



Summary of Consolidated Financial Results for the Year Ended March 31, 2017 [Japanese GAAP] (Unaudited)

May 11, 2017

Company Name: SUMITOMO DAINIPPON PHARMA CO., LTD.
Stock Exchange Listings: Tokyo
Security Code Number: 4506 (URL <http://www.ds-pharma.co.jp>)
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Filing Date of Financial Report: June 22, 2017
Date of Annual Shareholder's Meeting: June 22, 2017
Starting Date of Dividend Payments: June 23, 2017
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, 2017 (April 1, 2016 to March 31, 2017)

(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, 2017	411,638	2.1	52,759	42.9	54,341	54.3	28,991	17.4
Year ended March 31, 2016	403,206	8.6	36,929	58.7	35,221	51.0	24,697	59.9

Note: Comprehensive income
 Year ended March 31, 2017: ¥21,145 million, 279.0%
 Year ended March 31, 2016: ¥5,579 million, (90.7%)

	Earnings per share	Earnings per share (diluted)	Net income / Shareholders' equity (ROE)	Ordinary income / Total assets	Operating income / Net sales
Year ended March 31, 2017	¥72.97	—	6.4%	7.2%	12.8%
Year ended March 31, 2016	¥62.16	—	5.5%	5.0%	9.2%

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates
 Year ended March 31, 2017 : ¥47 million
 Year ended March 31, 2016 : ¥96 million

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2017	793,950	460,656	58.0%	¥1,159.47
As of March 31, 2016	707,715	446,472	63.1%	¥1,123.76

Reference: Shareholders' Equity
 As of March 31, 2017 : ¥460,656 million
 As of March 31, 2016 : ¥446,472 million

(3) Cash Flows

(Millions of yen)

	Net cash provided by operating activities	Net cash provided by investing activities	Net cash used in financing activities	Cash and cash equivalents at the end of period
Year ended March 31, 2017	21,624	(59,729)	9,881	105,603
Year ended March 31, 2016	49,415	15,887	(42,605)	135,575

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, 2016	—	¥9.00	—	¥9.00	¥18.00	¥7,151	29.0%	1.6%
Year ended March 31, 2017	—	¥9.00	—	¥11.00	¥20.00	¥7,946	27.4%	1.8%
Year ending March 31, 2018 (Forecasts)	—	¥9.00	—	¥11.00	¥20.00		22.1%	

3. Consolidated Financial Forecasts for the Year Ending March 31, 2018 (April 1, 2017 to March 31, 2018)

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of parent		Earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Six months ending September 30, 2017	220,000	11.1	26,500	(0.9)	26,500	11.0	18,000	64.8	¥45.31
Year ending March 31, 2018	450,000	9.3	55,000	4.2	55,000	1.2	36,000	24.2	¥90.61

Notes:

(1) Shift of significant subsidiaries during the period (shift of specified subsidiaries accompanied by changes in scope of consolidation) : Yes

• Specified subsidiaries

(New : 5 Companies)

Cynapsus Therapeutics Inc.

Project Pegasus Sub Acquisition ULC

Sunovion CNS Development Canada ULC(old company)

Sunovion CNS Development Canada ULC

Tolero Pharmaceuticals, Inc.

(Excluded : 3 Companies)

Cynapsus Therapeutics Inc.

Project Pegasus Sub Acquisition ULC

Sunovion CNS Development Canada ULC(old company)

(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 3.Consolidated Financial Statement, (5) Notes to Consolidated Financial Statements (Changes to accounting policies) on page 14 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, 2017: 397,900,154 shares

March 31, 2016: 397,900,154 shares

② Number of treasury stock at the end of period

March 31, 2017: 600,484 shares

March 31, 2016: 598,599 shares

③ Average number of shares during the period

March 31, 2017: 397,300,479 shares

March 31, 2016: 397,302,552 shares

(Reference)

Non-consolidated Financial Results for the year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

(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 31,2017	256,531	(3.4)	89,768	(5.6)	92,098	(2.6)	63,902	(4.1)
Year ended March 31,2016	265,691	45.1	95,115	563.8	94,525	524.5	66,624	292.6

	Earnings per share	Earnings per share (diluted)
Year ended March 31,2017	¥160.84	—
Year ended March 31,2016	¥167.69	—

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2017	642,111	515,585	80.3%	¥1,297.72
As of March 31, 2016	647,720	465,410	71.9%	¥1,171.43

Reference: Shareholders' Equity As of March 31, 2017 : ¥515,585 million
As of March 31, 2016 : ¥465,410 million

This summary of financial results is exempt from audit procedures.

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. For assumptions of the financial forecasts, please refer to 1. Operating Results and Financial Condition, (4) Forecasts for the Year Ending March 31, 2018 on page 5 of Attached Documents.

The Company holds an earnings presentation for institutional investors and analysts on Friday, May 12, 2017. The documents distributed at the presentation are scheduled to be posted on our website.

