



## Summary of Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2017 [Japanese GAAP] (Unaudited)

October 27, 2016

**Company Name:** SUMITOMO DAINIPPON 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 Quarterly Financial Report:** November 4, 2016

**Starting Date of Dividend Payments:** December 1, 2016

**Preparation of Supplementary Financial Data for Quarterly Financial Results:** Yes

**Information Meeting for Quarterly 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 Second Quarter of the Year Ending March 31, 2017 (April 1, 2016 to September 30, 2016)

#### (1) Results of Operations

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Six months ended September 30, 2016	198,088	(0.4)	26,731	58.7	23,881	36.4	10,922	(17.3)
Six months ended September 30, 2015	198,926	11.6	16,847	41.0	17,502	37.7	13,214	12.4

Note: Comprehensive income  
 Six months ended September 30, 2016 : (¥24,242) million, — %  
 Six months ended September 30, 2015 : ¥11,097 million, (56.2) %

	Earnings per share	Earnings per share (diluted)
Six months ended September 30, 2016	¥27.49	—
Six months ended September 30, 2015	¥33.26	—

#### (2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio
As of September 30, 2016	641,153	418,845	65.3%
As of March 31, 2016	707,715	446,472	63.1%

Reference: Shareholders' Equity  
 As of September 30, 2016 : ¥418,845 million  
 As of March 31, 2016 : ¥446,472 million

### 2. Dividends

	Dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual
Year ended March 31, 2016	—	¥9.00	—	¥9.00	¥18.00
Year ending March 31, 2017	—	¥9.00			
Year ending March 31, 2017 (Forecast)			—	¥9.00	¥18.00

Note: Revision of dividend forecasts from the latest announcement: None

### 3. Consolidated Financial Forecasts for the Year Ending March 31, 2017 (April 1, 2016 to March 31, 2017)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Year ending March 31, 2017	398,000	(1.3)	46,000	24.6	44,000	24.9	25,000	1.2	¥62.92

Note: Revision of consolidated financial forecasts from the latest announcement: Yes

#### Notes:

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

(2) Application of specific accounting methods for preparing quarterly consolidated financial statements: Yes

• Calculation of income taxes

The effective tax rate, after applying tax effect accounting, expected to be imposed on income before income taxes for the fiscal year in which this current quarter is included is estimated based on reasonable assumptions. Then, tax expenses are calculated by multiplying the income before income taxes for the quarter by the estimated effective tax rate.

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

① Changes due to changes in accounting standards: Yes

• Guidance on “Recoverability of Deferred Tax Assets”

The company has applied the “Guidance on Recoverability of Deferred Tax Assets” (Accounting Standards Board of Japan [ASBJ] Guidance No.26, March 28, 2016.) from the beginning of the current fiscal year and revised a part of the accounting method for recoverability of deferred tax assets.

With regard to the application, in accordance with the provisions on transitional implementation indicated in Paragraph 49(4) of Guidance on Recoverability of Deferred Tax Assets, the differences between the amount of deferred tax assets and deferred tax liabilities when Paragraph 49(3)①to③of Guidance on Recoverability of Deferred Tax Assets are applied at the beginning of the current fiscal year, and the amount of deferred tax and deferred tax liabilities at the end of the previous fiscal year have been added to or subtracted from retained earnings and accumulated other comprehensive income(loss) at the beginning of the current fiscal year.

As a result, at the beginning of the current fiscal year, deferred tax assets (in “Investments and other assets”) increased by 193 million yen, retained earnings increased by 385 million yen and unrealized gains on available-for-sale securities decreased by 192 million yen.

