Matters Available on the Website in Relation to the Notice of Convocation of the 196th Annual Shareholders' Meeting

・ Consolidated Statement of Changes in Net Assets

・ Notes to Consolidated Financial Statements

・ Non-Consolidated Statement of Changes in Net Assets

・ 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.

Sumitomo Dainippon Pharma Co., Ltd.

Consolidated Statement of Changes in Net Assets

(April 1, 2015 to 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
Changes during the fiscal year					
Cash dividends			(7,151)		(7,151)
Net income			24,697		24,697
Purchases of treasury stock				(3)	(3)
Sales of treasury stock		0		0	0
Change of scope of consolidation			(5)		(5)
Increase(decrease) due to change in fiscal year 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 on available-for-sale securities, net of tax	Deferred gains (losses) on hedge	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	
Balance as of April 1, 2015	23,099	1	68,171	(4,536)	86,735	451,021
Changes during the fiscal year						
Cash dividends						(7,151)
Net income						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 year 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

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

Notes to Consolidated Financial Statements

1. Summary of significant accounting policies for consolidated financial statements

(1) Scope of consolidation

Number of consolidated subsidiaries: 13 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.,

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

(2) Application of the equity method

Number of affiliated companies applied by the equity method: 3companies

Names of the affiliated companies applied by the equity method

Suntegre Co., Ltd., Create Vaccine Company Ltd. and Sighregen K.K.

Sighregen K.K. has been included in the scope of the equity method since the beginning of current fiscal year because of the increase in importance.

6 non-consolidated subsidiaries and 4 affiliated companies have been excluded from the scope of the application of the equity method as the exclusion does not have any material impact on our consolidated financial statements.

(3) Fiscal year end of consolidated subsidiaries

Among consolidated subsidiaries, the account closing date of Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. is December 31. Consolidated financial statements shall be prepared based on financial statements for which a provisional settlement of accounts has been performed according to full-year business results as of the consolidated date of settlement.

In order to achieve a more appropriate disclosure of consolidated financial information, the date of settlement for Boston Biomedical, Inc. has been changed to March 31.

In accordance with this change, the business results for the twelve-month period from April 1, 2015 to March 31, 2016 for this consolidated subsidiary have been consolidated for this fiscal year. Gains or losses for the three-month period from January 1, 2015 to March 31, 2015 have been directly posted to “Retained earnings” on the consolidated balance sheet and described as “Increase (decrease) due to change in fiscal year of consolidated subsidiaries” on 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 year (All valuation gains or losses are treated as a component of net assets, with the cost of securities sold calculated using the moving-average method.)
Without market values	Moving-average cost method

(ii) Derivatives

Market value method

(iii) 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 net realizable value.)

Certain consolidated subsidiaries use the FIFO (first-in, first-out) costing method (Book values are calculated using the lower of cost or net realizable value.).

② Depreciation and amortization of capital assets

(i) 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

(ii) Intangible assets

Straight-line method

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

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 period

In calculating retirement benefit obligations, the benefit formula method is used for attributing expected retirement benefits to the period through March 31, 2016.

(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 (fourteen 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 (fourteen years).

(iii) Adopting a simple method for small enterprises

For certain 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 year into yen. Differences arising from translations are recognized as foreign currency translation adjustment in net assets.

⑥ Significant hedge accounting method

(i) Hedge accounting

The Company and its subsidiaries use 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 contracts are entered 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

The Company and its subsidiaries have applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan [ASBJ] statement No.21, September 13, 2013), “Accounting Standard for Consolidated Financial Statements” (ASBJ statement No.22, September 13, 2013) and “Accounting Standard for Business Divestitures” (ASBJ statement No.7, September 13, 2013) from the beginning of the current fiscal year.

Under these accounting changes, the Company and its subsidiaries now record equity changes in subsidiaries subject to ongoing control to capital surplus. In addition, the Company and its subsidiaries now record acquisition-related costs as expensed in the fiscal year in which they incurred. With respect to business combinations from the beginning of the fiscal year, the Company and its subsidiaries will now revise acquisition cost allocation based on provisional accounting estimates, reflecting these costs in the consolidated financial statements for the fiscal year in which the business combination occurred. The Company and its subsidiaries have also changed the presentation of net income, and non-controlling interest from minority interest. In order to reflect these changes in presentation, the consolidated financial statements for the previous fiscal year have restated.

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. Application of the standard commenced on April 1, 2015, and will continue going forward

As a result, there was no impact on consolidated financial statement for the current fiscal year.