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1. Operating Results and Financial Condition

(1) Analysis of Operating Results

(i) Overview of overall operating results

During the fiscal year ended March 31, 2017, the Japanese economy remained on a mild recovery path, with corporate earnings showing improvements due to a pick up in consumer spending and exports. In overseas economy, the U.S. economy continued to expand, driven chiefly by increased consumer spending, and the Chinese economy showed signs of a turnaround as government economic packages began to take effect. Going forward, the U.S. and British governments' policy developments, prospects of Chinese and other emerging economies, and impacts of financial and capital market fluctuations all warrant attention.

In the pharmaceutical sector, authorities around the world are attempting to come up with a series of measures to curb prices of brand-name drugs and promote use of generic drugs in a bid to put the brakes on their ever-increasing social security benefits expenditures, which serves to lower businesses' visibility. Amid these circumstances, the increasing difficulty of developing new drugs, rising R&D expenses, and intensifying international competition are forcing businesses to run high risks.

Against this backdrop, the Group strove to boost sales of three of its strategic products, namely, AIMIX[®] (therapeutic agent for hypertension), TRERIEF[®] (therapeutic agent for Parkinson's disease), and LONASEN[®] (atypical antipsychotic; generic name: blonanserin), in Japan, while at the same time providing scientific information on Trulicity[®] (GLP-1 receptor agonist indicated for Type 2 diabetes), which was launched in FY2015, in order to accelerate its penetration into the market.

In North America, the Company's U.S. subsidiary Sunovion Pharmaceuticals Inc. (hereinafter referred to as "Sunovion") continued to pour its resources into expanding sales of the global strategic product LATUDA (atypical antipsychotic; generic name: lurasidone hydrochloride) and other mainstay products. For the purpose of gaining a Psychiatry & Neurology pipeline, in October 2016 Sunovion acquired Cynapsus Therapeutics Inc., a Canadian biotechnology company that specializes in the central nervous system (hereinafter referred to as "Cynapsus"). In December 2016, Sunovion then acquired the exclusive rights to market three approved therapeutic agents for patients with chronic obstructive pulmonary disease (COPD) in the U.S. from two Novartis affiliates (hereinafter referred to as "Novartis") with a view toward expanding its respiratory portfolio.

In the Oncology area, Boston Biomedical, Inc. (hereinafter referred to as "Boston Biomedical"), which is another U.S. subsidiary of the Company, expedited clinical development of napabucasin (product code: BBI608) by placing top priority on an early U.S. launch of the drug. In January 2017, the Company acquired the U.S. biotechnology company Tolero Pharmaceuticals, Inc. (hereinafter referred to as "Tolero"), which specializes in pharmaceutical research and development in the oncology and hematologic disease areas, through a U.S. holding company that is wholly owned by the Company.

Net sales in Japan during the fiscal year under review decreased, with the April 2016 NHI price revisions and a drop in sales of long-listed products having a significant impact, while North America saw a substantial sales increase on the back of steady growth for LATUDA[®] and other mainstay products. On a consolidated basis, net sales increased by 2.1% year-on-year to 411,638 million yen. Operating income increased by 42.9% year-on-year to 52,759 million yen as, in addition to the lower cost of sales, selling, general, and administrative expenses showed a decrease due to reduction of selling and other expenses in Japan. Ordinary income also increased by 54.3% year-on-year to 54,341 million yen owing primarily to foreign exchange gains after conversion of foreign currency assets to the yen. Net income attributable to owners of the parent increased by 17.4% year-on-year to 28,991 million yen, as the Company reported a gain on sales of investment securities under extraordinary income and business structure improvement expenses under extraordinary loss due to implementation of the Early Retirement Program.

(ii) Status of each business segment

[Japan segment]

Sales of AIMIX[®], TRERIEF[®], and Trulicity[®] increased, but failed to make up for the negative impact of the NHI price revisions and declining sales of long-listed drugs, with the result that net sales decreased by 3.9% year-on-year to 140,847 million yen. Segment income decreased by 7.8% year-on-year to 38,307 million yen despite a decrease in selling, general, and administrative expenses, excluding R&D expenses, as the decline in gross profit due to the NHI price revisions exerted a significant influence.

[North America segment]

Net sales increased by 7.0% year-on-year to 197,889 million yen, as sales of LATUDA[®] continued to expand significantly and those of long-acting beta-agonist BROVANA[®] and antiepileptic agent APTIOM[®] expanded. Segment income increased by 27.8% year-on-year to 83,288 million yen, as, in addition to the increase in sales, the cost of sales decreased owing primarily to currency movements.

[China segment]

Sales of mainstay carbapenem antibiotic MEROPEN[®] performed strongly on a local currency basis. Owing to currency movements, however, net sales of this segment nevertheless decreased by 4.1% year-on-year to 17,624 million yen. Segment income decreased by 15.6% year-on-year to 6,742 million yen.

[Other Regions segment]

Net sales increased by 3.4% year-on-year to 11,566 million yen as exports of MEROPEN[®] and other drugs and gains on industrial property rights showed an increase. Segment income increased by 14.6% year-on-year to 2,803 million yen, as gross profit increased due to a change in the product mix.

