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## Matters Available on the Website in Relation to the Notice of Convocation of the 194<sup>th</sup> Annual Shareholders' Meeting

- Notes to Consolidated Financial Statements
- Notes to Non-Consolidated Financial Statements

The above information are posted on the Company's website at <http://www.ds-pharma.co.jp/> pursuant to relevant laws and regulations, and Article 16 of the Articles of Incorporation of the Company.

**Dainippon Sumitomo Pharma Co., Ltd.**

# Notes to Consolidated Financial Statements

## 1. Summary of significant accounting policies for consolidated financial statements

### (1) Scope of consolidation

Number of consolidated subsidiaries: 15 companies

Names of the major consolidated subsidiaries

DSP Gokyo Food & Chemical Co., Ltd., DS Pharma Animal Health Co., Ltd., DS Pharma Biomedical Co., Ltd., Sunovion Pharmaceuticals Inc., Boston Biomedical, Inc. and Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.

Up on the establishment of BBP, BBP is consolidated from this fiscal year. Upon the liquidation of Sepracor N.V., Sepracor N.V. has been excluded from the scope of consolidation from this fiscal year.

8 non-consolidated subsidiaries have been excluded from the scope of consolidation as they are small sized companies where the exclusion would not have a material impact on our consolidated financial statements.

### (2) Application of the equity method

8 non-consolidated subsidiaries and 10 affiliated companies have been excluded from the scope of the application of the equity method as the exclusion does not have a material impact on our consolidated financial statements.

### (3) Fiscal year end of consolidated subsidiaries

Among the consolidated subsidiaries, Boston Biomedical, Inc. and Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., have on fiscal accounting year-end date of December 31. For Boston Biomedical, Inc. financial statements as of fiscal accounting year-end date are used and any material transactions arising in the period between the date of the consolidated balance sheet and the date of fiscal accounting year-end date shall be handled by making adjustments as required for consolidation in preparing the 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 date of the consolidated balance sheet.

In order to achieve a more appropriate disclosure of consolidated financial information, the accounting year-end date 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 the consolidated balance sheet 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 above mentioned 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" in the consolidated balance sheet and described as "Decrease due to change fiscal period of consolidated subsidiaries" in the consolidated statements of changes in net assets.

### (4) Significant accounting policies

#### ① Valuation of significant assets

##### (i) Marketable and investment 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

Without market values                      using the moving-average method.)  
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 capital 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) Leased assets

Leased 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 allowances/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 uncollectible.

(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, and 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 consolidated fiscal year. Any foreign exchange gain or loss resulting from translation is charged to income.

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

⑥ Significant hedge accounting method

(i) Hedge accounting

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 prices, 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) Hedge 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

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

⑧ Other significant accounting policies for consolidated financial statements

Accounting for consumption taxes

All financial statement items are net of consumption taxes.

## 2. Notes to the 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.

## 3. Accounting standards that have not been applied yet

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

### (1) Summary

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

### (2) Scheduled date of application

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

### (3) Impact of by the application of the relevant accounting standards

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

## 4. Change of the presentation in the consolidated financial statements

(Consolidated balance sheet)

“Patent rights” under “Intangible fixed assets,” which had been separately disclosed until the previous fiscal year, is

included in “Others” under “Intangible fixed assets” from this fiscal year because of the lack of monetary significance. Accordingly, the consolidated financial statements for the previous fiscal year was represented to conform to the presentation in this fiscal year. 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.”

## 5. Notes to the Consolidated Balance Sheet

### (1) Assets pledged as collateral and secured liabilities

Investment securities amounting 53 million yen has been pledged as collateral for 80 million yen of accounts payable.

In addition, cash and time deposit (time deposit) amounting 446 million yen has been pledged as collateral for letter of credit issued by bank.

### (2) Accumulated depreciation of tangible fixed assets 149,343 million yen

Accumulated depreciation of tangible fixed assets is included in accumulated impairment losses.