3. Accounting standards that have not been applied yet

“Accounting Standard for recoverability of deferred tax assets” (Accounting Standards Board of Japan [ASBJ] Guidance No. 26, March 28, 2016)

(1) Summary

Regarding the accounting treatment of recoverability of deferred tax assets, this accounting standard has been revised as indicated below after basically following the framework of the Audit Committee Report No.66 ”Audit treatment for the judgment of recoverability of deferred tax assets” which require entity to estimate the amount of deferred tax assets according to 5 entity divisions.

(i) The treatment for the entity who does not apply any requirement of division 1 to 5

(ii) The requirement of division 2 and division 3

(iii) The treatment of future deductible temporary difference of which entity in division 2 cannot be scheduled the resolving year

(iv) The treatment in connection with the foreseeable future term of taxable income before adjusting future temporary difference in division 3 entity

(v) The treatment for the entity that is applicable to division 4 is also applicable to division 2 or division 3.

(2) Scheduled date of application

The applications of these accounting standards are scheduled for implementation from the beginning of the fiscal year ending March 31, 2017.

(3) Impact on the application of the relevant accounting standards

The management is currently still assessing the financial impact from application of the relevant accounting standards at the time of preparing these consolidated financial statements.

4. Change of accounting estimates

In accounting for retirement benefits, actuarial gains and losses and past service costs were previously amortized over 15 years but are now amortized over 14 years, effective from the year ended March 31, 2016, due to a decrease in the employees' average remaining years of service. As a result, operating income, ordinary income and income before income taxes for the year ended March 31, 2016 decreased by 410 million yen.

5. Notes to the Consolidated Balance Sheet

(1) Assets pledged as collateral for secured liabilities

Investment securities amounting 51 million yen has been pledged as collateral for 76 million yen of accounts payable.

In addition, cash and time deposit (time deposit) amounting 385 million yen has been pledged as collateral for letter of credit issued by bank.

(2) Accumulated depreciation of tangible fixed assets 154,454million yen

Accumulated depreciation of tangible fixed assets includes accumulated impairment losses.

(3) Liabilities on guarantees 101million yen

The amounts of housing funds borrowed by employees from financial institutions have been guaranteed by the Company.

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

(2) Dividends

① Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Declaration date	Effective date of distribution
June 19, 2015 Annual shareholders' Meeting	Common Stock	3,575 million yen	9.00 yen	March 31, 2015	June 22, 2015
October 28, 2015 Meeting of the Board of Directors	Common Stock	3,575 million yen	9.00 yen	September 30, 2015	December 1, 2015

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 23, 2016 Annual shareholders' Meeting	Common Stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2016	June 24, 2016

7. Notes to financial instruments

(1) Matters pertaining to financial instruments

① Policies for using financial instruments

The Company and its subsidiaries procure funds through bank loans and issuance of corporate bonds that are required for investment plans and other purposes in order to carry out business within and outside of Japan. Temporary surplus funds are to be invested only in low-risk financial instruments, for which there is a low probability for losses of invested capital. Derivative transactions are used only to manage specific 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 policies 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 three 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 Company and its subsidiaries by the preparation of cash flow plans on a monthly basis.

Derivative financial instruments of the Company and its subsidiaries 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 Representative Director, President and Chief Executive Officer executes transactions, and posts the applicable entries. The results of derivative transactions are also reported to Representative Director, President and Chief Executive Officer. Certain consolidated subsidiaries also set forth internal policies 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

The consolidated balance sheet amounts compared to the corresponding fair values, and the differences between these figures, as of March 31, 2016 are as follows (financial instruments for which the estimation of fair value is deemed to be exceedingly difficult are not included, see Note 2);

(Millions of yen)

	Amount on consolidated balance sheet(*1)	Fair value(*1)	Difference
① Cash and time deposits	54,922	54,922	—
② Notes and accounts receivable	107,165	107,165	—
③ Short-term loans receivable	48,426	48,426	—
④ Marketable securities and investment securities	132,682	132,682	—
⑤ Notes and accounts payable	(12,153)	(12,153)	—
⑥ Short-term loans payable	(1,010)	(1,010)	—
⑦ Income taxes payable	(26,357)	(26,357)	—
⑧ Accounts payable-other	(34,212)	(34,212)	—
⑨ Bonds payable (Current and Long-term) (*2)	(30,000)	(30,390)	(390)
⑩ Loans payable (Current and Long-term) (*3)	(20,000)	(20,075)	(75)
⑪ Derivative transactions	180	180	—

(*1)Liabilities are noted by ( ).

(*2)Current portion of Bonds payable is included in the column of “Amount on consolidated balance sheet” and “Fair value”.

(*3)Current portion of long-term loans payable is included in the column of “Amount on consolidated balance sheet” and “Fair value”.

(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 Short-term loans payable, ⑦ Income taxes payable and ⑧ 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.