② Changes due to changes in accounting standards other than (3),①: None

③ Changes in accounting estimates: None

④ Retrospective restatements: None

(4) Number of shares outstanding (Common stock) at the end of period

① Number of shares outstanding (Including treasury stock)

September 30, 2016: 397,900,154 shares

March 31, 2016 : 397,900,154 shares

② Number of treasury stock

September 30, 2016: 599,690 shares

March 31, 2016 : 598,599 shares

③ Average number of shares during the period

September 30, 2016 :	397,300,888 shares
September 30, 2015 :	397,303,133 shares

*Indication of quarterly review procedure implementation status:*

*This summary of financial results is exempt from quarterly review procedure based upon the Financial Instruments and Exchange Act. It is under the quarterly review 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. Please refer to page 4 of attachment document with regard to the assumptions and other related matters concerning financial forecasts.*

*The Company holds the earnings presentation for institutional investors and analysts on Friday, October 28, 2016. The documents distributed at the presentation are scheduled to be posted on our website.*

**【Attachment Documents】**

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## 1. Qualitative Information for the Six Months Ended September 30, 2016

### (1) Qualitative Information on Consolidated Business Results

Consolidated operating results for the six months from April 1 through September 30, 2016 are as follows.

In the North America segment, sales continued to increase overall as growth momentum was maintained for atypical antipsychotic agent LATUDA<sup>®</sup> and other mainstay products amid the ongoing appreciation of the yen. In the Japan segment, on the other hand, our strategic products, such as therapeutic agent for hypertension AIMIX<sup>®</sup> and therapeutic agent for Parkinson's disease TRERIEF<sup>®</sup>, continued to register positive growth; however, this was not enough to offset the negative impact of NHI price revisions and declining sales of long-listed drugs, with the result that sales of this geographic segment decreased overall. As a result, total net sales for the Sumitomo Dainippon Pharma Group (the "Group") dipped by 0.4% year-on-year to 198,088 million yen. Operating income for the period increased substantially by 58.7% year-on-year to 26,731 million yen due to, in addition to a lower ratio of cost of sales, a decrease in selling, general, and administrative expenses resulting primarily from appreciation of the yen. Ordinary income also increased by 36.4% year-on-year to 23,881 million yen. Meanwhile, net income attributable to owners of the parent decreased by 17.3% to 10,922 million yen, as we reported gain on sales of investment securities under extraordinary income and business structure improvement expenses under extraordinary loss in preparation for the Early Retirement Program.

Operating results by segment are as follows.

#### ① Japan segment

We successfully boosted sales of our three strategic products of AIMIX<sup>®</sup>, TRERIEF<sup>®</sup>, and atypical antipsychotic agent LONASEN<sup>®</sup> together with type 2 diabetes treatment Trulicity<sup>®</sup>, which was launched during the previous fiscal year.

Due to the sheer size of the negative impact of NHI price revisions and declining sales of long-listed drugs, however, net sales decreased by 4.7% year-on-year to 70,542 million yen. Segment income fell by 11.3% year-on-year to 19,567 million yen, as the decrease in gross profit due to NHI price revisions exerted a significant impact.

#### ② North America segment

Net sales grew by 1.3% year-on-year to 91,366 million yen thanks to the continued growth of antiepileptic agent APTIOM<sup>®</sup> and long-acting beta-agonist BROVANA<sup>®</sup>, as well as LATUDA<sup>®</sup>. Segment income increased by 29.7% year-on-year to 38,270 million yen as a result of top line growth and the decrease in cost of sales and selling, general, and administrative expenses owing primarily to appreciation of the yen.

#### ③ China segment

Sales of mainstay carbapenem antibiotic MEROPEN<sup>®</sup> showed strong performance on a local currency basis, but net sales of this segment nevertheless decreased by 4.1% year-on-year to 9,174 million yen owing to appreciation of the yen. Segment income increased by 12.0% year-on-year to 4,272 million yen as a result of the decrease in cost of sales and selling, general, and administrative expenses owing primarily to appreciation of the yen.

#### ④ Other Regions segment

Net sales increased by 13.4% year-on-year to 5,278 million yen, due mainly to an increase in exports of MEROPEN®. Segment income increased by 53.2% year-on-year to 1,240 million yen.

In addition to the above-mentioned reportable segments, the Group markets food ingredients, food additives, materials for chemical products, veterinary drugs, diagnostic agents, etc. Net sales from those types of business increased by 5.8% year-on-year to 21,726 million yen and the segment income increased by 29.4% year-on-year to 1,110 million yen.

## **(2) Qualitative Information on Financial Condition**

### **① Analysis of Balance Sheet**

Current assets decreased by 37,239 million yen from the previous fiscal year-end, as marketable securities and short-term loans receivable decreased while cash and time deposits increased. Fixed assets decreased by 29,321 million yen from the previous fiscal year-end due to sales of some investment securities, on top of the impact of depreciation and foreign currency translation adjustment. As a result, total assets decreased by 66,561 million yen from the previous fiscal year-end to 641,153 million yen.

