3,276
Loss on valuation of investment securities	1,039	647
Research and development costs	7,686	10,736
Inventories	2,374	2,842
Net operating loss carried forward	5,649	1,480
Amortization of intangible assets	11,962	13,654
Tax credit for R&D costs of overseas subsidiaries	11,464	8,226
Others	11,074	14,813
Subtotal of deferred tax assets	63,221	70,357
Amount of valuation allowance	(4,358)	(5,850)
Total of deferred tax assets	58,863	64,506
Deferred tax liabilities		
Unrealized gains (losses) on available-for-sale securities, net of tax	(7,346)	(8,376)
Reserve for advanced depreciation of fixed assets	(854)	(882)
Valuation of intangible assets	(26,165)	(24,021)
Refund of capital surplus of a subsidiary	(471)	(471)
Undistributed earnings of foreign subsidiaries	(111)	(213)
Others	(807)	(1,074)
Total deferred tax liabilities	(35,756)	(35,039)
Net amount of deferred tax assets	23,107	29,467

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

(Millions of yen)

	As of March 31, 2013	As of March 31, 2014
Current assets – deferred tax assets	30,097	37,281
Fixed assets – deferred tax assets	7,569	8,602
Current liabilities – deferred tax liabilities	(66)	(712)
Fixed liabilities – deferred tax liabilities	(14,494)	(15,704)

2. Reconciliation of effective tax rate:

	As of March 31, 2013	As of March 31, 2014
Statutory tax rate	38.0%	38.0%
(Adjustments)		
Entertainment expenses and other items that are excluded from nontaxable expenses	6.5%	3.3%
Dividend income and other items that are excluded from taxable income	(1.0%)	(0.5%)
Tax credit for R&D expenses	(9.0%)	(9.2%)
Residence tax on per-capita basis	0.7%	0.4%
Amortization of goodwill	7.9%	5.5%
Change in valuation allowance	(0.5%)	3.0%
Adjustment on deferred tax assets due to change in income tax rate related to FY2011 tax reform	1.1%	—
Adjustment on deferred tax assets due to change in Income tax rate related to FY2014 tax reform	—	2.0%
Increase(decrease) of tax effect concerned with undistributed earnings of subsidiary	0.6%	0.3%
Others	0.4%	(0.6%)
Actual effective tax rate	44.7%	42.2%

3. Changes in amounts of deferred tax assets and deferred tax liabilities due to change of the corporate tax rate

The Act on the Partial Amendment of the Income Tax Act, etc., was promulgated on March 31, 2014. Accordingly, Special Corporate Tax for Reconstruction will no longer be imposed from the fiscal year commencing on or after April 1, 2014. Thus, the effective statutory tax rate used to calculate the deferred tax assets and deferred tax liabilities for the current fiscal year was changed from 38.0 percent in the previous fiscal year to 35.6 percent in connection with the temporary difference that is expected to be eliminated in the fiscal year commencing on April 1, 2014. Consequently, the amount of deferred tax assets (less the amount of deferred tax liabilities) declined by 686 million yen while income taxes-deferred posted in the current fiscal year increased by 686 million yen.

(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.

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

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 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.

Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	171,898	145,271	11,928	16,712	345,810	41,883	387,693
Intersegment sales and transfers	161	—	—	—	161	67	229
Total	172,059	145,271	11,928	16,712	345,971	41,951	387,922
Income of segment	60,827	33,876	3,182	11,358	109,244	2,673	111,917
Others							
Depreciation and amortization	3,924	12,964	346	258	17,494	196	17,690
Amortization of Goodwill	—	5,053	—	—	5,053	—	5,053

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, 2013 (April 1, 2012 to March 31, 2013)	Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)
Reportable segments total	307,456	345,971
Net sales of "Other Business"	40,610	41,951
Elimination of intersegment transaction	(342)	(229)
Net sales on consolidated statements of income	347,724	387,693

(Millions of yen)

Income	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)	Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)
Reportable segments total	81,863	109,244
Income of "Other Business"	2,996	2,673
Research and development costs*	(59,844)	(69,804)
Elimination of intersegment transaction	28	29
Operating income on consolidated statements of income	25,043	42,142

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, 2013	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014	Year ended March 31, 2013	Year ended March 31, 2014
Depreciation and amortization	28,082	17,494	177	196	1,995	2,898	30,255	20,588
Amortization of Goodwill	3,773	5,053	—	—	—	—	3,773	5,053

[Relative information]

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	US	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

Year ended March 31, 2014(April 1, 2013 to March 31, 2014)

1. Products and services information

(Millions of yen)

	Pharmaceuticals	Other products	Total
Sales to customers	345,810	41,883	387,693

2. Geographic segment information

(1) Net sales

(Millions of yen)

Japan	US	Others	Total
214,703	141,547	31,442	387,693

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

(2) Tangible fixed assets

(Millions of yen)

Japan	Others	Total
62,848	9,840	72,689

3. Information by major clients

(Millions of yen)

Name of customer	Net sales	Name of relative segment
McKesson Corporation	48,061	North America
Cardinal Corporation	41,030	North America
Alfresa Corporation	37,536	Japan

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

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

Year ended March 31, 2014(April 1, 2013 to March 31, 2014)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Impairment loss	2,999	4,638	—	—	7,638	—	—	7,638

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

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 as of March 31, 2013	—	71,293	—	—	71,293	—	—	71,293

Year ended March 31, 2014(April 1, 2013 to March 31, 2014)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Amortization	—	5,053	—	—	5,053	—	—	5,053
Balance as of March 31, 2014	—	80,669	—	—	80,669	—	—	80,669

[Information regarding gain on negative goodwill by reportable segments]

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

Not applicable.

Year ended March 31, 2014(April 1, 2013 to March 31, 2014)

Not applicable.

(Per-share information)

	Year ended March 31, 2013 (April 1, 2012 to March 31, 2013)	Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)
Net assets per share	879.03 yen	1,003.11 yen
Net income per share	25.28 yen	50.49 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, 2013 (April 1, 2012 to March 31, 2013)	Year ended March 31, 2014 (April 1, 2013 to March 31, 2014)
Net income per share		
Net income (millions of yen)	10,043	20,060
Amount not belonging to common shareholders (millions of yen)	—	—
Net income related to common stocks (millions of yen)	10,043	20,060
Average number of common stock during the period (thousands of shares)	397,310	397,307

3. As described in "Changes to accounting policies," the Accounting Standard for Retirement Benefits is applied, in accordance with the provisions on transitional implementation indicated in Paragraph 37 of the Accounting Standard for Retirement Benefits.

As a result, net assets per share at the end of the fiscal year decreased by 4.94 yen.

(Significant subsequent event)

Not applicable.

5. Others

Change of the Members, Board of Directors (as of June 19, 2014)

(1) Change of Representative

Not applicable.

(2) Change of other Members, Board of Directors

(i) New Member of the Board of Directors

Hiroshi Sato (Dr. Eng.) (currently Chairman of the Board and Representative Director of Kobe Steel, Ltd.), to take office as Outside Director.

(ii) Retiring Member of the Board of Directors

Tetsuya Oida (currently Member, Board of Directors)