### (3) Liabilities on guarantees

Debt guarantees covering amounts borrowed by affiliated companies from financial institutions have been extended as follows:

Sanno Foods Co., Ltd.	30 million yen
Others	119 million yen

## 6. Notes to the Consolidated Statement of Changes in Net Assets

### (1) Type and total number of issued shares as of the end of the current consolidated fiscal year

Common Stock	397,900,154 shares
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### (2) Dividends

#### ① Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Declaration 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 declaration date belongs to the current consolidated fiscal year and for which the effective date of distribution falls in the following consolidated fiscal year

Resolution schedule	Type of share	Total dividend amount	Source of Funds for dividend distribution	Dividend amount per share	Declaration 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

## 7. Notes to financial instruments

### (1) Matters pertaining to financial instruments

#### ① Policies for using financial instruments

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

#### ② Details of financial instruments and risks, policies and processes for risk management

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

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

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

Loans payable and corporate bonds are instruments that are primarily used for the purpose of procuring funds in accordance with business plans; the redemption date of each such instrument falls, at the latest, less than five years from the accounting year-end date. Some loans payable are subject to variable interest rates and are exposed to the risks of fluctuations in interest rates.

All income taxes payable are mostly due within two months.

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

Derivative financial instruments of the Group include forward exchange contracts for the purpose of hedging risks of fluctuations in exchange rates of receivables and payables denominated in foreign currencies. With respect to forward exchange contracts, the Finance & Accounting Division formulates an implementation plan for hedging foreign currency risks every half year pursuant to the regulations for management of foreign currency risks and, upon reporting to the Representative Director and President executes transactions, and posts the applicable entries. The results of derivative transactions are also reported to the Representative Director and President. Certain consolidated subsidiaries also set forth internal standards pertaining to forward exchange contracts and engage in transactions in accordance therewith. See “Significant hedge accounting method” as stated in the above “Significant accounting policies” for information on hedging instruments, hedged items, hedging policy, and the method of evaluating the effectiveness of hedges, as they relate to hedge accounting.

#### ③ Supplemental information on market values

In addition to value based on quoted market prices, the market value of financial instruments includes fair value which is determined by using valuation techniques. Since certain assumptions are considered in the calculation of such amounts, the adoption of different assumptions may cause prices to vary.

### (2) Fair value of financial instruments

Consolidated balance sheet amounts compared to the corresponding fair values, and the differences between these figures, as of March 31, 2014, are as follows (financial instruments for which the ascertainment of fair value is deemed to be exceedingly difficult are not included, see Note 2);

(millions of yen)

	Amount on consolidated balance sheet(*)	Fair value(*)	Difference
① Cash and time deposits	22,746	22,746	—
② Notes and accounts receivable	111,662	111,662	—
③ Short-term loans receivable	41,720	41,720	—
④ Marketable securities and investment securities	120,945	120,945	—
⑤ Notes and accounts payable	(11,713)	(11,713)	—
⑥ Income taxes payable	(10,524)	(10,524)	—
⑦ Accounts payable-other	(35,937)	(35,937)	—
⑧ Bonds payable (Current and Long-term)	(60,000)	(60,895)	(895)
⑨ Loans payable (Current and Long-term)	(35,000)	(35,099)	(99)
⑩ Derivative transactions	(0)	(0)	—

(\*)Liabilities are noted by ( ).

(Note 1): Basis of determining fair value of financial instruments, and matters pertaining to securities and derivative transactions

① Cash and time deposits,

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

② Notes and accounts receivable, and ③ Short-term loans receivable

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

④ Marketable securities and investment securities

The fair value of these assets is calculated according to the quoted market price for shares and the price indicated by the applicable financial trading institution for bonds. As negotiable certificates of deposit are settled on a short-term basis, fair value is approximately equal to book value and is calculated according to the applicable book value.

⑤ Notes and accounts payable, ⑥ Income taxes payable and ⑦ Accounts payable-other

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

⑧ Bonds payable

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

⑨ Long-term loans payable

The fair value of long-term loans payable is calculated according to the present value of the total sum of principal and interest as discounted by an assumed rate that would have been applicable had a new identical loan been undertaken.

⑩ Derivative transactions

As foreign exchange forward contracts subject to appropriation are processed in an integrated manner together with the accounts payable items constituting hedged items, the fair value has been included in the applicable accounts payable items and stated accordingly.