⑨ Bonds payable

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

⑩ 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.

⑪ 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.

The estimated fair value is mainly determined by the price provided by the financial institutions.

(Note 2): The fair value of unlisted shares and others (the amount of which is posted in the consolidated balance sheet at 8,788 million yen) is not included in "④ Marketable securities and investment securities" because they are deemed to be exceedingly difficult to estimate given the unavailability of quoted market prices.

8. Notes to per share information

(1) Net assets per share 1,123.76 yen

(2) Net income per share 62.16 yen

9. Other notes

Impairment loss

Among the fixed assets owned by the Company and its subsidiaries, business assets are grouped by segments, with individual assets constituting the smallest grouping unit for idle tangible assets, In-process research and development, and other such assets.

In this fiscal year, the Company and its subsidiaries posted impairment losses with respect to the following assets:

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

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%).

Non-Consolidated Statement of Changes in Net Assets

(April 1, 2015 to March 31, 2016)

(millions of yen)

	Shareholders' equity								
		Capital surplus			Retained earnings				
						Other retained earnings			
	Common stock	Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Reserve for advanced depreciation of fixed assets	General reserve	Retained earnings carried forward	Total retained earnings
Balance as of April 1, 2015	22,400	15,860	0	15,860	5,288	1,610	275,510	61,012	343,421
Changes during the fiscal year									
Cash dividends								(7,151)	(7,151)
Reversal of reserve for advanced depreciation of noncurrent assets						(30)		30	−
Net income								66,624	66,624
Purchases of treasury stock									
Sales of treasury stock			0	0					
Changes in items other than shareholders' equity (net)									
Total changes during the fiscal year	−	−	0	0	−	(30)	−	59,503	59,473
Balance as of March 31, 2016	22,400	15,860	0	15,860	5,288	1,580	275,510	120,516	402,894

	Shareholders' equity		Valuation, translation adjustments and others		Total net assets
	Treasury stock	Total shareholders' equity	Unrealized gains on available-for-sale securities, net of tax	Total valuation, translation adjustments and others	
Balance as of April 1, 2015	(660)	381,021	19,088	19,088	400,110
Changes during the fiscal year					
Cash dividends		(7,151)			(7,151)
Reversal of reserve for advanced depreciation of noncurrent assets		−			−
Net income		66,624			66,624
Purchases of treasury stock	(3)	(3)			(3)
Sales of treasury stock	0	0			0
Changes in items other than shareholders' equity (net)			5,829	5,829	5,829
Total changes during the fiscal year	(3)	59,470	5,829	5,829	65,300
Balance as of March 31, 2016	(663)	440,491	24,918	24,918	465,410

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

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 year (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 net realizable value.)

(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 and 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 period;

In calculating retirement benefit obligations, the benefit formula method is used for attributing expected retirement benefits to the period through March 31, 2016.

(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 (fourteen 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 (fourteen years).

(5) Significant hedge accounting methods

① Hedge accounting method

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

② 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.

③ Hedging policy

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

④ Method of evaluating the effectiveness of hedges

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

(6) 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. Notes to the changes to accounting policies

The Company has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan [ASBJ] statement No.21, September 13, 2013) and “Accounting Standard for Business Divestitures” (ASBJ statement No.7, September 13, 2013) since the beginning of the current fiscal year.

Under these accounting changes, the Company now records acquisition-related costs as expensed in the fiscal year in which they incurred. With respect to business combinations from the beginning of the fiscal year, the Company will now revise acquisition cost allocation based on provisional accounting estimates, reflecting these costs in the non-consolidated financial statements for the fiscal year in which the business combination occurred.

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations and Paragraph 57-4 (4) of the

Accounting Standard for Business Divestitures. Application of the standard commenced on April 1, 2015, and will continue going forward.

As a result, there was no impact on non-consolidated financial statement for the current fiscal year.

3. Notes to the change of accounting estimates

In accounting for retirement benefits, actuarial gains and losses and past service costs were previously amortized over 15 years but are now amortized over 14 years, effective from the year ended March 31, 2016, due to a decrease in the employees' average remaining years of service.

As a result, operating income, ordinary income and income before income taxes for the year ended March 31, 2016 decreased by 410 million yen.

4. Notes to the non-consolidated Balance Sheet

(1) Accumulated depreciation of tangible fixed assets 144,188 million yen

Accumulated depreciation of tangible fixed assets includes accumulated impairment losses.

(2) Liabilities on guarantees 101 million yen

The amounts of housing funds borrowed by employees from financial institutions have been guaranteed by the Company.