In addition to the abovementioned reportable segments, the Group markets food ingredients, food additives, materials for chemical products, veterinary drugs, diagnostic agents, and other products. Net sales from these types of businesses increased by 3.4% year-on-year to 43,710 million yen, and segment income increased by 32.2% to 2,407 million yen.

(iii) Status of research and development activities:

The Group remains committed to research and development by proactively assimilating leading-edge technologies through every available method, including in-house research, technology in-licensing, and joint research with venture businesses and academia, with the aim of creating innovative drugs with Psychiatry & Neurology and Oncology as its two focus therapeutic areas. The Group also engages in research and development in new areas, such as diseases for which no approved drugs currently exist and regenerative medicine/cell therapy, in a bid to lead the world in these key areas.

In the initial research stage, the Group is working to apply leading-edge scientific technologies, including supercomputer-assisted *in silico* methods and iPS cells, to drug discovery and regenerative medicine/cell therapy. The Group also proactively seeks external research collaboration with universities and other research institutions throughout the globe. During the fiscal year under review, the second term of the joint research project with Kyoto University (DSK Project), which aims to discover innovative anti-cancer drugs, was launched. Meanwhile, under the Partnership to Realize Innovative Seeds and Medicines (PRISM) framework, which is an open innovation program launched in FY2015 whereby research institutions and researchers in Japan are invited to submit ideas that meet the Company's drug discovery research needs, joint research agreements were signed on multiple ideas during the fiscal year under review.

In the latter research stage and the development stage, a global perspective is taken to optimize the project portfolio for the Group's focus therapeutic areas and newer fields, as well as other areas. The Group is also committed to product life cycle management and drug repositioning by developing dosage forms in ways that maximize product value.

The progress statuses of key development projects during the fiscal year under review are as follows.

[Psychiatry and Neurology]

(a) Blonanserin

An indication for schizophrenia was approved in China in February 2017.

(b) Dasotraline (product code: SEP-225289)

In the U.S., the primary endpoint in a Phase 2/3 clinical study for pediatric attention deficit hyperactivity disorder (ADHD) has been satisfied and the concurrent Phase 3 clinical study has been completed. Also, the primary endpoint in a Phase 2/3 clinical study for binge eating disorder (BED) has been satisfied and a separate Phase 3 clinical study has been launched.

(c) SEP-363856

In the U.S., a Phase 2 clinical study for schizophrenia and another Phase 2 clinical study for psychotic symptoms in Parkinson's disease have begun.

[Oncology]

(a) Napabucasin

A Phase 3 global clinical study for gastric and gastroesophageal junction adenocarcinoma and colorectal cancer (combination therapy) is under way in the U.S., Canada, Japan, and elsewhere. In addition, a Phase 3 global clinical study for pancreatic cancer (combination therapy) has begun in the U.S. Meanwhile, the Phase 2 part of the Phase 1/2 clinical study for glioblastoma has been launched in Canada.

(b) DSP-7888

The Phase 2 part of the Phase 1/2 clinical study for pediatric malignant glioma has begun in Japan.

[Regenerative medicine/cell therapy]

In February 2017, allogeneic iPS cell-derived dopaminergic neural progenitor cells, for which the Company addresses toward the practical use in collaboration with the Center for iPS Cell Research and Application, Kyoto University (CiRA), was designated for the "SAKIGAKE System" product for regenerative medicine & cell therapy by the Ministry of Health, Labour and Welfare (MHLW) in Japan.

[Other areas]

Glycopyrronium bromide (product code: SUN-101)

In July 2016, an application for approval as a long-term maintenance therapy for chronic obstructive pulmonary disease (COPD) was filed in the U.S.

The Group remains committed to acquiring businesses and in-licensing products under development in a bid to expand the development pipeline. During the fiscal year under review, the Group promoted development of product candidates of acquired businesses, namely, apomorphine hydrochloride hydrate (product code: APL-130277) developed by Cynapsus and alvocidib developed by Tolero, as described below.

(a) Apomorphine hydrochloride hydrate

A Phase 3 clinical study for OFF episodes in Parkinson's disease patients is currently under way in the U.S.

(b) Alvocidib

A Phase 2 clinical study for acute myelocytic leukemia (AML) (combination therapy) is currently under way in the U.S.

In addition to the above, the Group is moving forward with the development of its product candidates including lurasidone hydrochloride in Japan, and amcasertib (product code: BBI503) in the U.S., Canada, and Japan.

As a result of the abovementioned activities, R&D expenses for the fiscal year under review amounted to 80,819 million yen (down by 1.5% year-on-year). Please note that the Group manages its R&D expenses globally and, as such, does not allocate such expenses into individual segments.

(2) Analysis of Financial Condition

Current assets decreased by 45,130 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 due to sales of some equity holdings, but nevertheless increased by 131,365 million yen from the previous fiscal year-end owing to a considerable rise in goodwill and in-process research and development following the merger of Cynapsus and Tolero. As a result, total assets increased by 86,235 million yen from the previous fiscal year-end to 793,950 million yen.