Total liabilities decreased by 38,934 million yen from the previous fiscal year-end to 222,308 million yen, due mainly to a major decline in income taxes payable, in addition to payment of loans payable and redemption of bonds payable.

Net assets declined by 27,626 million yen from the previous fiscal year-end to 418,845 million yen, as foreign currency translation adjustment significantly decreased while retained earnings increased.

The shareholders' equity ratio as of the end of the current half-year was 65.3%.

### **② Analysis of Cash Flow**

Cash flows provided by operating activities declined by 752 million yen year-on-year for a gain in proceeds of 13,526 million yen due to the fact that income before income taxes decreased and payment of income taxes increased, despite factors that generated additional cash, such as a decrease in accounts receivable and an increase in provision.

Net cash provided by investing activities increased by 3,401 million yen year-on-year to 31,558 million yen due to a substantial increase in collection of short-term loans receivable.

Net cash used in financing activities increased by 18,275 million yen year-on-year to 26,530 million yen due to payment of loans payable and redemption of bonds payable.

After adding the impact of foreign currency translations applied to cash and cash equivalents, the balance of cash and cash equivalents as of the end of the current half-year amounted to 140,412 million yen, which represents an increase of 4,836 million yen from the end of the previous fiscal year.

### (3) Qualitative Information on Consolidated Financial Forecasts

In light of recent performance trends, the May 11, 2016 forecast for the consolidated financial performance of the fiscal year to March 2017 is revised as described below.

#### Revision of Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2017

(April 1, 2016 to March 31, 2017)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Earnings per share
	Yen million	Yen million	Yen million	Yen million	
Previous forecasts (A)	401,000	40,000	40,000	25,000	62.92
New forecasts (B)	398,000	46,000	44,000	25,000	62.92
(B-A)	(12,000)	6,000	4,000	—	
Change (%)	(2.9)	15.0	10.0	—	
(Reference) Results for the year ended March 31, 2016	403,206	36,929	35,221	24,697	62.16

Net sales in all reporting segments are remaining firm on a local currency basis. Given the ongoing appreciation of the yen, however, we have revised the assumptions of foreign currency exchange rates that were used for previous forecasts. Accordingly, we now expect net sales to be 398.0 billion yen, down by 12.0 billion yen from the previous forecasts.

Meanwhile, cost of sales and selling, general, and administrative expenses are expected to decrease in an amount greater than that of the net sales revision, since, in addition to a decrease owing to the yen's appreciation, selling expenses in North America look set to decline further in comparison to the previous forecasts. As a result, we have upwardly revised the forecast operating income and ordinary income by 6.0 billion yen to 46.0 billion yen and by 4.0 billion yen to 44.0 billion yen, respectively.

The forecast net income attributable to owners of the parent, on the other hand, remains unchanged from the previous forecasts after a review of extraordinary items.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2016	As of September 30, 2016
<b>Assets</b>		
Current assets:		
Cash and time deposits	54,922	97,401
Notes and accounts receivables	107,165	101,090
Marketable securities	81,039	43,322
Merchandise and finished goods	48,100	40,717
Work-in-process	3,206	3,458
Raw materials and supplies	8,281	11,050
Deferred tax assets	63,991	65,626
Short-term loans receivable	48,426	13,136
Others	6,454	8,544
Allowance for doubtful receivables	(4)	(4)
Total current assets	421,584	384,345
Fixed assets:		
Property, plant and equipment:		
Buildings and structures	95,279	94,855
Accumulated depreciation and impairment loss	(54,944)	(55,926)
Buildings and structures, net	40,335	38,928
Machinery, equipment and carriers	79,734	79,590
Accumulated depreciation and impairment loss	(71,937)	(72,353)
Machinery, equipment and carriers, net	7,796	7,237
Land	6,269	6,222
Construction in progress	1,497	2,114
Others	33,498	32,828
Accumulated depreciation and impairment loss	(27,572)	(27,628)
Others, net	5,926	5,199
Total property, plant and equipment	61,824	59,703
Intangible assets:		
Goodwill	76,950	66,589
In-process research and development	60,144	53,965
Others	19,485	16,488
Total intangible assets	156,580	137,043
Investments and other assets:		
Investment securities	60,432	50,751
Asset for retirement benefits	66	21
Deferred tax assets	2,313	4,537
Others	4,953	4,780
Allowance for doubtful receivables	(40)	(29)
Total investments and other assets	67,725	60,061
Total fixed assets	286,130	256,808
Total assets	707,715	641,153