(3) Monetary claims and liabilities to affiliated companies

Short-term monetary claims	85,156 million yen
Short-term monetary liabilities	58,560 million yen

5. Notes pertaining to the non-consolidated Statement of Income

Amounts of transactions with affiliated companies

Transaction amounts based on operating transactions	
Net sales	106,445 million yen
Amount of goods purchased	7,271million yen
Other operating transactions	11,972 million yen
Non-operating transactions	2,862 million yen

6. Notes to deferred tax accounting

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

Deferred tax assets	
Reserve for bonuses	2,009million yen
Reserve for sales rebates	104million yen
Accrued enterprise taxes	1,853 million yen
Liabilities for retirement benefits	2,396 million yen
Loss on valuation of investment securities	625 million yen
Research and development costs	8,147 million yen
Inventories	1,865million yen
Stocks of subsidiaries and affiliates 〔Stocks of succeeding company associated with corporate separation〕	2,149 million yen
Others	9,289 million yen
Subtotal of deferred tax assets	28,437 million yen
Valuation allowance	(2,852 million yen)
Total deferred tax assets	25,585million yen
Deferred tax liabilities	
Unrealized gains (losses) on available-for-sale securities	(10,753million yen)
Reserve for advanced depreciation of fixed assets	(697million yen)
Refund of capital surplus of a subsidiaries	(405million yen)
Total deferred tax liabilities	(11,855million yen)
Net amount of deferred tax assets	13,729 million yen

(2) Reconciliation of effective tax rate

Statutory tax rate	33.0%
(Adjustments)	
Entertainment expenses and other items that are excluded from deductible expenses	0.3%
Dividend income and other items that are excluded from taxable income	(0.6%)
R&D tax credit	(5.5%)
Adjustment on deferred tax assets due to change in income tax rate related to FY2016 tax reform	1.3%
Residence tax on per-capita basis	0.1%
Others	0.3%
Actual effective tax rate	28.9%

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

The Act for Partial Revision of the Income Tax Act, etc. and the Act for Partial Revision of the Local Taxation Act, etc. were approved and enacted in the Diet on March 29, 2016. As a result of this, the statutory tax rate used to calculate the deferred tax assets and deferred tax liabilities for the current fiscal year (limited to those cancelled after April 1, 2016) was changed from 32.2 percent in the previous fiscal year to 30.8 percent for those recovered or expected to be recovered between April 1, 2016 to March 31, 2018, and to 30.6 percent for those recovered or expected to be recovered after April 1, 2018, respectively.

Consequently, the amount of deferred tax assets (less the amount of deferred tax liabilities) declined by 618 million yen while deferred income taxes posted in this fiscal year increased by 1,192 million yen, Unrealized gains on available-for-sale securities, net of tax increased by 573 million yen.

7. Notes to transactions with related parties

(1)Parent company and main corporate shareholders

Type	Name of company	Ratio of voting rights (or ownership)	Relationship with related party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Parent company	Sumitomo Chemical Co., Ltd.	Direct ownership: 50.22%	・Supplier of raw materials ・Leasing land, etc. ・Purchasing plant utilities, etc. ・Lending funds	Lending funds	2,088 million yen	Short-term loans to affiliates	48,426 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 related party	Description of transaction(s)	Amount of transaction(s)	Item	End-of-term balance
Subsidiary company	Sunovion Pharmaceuticals Inc.	Indirect ownership: 100%	・Supplier of intermediate products ・Commission of development ・Borrowing funds	Supplier of intermediate products (Note 1)	98,687 million yen	Accounts receivable	33,513 million yen
				Borrowing funds (Note 2)	—	Short-term loans payable to affiliates	52,931 million yen
Subsidiary company	Boston Biomedical, Inc.	Direct ownership: 100%	・Technology in-licensing	Underwriting of capital increase (Note 3)	10,710 million yen	—	—

Transaction terms and policies for determining transaction terms, etc.

Notes: 1. Prices of intermediate products are determined based on discussions between the two parties with reference to market prices.

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

3. The all amount of the capital increase in the subsidiary was underwritten by the Company.

8. 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 598,599 shares

9. Notes to per share information

(1) Net assets per share 1,171.43yen

(2) Net income per share 167.69yen

10. Other notes

Impairment loss

Among the fixed assets owned by the Company, business assets are grouped by segments, with individual assets constituting the smallest grouping unit for idle assets, sales rights, and other such assets.

In this fiscal year, the Company posted impairment losses with respect to the following assets.

Usage for	Item	Location	Impairment loss Amount
Idle assets	Machinery and equipment, and Others	Japan	32 million yen

The Company impaired the book value of idle tangible fixed assets of which future economic benefit was expected to be less than the recoverable amount.

The recoverable value of the idle tangible fixed assets 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.