Total liabilities increased by 72,050 million yen from the previous fiscal year-end to 333,293 million yen, due mainly to an increase in reserve for sales rebates, as well as an increase in short-term loans, deferred tax liabilities, and fair value of contingent consideration on account of the acquisitions, although there was a decrease in payment of income taxes payable, as well as payment of long-term loans payable and redemption of bonds payable.

Net assets increased by 14,184 million yen from the previous fiscal year-end to 460,656 million yen, due primarily to an increase in retained earnings, despite a decrease in unrealized gains on available-for-sale securities.

The shareholders' equity ratio as of the end of the fiscal year under review was 58.0%.

(3) Analysis of Cash Flows

Cash flows provided by operating activities decreased by 27,790 million yen from the previous fiscal year to 21,624 million yen, owing to a major increase in business structure improvement expenses, income taxes, and other payments, although there were factors that contributed to an increase in cash, including a rise in notes and accounts payable, accounts payable-other, and reserves, in addition to an increase in income before income taxes.

Cash flows used in investing activities increased by 75,616 million yen from the previous fiscal year to 59,729 million yen, due to the purchase of shares of subsidiaries following the acquisition of Cynapsus and Tolero, even though there were proceeds from collection of short-term loans receivable and sales of investment securities.

Cash flows provided by financial activities increased by 52,486 million yen from the previous fiscal year to 9,881 million yen, as the Company took out short-term loans for acquisitions while repaying long-term loans payable and redeeming bonds.

After factoring in the impact of foreign currency translations applied to cash and cash equivalents, the balance of cash and cash equivalents as of March 31, 2017 amounted to 105,603 million yen, a decrease of 29,971 million yen from the end of the previous fiscal year.

(4) Forecasts for the Year Ending March 31, 2018

	Fiscal 2016 Results	Fiscal 2017 Forecasts	Change	Change %
Net sales	411,638	450,000	38,361	9.3
Operating income	52,759	55,000	2,240	4.2
Ordinary income	54,341	55,000	658	1.2
Net income attributable to owners of parent	28,991	36,000	7,008	24.2

<Net sales>

In Japan, the Company will attempt to maximize sales of TRERIEF[®], LONASEN[®], and Trulicity[®], but it expects net sales to remain flat year-on-year due to the ongoing decline in sales of long-listed drugs. In North America, on the other hand, net sales are expected to increase, owing primarily to a scheduled launch of glycopyrronium bromide and contributions from the three treatment options for patients with chronic obstructive pulmonary disease (COPD), which were in-licensed last year from Novartis, in addition to sales expansion of LATUDA[®] and APTIOM[®]. All things considered, net sales are expected to reach 450.0 billion yen, up by 38.4 billion yen from the previous fiscal year.

<Income>

The Company expects gross profit to advance as net sales increase. Meanwhile, selling, general and administrative expenses are likely to increase due to a new launch in North America and progress in clinical studies of Cynapsus's apomorphine hydrochloride hydrate and Tolero's avocidib, both of which were acquired in the previous fiscal year. As a result, the Company expects operating income of 55.0 billion yen, up by 2.2 billion yen year-on-year, ordinary income of 55.0 billion yen, up by 0.7 billion yen, and net income attributable to owners of the parent company of 36.0 billion yen, up by 7.0 billion yen.

<Prior condition>

Foreign currency exchange rates used for the forecasts are: 1 USD = 110 JPY, 1 RMB = 16.5 JPY.

* Increases/decreases from the previous fiscal year are rounded to the nearest 100 million yen.

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

The customary allocation of a portion of the Company's profits to its shareholders in an appropriate manner is one of the Company's most important management policies.

The Company's basic policy is to make dividend 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 placing high importance on distribution of surplus in a manner that reflects the Company's performance, the Company seeks to make decisions on dividends from a comprehensive perspective, while actively investing in its future growth, ensuring a solid management base, and enhancing its financial status in order to further increase its corporate value. The Company believes that it is important to allocate profits to its shareholders consistently. In FY2016 (year ended March 31, 2017), the Company achieved a record-high operating income of 50.0 billion yen, owing primarily to expanded sales of LATUDA[®], thereby meeting the target for the FY2017 (year ending March, 2018), which was laid out in the 3rd Mid-Term Business Plan(MTBP), one year ahead of schedule. Given the abovementioned basic policy on profit distribution to shareholders and earnings results of the FY2016, the Company plans to pay a year-end dividend of 11 yen per share, which comprises an ordinary dividend of 9 yen and a special dividend of 2 yen, thus making the annual dividend of 20 yen per share.

Since the level of operating income is expected to surpass 50.0 billion yen, a target laid out in the 3rd MTBP, for the fiscal year ending March 2018, the Company plans to pay an annual dividend of 20 yen per share for the next term, the same amount as declared for the fiscal year ended March 2017, with an ordinary dividend of 9 yen being paid at the interim and an ordinary dividend of 9 yen and a special dividend of 2 yen being paid at the year end.