	(Millions of yen)	
	As of March 31, 2016	As of September 30, 2016
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payables	12,153	13,320
Short-term loans payable	1,010	—
Current portion of bonds payable	10,000	—
Current portion of long-term loans payable	12,000	8,000
Income taxes payable	26,357	10,741
Reserve for bonuses	10,809	9,694
Reserve for sales returns	9,086	9,387
Reserve for sales rebates	49,224	51,138
Accounts payable-other	34,212	39,789
Others	14,869	17,611
Total current liabilities	179,722	159,683
Long-term liabilities:		
Bonds payable	20,000	20,000
Long-term loans payable	8,000	—
Deferred tax liabilities	16,209	14,481
Liability for retirement benefits	16,158	16,121
Others	21,152	12,020
Total long-term liabilities	81,520	62,624
Total liabilities	261,242	222,308
<b>Net assets</b>		
Shareholders' equity:		
Common stock	22,400	22,400
Capital surplus	15,860	15,860
Retained earnings	341,401	349,134
Treasury stock	(663)	(665)
Total shareholders' equity	378,999	386,729
Accumulated other comprehensive income (loss)		
Unrealized gains on available-for-sale securities	25,293	20,011
Deferred gains (losses) on hedges	(12)	(97)
Foreign currency translation adjustment	48,025	17,925
Remeasurements of defined benefit plans	(5,832)	(5,722)
Total accumulated other comprehensive income (loss)	67,473	32,116
Total net assets	446,472	418,845
Total liabilities and net assets	707,715	641,153

**(2) Consolidated Statements of (Comprehensive) Income**

## Consolidated Statements of Income

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net sales	198,926	198,088
Cost of sales	52,086	47,890
Gross profit	146,839	150,198
Reversal of reserve for sales returns	—	9
Provision of reserve for sales returns	5	—
Gross profit, net	146,834	150,207
Selling, general and administrative expenses		
Salaries	20,836	19,849
Provision for reserve for bonuses	5,692	5,825
Retirement benefit expenses	2,473	2,290
Research and development costs	40,200	37,744
Others	60,783	57,766
Total selling, general and administrative expenses	129,986	123,476
Operating income	16,847	26,731
Non-operating income		
Interest income	246	446
Dividend income	661	715
Gain on investments in partnership	1,454	—
Others	124	204
Total non-operating income	2,487	1,366
Non-operating expenses		
Interest expense	471	325
Foreign exchange losses	800	3,454
Others	560	436
Total non-operating expenses	1,832	4,215
Ordinary income	17,502	23,881
Extraordinary income		
Gain on sales of investment securities	6,077	3,802
Total extraordinary income	6,077	3,802
Extraordinary loss		
Business structure improvement expenses	—	9,992
Impairment loss	154	—
Total extraordinary loss	154	9,992
Income before income taxes	23,425	17,691
Income taxes	10,210	6,769
Net income	13,214	10,922
Net income attributable to non-controlling interests	—	—
Net income attributable to owners of the parent	13,214	10,922

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net income	13,214	10,922
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	(1,220)	(5,089)
Deferred gains (losses) on hedges	(3)	(84)
Foreign currency translation adjustment	(1,158)	(30,099)
Remeasurements of defined benefit plans	264	109
Total other comprehensive income (loss)	(2,117)	(35,164)
Comprehensive income	11,097	(24,242)
Comprehensive income attributable to		
Owners of the parent	11,097	(24,242)
Non-controlling interests	—	—

**(3) Consolidated Statements of Cash Flows**

(Millions of yen)