(Note 2): The fair value of unlisted shares and others (the amount of which is posted in the consolidated balance sheet at 11,830 million yen) is not included in “④ Marketable securities and investment securities” because they are deemed to be exceedingly difficult to ascertain given the unavailability of quoted market prices.



8. Notes to per share information

(1) Net assets per share 1,003.11 yen

(2) Net income per share 50.49 yen

As described in "2. Notes to the changes to accounting policies," the Accounting Standard for Retirement Benefits are 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.

9. Other notes

Impairment loss

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 this consolidated fiscal year, the Group posted impairment losses with respect to the following assets:

Usage for	Item	Location	Impairment loss Amount
Research and development with respect to compound in development	In-process research and development	U.S.	4,272million yen
Welfare facilities	Building and structures, Land and Others	Japan	2,984million yen
Production facilities	Construction in progress	U.S.	366million yen
Production facilities	Buildings and structures, Machinery, equipment and carriers and Others	Japan	15million yen

Upon evaluating the recoverability of idling 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%).

## Notes to Non-consolidated Financial Statements

### 1. Summary of significant accounting policies for non-consolidated financial statements

#### (1) Valuation of marketable and investment securities

Shares held in subsidiaries and affiliates	Cost using the moving-average method
Available-for-sale securities	
With market values	Market value method, based on the market price as of the last day of the 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

#### (2) Valuation of inventories

Weighted average cost method (Book values are calculated using the lower of cost or market principle.)

#### (3) Depreciation and amortization of fixed assets

##### ① Property, plant and equipment

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

##### ② Intangible assets

Straight-line method

Intangible assets are amortized using the straight-line method over their estimated useful life.

#### (4) Accounting for allowances/reserves

##### ① 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 uncollectible.

##### ② Reserve for bonuses

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

##### ③ Reserve for sales returns

A reserve is accrued for profits from expected sales returns.

##### ④ Reserve for sales rebates

A reserve for the disbursement of sales rebates to wholesalers is accrued. The reserve amounts are calculated accordingly:

- (i) The sales rebate, as calculated based on the sales performance of wholesalers, which equals the wholesale inventory as of the end of the fiscal term, multiplied by the rebate rate.
- (ii) The sales rebate, as calculated based on the accounts receivable collected, which equals the applicable accounts receivable as of the end of the fiscal term, multiplied by the rebate rate.

##### ⑤ Provision for retirement benefit

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

###### (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).

(5) Other significant accounting policies for the non-consolidated financial statements

① Accounting for retirement benefits

The method by which accounting procedures are applied to unrecognized actuarial gains and losses and unrecognized past service costs pertaining to retirement benefits differs from the method by which such accounting procedures are applied in consolidated financial statements.

② Accounting for consumption taxes

All financial statement items are net of consumption taxes.

2. Change of the presentation in the non-consolidated financial statements

(Non-consolidated balance sheet)

As the monetary importance of “Prepaid pension cost,” included in “Others” under “Investments and other assets,” increased in the previous fiscal year, it was decided that this item would be separately noted beginning this fiscal year. Accordingly, the non-consolidated financial statements for the previous fiscal year were represented to conform to the presentation in this fiscal year. Consequently, the amount of 5,925 million yen as indicated for “Others” under “Investments and other assets” in the non-consolidated balance sheet for the previous fiscal year was split up into the amounts of 4,095 million yen for “Prepaid pension cost” and 1,830 million yen for “Others.”

3. Notes to the non-consolidated Balance Sheet

(1) Accumulated depreciation of tangible fixed assets 142,360 million yen

Accumulated depreciation of tangible fixed assets is included in accumulated impairment losses.