2. Basic policy for application of accounting standard

Sumitomo Dainippon Pharma group is making concrete preparations for the adoption of International Financial Reporting Standard (IFRS) from the fiscal year ending March 2018 for the purposes of improving the international comparability of financial statements in capital market and improving the group management by standardization of accounting treatment.

3. Consolidated Financial Statements
(1) Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2016	As of March 31, 2017
Assets		
Current assets:		
Cash and time deposits	54,922	71,408
Notes and accounts receivable	107,165	110,932
Marketable securities	81,039	34,195
Merchandise and finished goods	48,100	54,973
Work-in-process	3,206	3,356
Raw materials and supplies	8,281	10,477
Deferred tax assets	63,991	60,956
Short-term loans receivable	48,426	16,731
Others	6,454	13,427
Allowance for doubtful receivables	(4)	(4)
Total current assets	421,584	376,454
Fixed assets:		
Property, plant and equipment:		
Buildings and structures	95,279	95,726
Accumulated depreciation and impairment loss	(54,944)	(57,174)
Buildings and structures, net	40,335	38,551
Machinery, equipment and carriers	79,734	79,585
Accumulated depreciation and impairment loss	(71,937)	(72,820)
Machinery, equipment and carriers, net	7,796	6,765
Land	6,269	6,264
Construction in progress	1,497	3,112
Others	33,498	32,353
Accumulated depreciation and impairment loss	(27,572)	(27,794)
Others, net	5,926	4,559
Total property, plant and equipment	61,824	59,253
Intangible assets:		
Goodwill	76,950	90,565
In-process research and development	60,144	193,970
Others	19,485	19,774
Total intangible assets	156,580	304,310
Investments and other assets:		
Investment securities	60,432	48,034
Asset for retirement benefits	66	646
Deferred tax assets	2,313	710
Others	4,953	4,568
Allowance for doubtful receivables	(40)	(29)
Total investments and other assets	67,725	53,931
Total fixed assets	286,130	417,495
Total assets	707,715	793,950

	(Millions of yen)	
	As of March 31, 2016	As of March 31, 2017
Liabilities		
Current liabilities:		
Notes and accounts payable	12,153	14,514
Short-term loans payable	1,010	40,000
Current portion of bonds payable	10,000	10,000
Current portion of long-term loans payable	12,000	8,000
Income taxes payable	26,357	8,818
Reserve for bonuses	10,809	10,986
Reserve for sales returns	9,086	11,315
Reserve for sales rebates	49,224	65,652
Accounts payable-other	34,212	36,986
Others	14,869	22,172
Total current liabilities	179,722	228,447
Long-term liabilities:		
Bonds payable	20,000	10,000
Long-term loans payable	8,000	—
Deferred tax liabilities	16,209	32,583
Liability for retirement benefits	16,158	13,498
Fair value of contingent consideration	8,968	39,909
Others	12,184	8,855
Total long-term liabilities	81,520	104,846
Total liabilities	261,242	333,293
Net assets		
Shareholders' equity:		
Common stock	22,400	22,400
Capital surplus	15,860	15,860
Retained earnings	341,401	363,627
Treasury stock	(663)	(666)
Total shareholders' equity	378,999	401,221
Accumulated other comprehensive income (loss)		
Unrealized gains on available-for-sale securities	25,293	18,439
Deferred gains (losses) on hedges	(12)	(20)
Foreign currency translation adjustment	48,025	45,729
Remeasurements of defined benefit plans	(5,832)	(4,712)
Total accumulated other comprehensive income (loss)	67,473	59,435
Total net assets	446,472	460,656
Total liabilities and net assets	707,715	793,950

(2) Consolidated Statements of (Comprehensive) Income

Consolidated Statements of Income

	(Millions of yen)	
	Year ended March 31, 2016	Year ended March 31, 2017
Net sales	403,206	411,638
Cost of sales	※1 104,470	※1 100,078
Gross profit	298,736	311,560
Reversal of reserve for sales returns	—	7
Provision of reserve for sales returns	1	—
Gross profit, net	298,734	311,568
Selling, general and administrative expenses		
Advertising expenses	26,963	24,081
Salaries	41,485	39,885
Provision for reserve for bonuses	6,313	6,509
Retirement benefit expenses	5,552	4,588
Depreciation	5,720	5,654
Research and development costs	※2 82,033	※2 80,819
Others	93,736	97,269
Total selling, general and administrative expenses	261,805	258,808
Operating income	36,929	52,759
Non-operating income		
Interest income	627	746
Dividend income	1,029	1,032
Foreign exchange gains	—	1,236
Others	1,574	503
Total non-operating income	3,231	3,519
Non-operating expenses		
Interest expense	919	631
Contribution	952	739
Foreign exchange losses	2,993	—
Others	74	566
Total non-operating expenses	4,940	1,937
Ordinary income	35,221	54,341
Extraordinary income		
Gain on sales of investment securities	6,106	5,754
Total extraordinary income	6,106	5,754
Extraordinary loss		
Business structure improvement expenses	※3 612	※3 10,871
Loss on discontinuation of R&D programs	—	※4 2,006
Loss on disposal of property, plant and equipment	※5 601	—
Impairment loss	※6 552	—
Total extraordinary loss	1,766	12,878
Income before income taxes	39,560	47,217
Income taxes	39,586	16,114
Income taxes-deferred	(24,723)	2,111
Total income taxes	14,863	18,226
Net income	24,697	28,991
Net income attributable to non-controlling interests	—	—
Net income attributable to owners of the parent	24,697	28,991

Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	Year ended March 31, 2016	Year ended March 31, 2017
Net income	24,697	28,991
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	2,193	(6,661)
Deferred gains (losses) on hedges	(14)	(7)
Foreign currency translation adjustment	(20,001)	(2,296)
Remeasurements of defined benefit plans	(1,295)	1,119
Total other comprehensive income (loss)	(19,117)	(7,846)
Comprehensive income	5,579	21,145
Comprehensive income attributable to		
Owners of the parent	5,579	21,145
Non-controlling interests	—	—

(3) Consolidated Statements of Changes in Net Assets

Year ended March 31, 2016

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2015	22,400	15,860	326,686	(660)	364,286
Cumulative effects of changes in accounting policies					—
Restated balance	22,400	15,860	326,686	(660)	364,286
Changes during the fiscal year					
Cash dividends			(7,151)		(7,151)
Net income attributable to owners of the parent			24,697		24,697
Purchases of treasury stock				(3)	(3)
Sales of treasury stock		0		0	0
Change of scope of equity method			(5)		(5)
Increase (decrease) due to change in fiscal period of consolidated subsidiaries			(2,824)		(2,824)
Changes in items other than shareholders' equity (net)					
Total changes during the fiscal year	—	0	14,715	(3)	14,712
Balance as of March 31, 2016	22,400	15,860	341,401	(663)	378,999

	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, 2015	23,099	1	68,171	(4,536)	86,735	451,021
Cumulative effects of changes in accounting policies						—
Restated balance	23,099	1	68,171	(4,536)	86,735	451,021
Changes during the fiscal year						
Cash dividends						(7,151)
Net income attributable to owners of the parent						24,697
Purchases of treasury stock						(3)
Sales of treasury stock						0
Change of scope of equity method						(5)
Increase (decrease) due to change in fiscal period of consolidated subsidiaries						(2,824)
Changes in items other than shareholders' equity (net)	2,193	(14)	(20,145)	(1,295)	(19,261)	(19,261)
Total changes during the fiscal year	2,193	(14)	(20,145)	(1,295)	(19,261)	(4,548)
Balance as of March 31, 2016	25,293	(12)	48,025	(5,832)	67,473	446,472

Year ended March 31, 2017

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2016	22,400	15,860	341,401	(663)	378,999
Cumulative effects of changes in accounting policies			385		385
Restated balance	22,400	15,860	341,787	(663)	379,384
Changes during the fiscal year					
Cash dividends			(7,151)		(7,151)
Net income attributable to owners of the parent			28,991		28,991
Purchases of treasury stock				(3)	(3)
Sales of treasury stock		0		0	0
Change of scope of equity method					—
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	—	0	21,839	(3)	21,836
Balance as of March 31, 2017	22,400	15,860	363,627	(666)	401,221

	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, 2016	25,293	(12)	48,025	(5,832)	67,473	446,472
Cumulative effects of changes in accounting policies	(192)				(192)	193
Restated balance	25,101	(12)	48,025	(5,832)	67,281	446,666
Changes during the fiscal year						
Cash dividends						(7,151)
Net income attributable to owners of the parent						28,991
Purchases of treasury stock						(3)
Sales of treasury stock						0
Change of scope of equity method						—
Increase (decrease) due to change in fiscal period of consolidated subsidiaries						—
Changes in items other than shareholders' equity (net)	(6,661)	(7)	(2,296)	1,119	(7,846)	(7,846)
Total changes during the fiscal year	(6,661)	(7)	(2,296)	1,119	(7,846)	13,990
Balance as of March 31, 2017	18,439	(20)	45,729	(4,712)	59,435	460,656