	Six months ended September 30, 2015	Six months ended September 30, 2016
Net cash provided by operating activities:		
Income before income taxes	23,425	17,691
Depreciation and amortization	6,931	6,753
Amortization of goodwill	3,032	2,604
Increase (decrease) in net defined benefit liability	439	165
Provision for other liabilities	9,153	7,740
Interest and dividend income	(908)	(1,162)
Loss (gain) on investments in partnership	(1,379)	50
Interest expense	471	325
Loss (gain) on sales of property, plant and equipment	4	(111)
Loss (gain) on sales of investment securities	(6,077)	(3,802)
Business structure improvement expenses	—	9,992
Decrease (increase) in notes and accounts receivables	(3,334)	1,810
Decrease (increase) in inventories	(1,162)	(4,891)
Increase (decrease) in notes and accounts payables	802	4,476
Increase (decrease) in accounts payable-other	(2,236)	(1,295)
Other-net	(9,010)	(2,272)
Subtotal	20,153	38,074
Interest and dividend received	1,020	1,190
Interest paid	(327)	(190)
Income taxes paid	(6,568)	(25,548)
Net cash provided by operating activities	14,278	13,526
Net cash provided by investing activities:		
Proceeds from redemption of marketable securities	18,032	—
Purchases of property, plant and equipment	(2,674)	(4,365)
Proceeds from sales of property, plant and equipment	5	118
Purchases of intangible assets	(3,532)	(641)
Purchases of investment securities	(33)	(179)
Proceeds from sales of investment securities	6,264	4,878
Proceeds from distribution of investments in partnership	3,035	9
Net decrease (increase) in short-term loans receivable	7,000	31,700
Other-net	58	37
Net cash provided by investing activities	28,156	31,558

	(Millions of yen)	
	Six months ended September 30, 2015	Six months ended September 30, 2016
Net cash used in financing activities:		
Proceeds from short-term loans payable	1,113	(952)
Repayments of long-term loans payable	(5,770)	(12,000)
Redemption of bonds	—	(10,000)
Dividends paid	(3,575)	(3,575)
Other-net	(21)	(1)
Net cash used in financing activities	<u>(8,254)</u>	<u>(26,530)</u>
Effect of exchange rate changes on cash and cash equivalents	(799)	(13,717)
Net increase (decrease) in cash and cash equivalents	<u>33,381</u>	<u>4,836</u>
Cash and cash equivalents at the beginning of period	122,794	135,575
Increase (decrease) in cash and cash equivalents resulting from change in the fiscal year-end of subsidiaries	(1,691)	—
Cash and cash equivalents at the end of period	<u>154,484</u>	<u>140,412</u>

#### (4) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

I Six months ended September 30, 2015

1. Information on sales and income by reportable segment

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	74,000	90,157	9,571	4,656	178,385	20,540	198,926
Intersegment sales and transfers	16	—	—	—	16	32	48
Total	74,016	90,157	9,571	4,656	178,401	20,572	198,974
Income of segment	22,051	29,511	3,813	809	56,185	858	57,044

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.

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

(Millions of yen)

Income	Amount
Reportable segments total	56,185
Income of "Other Business"	858
Research and development costs*	(40,200)
Elimination of intersegment transactions	4
Operating income on consolidated statements of income	16,847

Note: Research and development costs are not allocated to any segment as the Group manages such costs on a global basis.

3. Information on impairment losses of fixed assets or goodwill etc. by reportable segment

(Significant impairment losses relating to fixed assets)

In the North America segment, in-process research and development costs deemed to have little future profitability is evaluated in terms of collectability, therefore 154 million yen is recorded as an impairment loss.

II Six months ended September 30, 2016

1. Information on sales and income by reportable segment

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	70,542	91,366	9,174	5,278	176,362	21,726	198,088
Intersegment sales and transfers	31	—	—	—	31	32	63
Total	70,574	91,366	9,174	5,278	176,394	21,758	198,152
Income of segment	19,567	38,270	4,272	1,240	63,350	1,110	64,461

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.

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

(Millions of yen)

Income	Amount
Reportable segments total	63,350
Income of "Other Business"	1,110
Research and development costs*	(37,744)
Elimination of intersegment transactions	14
Operating income on consolidated statements of income	26,731

Note: Research and development costs are not allocated to any segment as the Group manages such costs on a global basis.