(2) Liabilities on guarantees 119 million yen

Debt guarantees covering amounts borrowed by our employees from financial institutions have been extended as follows:

(3) Monetary claims and liabilities to affiliated companies

Short-term monetary claims	36,140 million yen
Short-term monetary liabilities	33,923 million yen

4. Notes pertaining to the Income Statement

Amounts of transactions with affiliated companies

Transaction amounts based on operating transactions

Net sales	10,348 million yen
Amount of goods purchased	5,823 million yen
Other operating transactions	12,962 million yen
Non-operating transactions	2,016 million yen

## 5. Notes to tax effect accounting

### (1) Breakdown of deferred tax assets and deferred tax liabilities by main cause of occurrence

Deferred tax assets	
Reserve for bonuses	2,510 million yen
Reserve for sales rebates	185 million yen
Accrued enterprise taxes	810 million yen
Liabilities for retirement benefits	2,196 million yen
Loss on valuation of investment securities	647 million yen
Research and development costs	10,712 million yen
Inventories	2,051 million yen
Stocks of subsidiaries and affiliates	2,501 million yen
〔Stocks of succeeding company associated with corporate separation〕	
Others	<u>9,658 million yen</u>
Subtotal of deferred tax assets	31,270 million yen
Valuation allowance	<u>(4,190 million yen)</u>
Total deferred tax assets	27,080 million yen
Deferred tax liabilities	
Unrealized gains (losses) on available-for-sale securities	(7,745 million yen)
Reserve for advanced depreciation of fixed assets	(882 million yen)
Refund of capital surplus of a subsidiaries	<u>(471 million yen)</u>
Total deferred tax liabilities	<u>(9,098 million yen)</u>
Net amount of deferred tax assets	<u>17,981 million yen</u>

### (2) Reconciliation of effective tax rate

Statutory tax rate	38.0%
(Adjustments)	
Entertainment expenses and other items that are excluded from nontaxable expenses	2.7%
Dividend income and other items that are excluded from taxable income	(2.9%)
Tax credit for R&D expenses	(13.6%)
Adjustment on deferred tax assets due to change in Income tax rate related to FY2014 tax reform	3.4%
Residence tax on per-capita basis	0.6%
Change in valuation allowance	(0.2%)
Others	<u>0.1%</u>
Actual effective tax rate	<u>28.1%</u>

### (3) Changes in amounts of deferred tax assets and deferred tax liabilities due to change of the corporation tax rate

The Act on the Partial Amendment of the Income Tax Act, etc., was promulgated on March 31, 2014. Accordingly, Special Reconstruction Corporation Tax 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 713 million yen while income taxes-deferred posted in the current fiscal year increased by 713 million yen.

## 6. Notes to transactions with affiliated parties

### (1) Parent company and main corporate shareholders

Type	Name of company	Ratio of voting rights (or ownership)	Relationship with affiliated party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Parent company	Sumitomo Chemical Co., Ltd.	Direct ownership: 50.22%	<ul style="list-style-type: none"> <li>• Supplier of raw materials</li> <li>• Leasing land, etc.</li> <li>• Purchasing plant utilities, etc.</li> <li>• Lending funds</li> </ul>	Lending funds	6,407 million yen	Short-term loans to affiliates	31,432 million yen

Transaction terms and policies for determining transaction terms, etc.

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

### (2) Subsidiary companies

Type	Name of company	Ratio of voting rights (or ownership)	Relationship with affiliated party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Subsidiary company	Sunovion Pharmaceuticals Inc.	Indirect ownership: 100%	<ul style="list-style-type: none"> <li>• Supplier of intermediate products</li> <li>• Commission of development</li> <li>• borrowing funds</li> </ul>	Borrowing funds	27,614 million yen	Short-term loans payable to affiliates	27,777 million yen

Transaction terms and policies for determining transaction terms, etc.

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

## 7. Notes to Non-Consolidated Statement of Changes in Net Assets

Type and total number of Company's shares (treasury stock) as of the end of the current fiscal year

Common Stock 593,962 shares

## 8. Notes to per share information

(1) Net assets per share 971.29 yen

(2) Net income per share 38.28 yen

## 9. Other notes

### Impairment loss

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

In this non-consolidated fiscal year, the DSP posted impairment losses with respect to the following assets.

Usage for	Item	Location	Impairment loss Amount
Welfare facilities	Building and structures, Land and Others	Japan	2,984million yen
Production facilities	Buildings and structures, Machinery, equipment and carriers and Others	Japan	15million yen

Upon evaluating the recoverability of idling tangible fixed assets, tangible fixed assets for which future profitability has been deemed 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.