(4) Consolidated Statements of Cash Flows

	(Millions of yen)	
	Year ended March 31, 2016	Year ended March 31, 2017
Net cash provided by operating activities:		
Income before income taxes	39,560	47,217
Depreciation and amortization	14,286	13,058
Impairment loss	552	—
Amortization of goodwill	5,979	5,559
Increase (decrease) in net defined benefit liability	1,044	(1,664)
Provision for other liabilities	18,787	18,421
Interest and dividend income	(1,657)	(1,779)
Interest expense	919	631
Loss (gain) on sales of investment securities	(6,106)	(5,754)
Business structure improvement expenses	612	10,871
Loss on discontinuation of R&D programs	—	2,006
Decrease (increase) in notes and accounts receivables	(6,786)	(3,734)
Decrease (increase) in inventories	(3,026)	(9,266)
Increase (decrease) in notes and accounts payables	2,190	2,965
Other-net	(1,528)	(1,718)
Subtotal	<u>64,830</u>	<u>76,814</u>
Interest and dividend received	1,744	1,833
Interest paid	(644)	(351)
Business structure improvement expenses paid	(584)	(10,848)
Income taxes paid	(15,930)	(45,823)
Net cash provided by operating activities	<u>49,415</u>	<u>21,624</u>
Net cash used in investing activities:		
Proceeds from redemption of marketable securities	18,499	—
Purchases of property, plant and equipment	(5,382)	(8,132)
Purchases of intangible assets	(4,358)	(5,327)
Purchases of investment securities	(297)	(356)
Proceeds from sales of investment securities	6,383	8,935
Purchase of investments in subsidiaries resulting in change in scope of consolidation	—	(84,348)
Net decrease (increase) in short-term loans receivable	(2,088)	29,854
Other-net	3,131	(353)
Net cash used in investing activities	<u>15,887</u>	<u>(59,729)</u>
Net cash provided by financing activities:		
Proceeds from short-term loans payable	1,080	39,036
Repayments of long-term loans payable	(6,529)	(12,000)
Redemption of bonds	(30,000)	(10,000)
Dividends paid	(7,152)	(7,151)
Other-net	(3)	(3)
Net cash provided by financing activities:	<u>(42,605)</u>	<u>9,881</u>
Effect of exchange rate changes on cash and cash equivalents	(8,225)	(1,748)
Net increase (decrease) in cash and cash equivalents	<u>14,472</u>	<u>(29,971)</u>
Cash and cash equivalents at the beginning of period	<u>122,794</u>	<u>135,575</u>
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>135,575</u>	<u>105,603</u>

(5) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Changes to accounting policies)

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)①to③ of 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.

Reflecting these impacts on net assets at the beginning of the current fiscal year, retained earnings increased by 385 million yen, unrealized gains on available-for-sale securities decreased by 192 million yen.

(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, 2016 (April 1, 2015 to March 31, 2016)	Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)
		(188)	(1,527)

- * 2. Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

The total amount of research and development costs equals 82,033 million yen and has been included in “Selling, general and administrative expenses.”

Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

The total amount of research and development costs equals 80,819 million yen and has been included in “Selling, general and administrative expenses.”

- * 3. Business structure improvement expenses

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

The special retirement benefit arising from the improvement of business structure and organization is booked as business structure improvement expenses.

Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

Expenses for improvement of business structure and organization including the payment for special retirement benefits arising from the early retirement program are booked as business structure improvement expenses.

- * 4. Loss on discontinuation of R&D programs

Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

Includes cancellation fee with regard to the early termination of joint research agreement.

- * 5. Loss on disposal of property, plant and equipment

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

Loss on disposal of property, plant and equipment is mainly composed of dismantlement cost arising from an earthquake resistant renewal of research building No.2 in Osaka research center.

* 6. Impairment loss

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

Among the fixed assets owned by the 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, 2016, the Group posted impairment losses with respect to the following assets.

(Millions of yen)

Usage for	Item	Location	Impairment loss amount
Production facilities	Buildings and structures etc.	Japan	257
Results of research and development with respect to compound in development	In-process research and development	U.S.A	152
Sales facilities	Construction in progress for software	U.S.A	110
Idle assets	Machinery, equipment and carriers etc.	Japan	32

Since one of the subsidiaries has been booked operating losses continuously, all the book value of their production assets were impaired as a result of considering recoverability of the assets.

The company and its subsidiaries impaired the book value of idle tangible assets, as well as other intangible assets (construction in progress for software) and in-process research and development of which future economic benefit were expected to be less than the recoverable amount.

The recoverable value of the idle tangible assets, in-process research and development, and construction in progress for software was measured 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 8.0%).

(Segment information)

1. Outline of reportable segments

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

The Group assesses 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, 2016 (April 1, 2015 to March 31, 2016)

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	146,492	184,869	18,374	11,187	360,923	42,282	403,206
Intersegment sales and transfers	141	—	—	—	141	76	218
Total	146,634	184,869	18,374	11,187	361,065	42,359	403,424
Income of segment	41,535	65,154	7,992	2,446	117,128	1,821	118,949
Others							
Depreciation and amortization	4,352	3,735	420	422	8,931	152	9,083
Amortization of Goodwill	—	5,979	—	—	5,979	—	5,979

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, 2017 (April 1, 2016 to March 31, 2017)

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	140,847	197,889	17,624	11,566	367,928	43,710	411,638
Intersegment sales and transfers	50	—	—	—	50	75	125
Total	140,898	197,889	17,624	11,566	367,978	43,785	411,764
Income of segment	38,307	83,288	6,742	2,803	131,142	2,407	133,549
Others							
Depreciation and amortization	4,237	3,571	326	430	8,566	99	8,665
Amortization of Goodwill	—	5,559	—	—	5,559	—	5,559

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, 2016	Year ended March 31, 2017
Reportable segments total	361,065	367,978
Net sales of "Other Business"	42,359	43,785
Elimination of intersegment transaction	(218)	(125)
Net sales on consolidated statements of income	403,206	411,638

(Millions of yen)

Income	Year ended March 31, 2016	Year ended March 31, 2017
Reportable segments total	117,128	131,142
Income of "Other Business"	1,821	2,407
Research and development costs*	(82,033)	(80,819)
Elimination of intersegment transaction	14	28
Operating income on consolidated statements of income	36,929	52,759

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, 2016	Year ended March 31, 2017	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2016	Year ended March 31, 2017	Year ended March 31, 2016	Year ended March 31, 2017
Depreciation and amortization	8,931	8,566	152	99	3,560	3,754	12,644	12,420
Amortization of Goodwill	5,979	5,559	—	—	—	—	5,979	5,559

[Relative information]

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

1. Products and services information

(Millions of yen)

	Pharmaceuticals	Other products	Total
Sales to customers	360,923	42,282	403,206

2. Geographic segment information

(1) Net sales

(Millions of yen)

Japan	U.S.A	Others	Total
190,155	181,084	31,965	403,206

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

(2) Tangible fixed assets

(Millions of yen)

Japan	U.S.A	Others	Total
51,851	8,512	1,460	61,824

(3) Intangible fixed assets

(Millions of yen)			
Japan	U.S.A	Others	Total
8,792	147,240	547	156,580

3. Information by major clients

(Millions of yen)		
Name of customer	Net sales	Name of relative segment
McKesson Corporation	62,474	North America
Cardinal Health, Inc.	47,777	North America
AmerisourceBergen Corporation	42,168	North America

Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

1. Products and services information

(Millions of yen)			
	Pharmaceuticals	Other products	Total
Sales to customers	367,928	43,710	411,638

2. Geographic segment information

(1) Net sales

(Millions of yen)			
Japan	U.S.A	Others	Total
186,353	193,706	31,578	411,638

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

(2) Tangible fixed assets

(Millions of yen)			
Japan	U.S.A	Others	Total
49,372	8,534	1,346	59,253

(3) Intangible fixed assets

(Millions of yen)			
Japan	U.S.A	Others	Total
7,668	296,366	276	304,310

3. Information by major clients

(Millions of yen)		
Name of customer	Net sales	Name of relative segment
McKesson Corporation	70,003	North America
Cardinal Health, Inc.	49,593	North America
AmerisourceBergen Corporation	45,783	North America

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

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Impairment loss	32	262	—	—	295	257	—	552

Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

Not applicable.

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

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Amortization	—	5,979	—	—	5,979	—	—	5,979
Balance as of March 31, 2016	—	76,950	—	—	76,950	—	—	76,950

Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Amortization	—	5,559	—	—	5,559	—	—	5,559
Balance as of March 31, 2017	—	90,565	—	—	90,565	—	—	90,565

[Information regarding gain on negative goodwill by reportable segments]

Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

Not applicable.

Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)

Not applicable.

(Per-share information)

	Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)	Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)
Net assets per share	1,123.76 yen	1,159.47 yen
Net income per share	62.16 yen	72.97 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, 2016 (April 1, 2015 to March 31, 2016)	Year ended March 31, 2017 (April 1, 2016 to March 31, 2017)
Net income per share		
Net income (millions of yen)	24,697	28,991
Amount not belonging to common shareholders (millions of yen)	—	—
Net income related to common stocks (millions of yen)	24,697	28,991
Average number of common stock during the period (thousands of shares)	397,302	397,300

(Significant subsequent event)

Not applicable.

4. Others

Change in the Members, Board of Directors (as of June 22, 2017)

(1) Change in the Members, Board of Directors (as of June 22, 2017)

(i) New Members of the Board of Directors

Nobuyuki Hara (currently Executive Officer)

Yutaka Atomi (currently Outside Audit & Supervisory Board Member)

Note: The new members of the Board of Directors who will take office as of June 22, 2017 subject to the approval at the general shareholders' meeting scheduled for the same date.

Yutaka Atomi is a candidate for Outside Director.

(ii) Retiring Members of the Board of Directors

Hiroshi Noguchi (currently Member, Board of Directors)

Masaru Ishidahara (currently Member, Board of Directors)

(2) Change in the Members of the Audit & Supervisory Board (as of June 22, 2017)

(i) New Members of the Audit & Supervisory Board

Yoshinori Oh-e (former Senior Executive Officer)

Junsuke Fujii (currently Director, Chairman of the Japan Research Institute, Limited)

Note: The new members of the Audit & Supervisory Board who will take office as of June 22, 2017 subject to the approval at the general shareholders' meeting scheduled for the same date.

Junsuke Fujii is a candidate for Outside Audit & Supervisory Board Member.

(ii) Retiring Members of the Audit & Supervisory Board

Yasuji Furutani (currently Member, Audit & Supervisory Board)

Yutaka Atomi (currently Outside Audit & Supervisory Board Member)