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## Matters Available on the Website in Relation to the Notice of Convocation of the 197<sup>th</sup> 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, 2016 to 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			28,991		28,991
Purchases of treasury stock				(3)	(3)
Sales of treasury stock		0		0	0
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 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, 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						28,991
Purchases of treasury stock						(3)
Sales of treasury stock						0
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

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: 16 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., Tolero Pharmaceuticals, Inc. and Sumitomo Pharmaceuticals (Suzhou) Co., Ltd.,

As a result of the new establishment of DS Pharma Promo Co., Ltd.; and the acquisition of Cynapsus Therapeutics Inc. (currently, Sunovion CNS Development Canada ULC) and Tolero Pharmaceuticals, Inc., these 3 entities are newly consolidated.

Due to the Amalgamation under the British Columbia Law in Canada on the closing day, Sunovion CNS Development Canada ULC is established in reorganization including Cynapsus Therapeutics Inc. As a result of this, Sunovion CNS Development Canada is a consolidated subsidiary of the Company.

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: 3 companies

Names of the affiliated companies applied by the equity method

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

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.

### (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 (mainly 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 (mainly 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 “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 assets 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 was increased by 385 million yen, unrealized gains on available-for-sale securities was decreased by 192 million yen on consolidated statement of change in net assets..

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

(Consolidated balance sheet)

“Contingent Consideration Liabilities” which had been included in “Others” under “Long-term liabilities” until previous fiscal year, is to be presented separately from this fiscal year because of the increase in significance. In order to reflect these changes in presentation, the consolidated financial statements for the previous fiscal year were restated. Consequently, the amounts of 21,152 million yen as indicated for “Others” under “Long-term liabilities” on the consolidated balance sheet for the previous fiscal year were reclassified to 8,968 million yen in “Contingent Consideration Liabilities” and 12,184 million yen in “Others.”

(Consolidated statements of income)

“Gains on investments in partnership” under “Non-operating income” which had been separately disclosed until the previous fiscal year, is included in “Others” under “Non-operating income” from this fiscal year because of the lack of monetary significance. Accordingly, the consolidated financial statements for the previous fiscal year were represented to conform to the presentation in this fiscal year. Consequently, the amounts of 1,296 million yen as indicated for “Gains on investments in partnership” and 277 million yen as indicated for “Others” under “Non-operating income” on the consolidated statements of income for the previous fiscal year were merged into the amount of 1,574 million yen in “Others” under “Non-operating income.”

## 4. Notes to the Consolidated Balance Sheet

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

68 million yen of investment securities has been pledged as collateral for 69 million yen of accounts payable. In

addition, 473 million yen of pledged assets are as collateral for lease contracts are included in "others" under "current assets".

(2) Accumulated depreciation of tangible fixed assets 157,789million yen

Accumulated depreciation of tangible fixed assets includes accumulated impairment losses.

(3) Liabilities on guarantees 67million yen

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

## 5. 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 23, 2016 Annual shareholders' Meeting	Common Stock	3,575 million yen	9.00 yen	March 31, 2016	June 24, 2016
October 27, 2016 Meeting of the Board of Directors	Common Stock	3,575 million yen	9.00 yen	September 30, 2016	December 1, 2016

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 22, 2017 Annual shareholders' Meeting	Common Stock	4,370 million yen	Retained earnings	11.00 yen	March 31, 2017	June 23, 2017

## 6. 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 of short-term financial instruments such as Money Management Funds 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 two 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, 2017 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	71,408	71,408	—
② Notes and accounts receivable	110,932	110,932	—
③ Short-term loans receivable	16,731	16,731	—
④ Marketable securities and investment securities	72,980	72,980	—
⑤ Notes and accounts payable	(14,514)	(14,514)	—
⑥ Short-term loans payable	(40,000)	(40,000)	—
⑦ Income taxes payable	(8,818)	(8,818)	—
⑧ Accounts payable-other	(36,986)	(36,986)	—
⑨ Bonds payable (Current and Long-term) (*2)	(20,000)	(20,209)	(209)
⑩ Loans payable (Current and Long-term) (*3)	(8,000)	(8,026)	(26)
⑪ Derivative transactions	(31)	(31)	—

(\*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) “Amount on consolidated balance sheet” and “Fair value” is current portion of long-term loans payable.

(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 short-term financial instruments 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 9,249 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.

7. Notes to per share information

(1) Net assets per share	1,159.47 yen
(2) Net income per share	72.97 yen

8. Notes to Business combination

Business combination through acquisition

Cynapsus Therapeutics Inc.

(1) Summary of the business combination

① Name of the acquired company and the contents of its business operations

Name of the acquired company: Cynapsus Therapeutics Inc.

Contents of the business operations: Developing pharmaceuticals for Parkinson's disease

② Main reason for the business combination

Sunovion focuses on the Psychiatry & Neurology area and promotes the atypical antipsychotic agent Latuda® and antiepileptic drug Aptiom®. Sunovion concluded that this acquisition contribute to expand Psychiatry & Neurology portfolio, one of its key therapeutic areas, through the acquisition of Cynapsus and their product for Parkinson's disease.

③ Date of business combination

October 21, 2016 (U.S. Eastern Standard Time)

④ Legal form of business combination

Acquisition of shares for cash consideration

⑤ Name of the company after combination

Sunovion CNS Development Canada ULC

⑥ Ratio of voting right acquired

100%

⑦ Main grounds for reaching a decision on the company to be acquired

It is because Sunovion CNS Development Canada(old company) acquired shares in exchange for cash. Due

to the Amalgamation on the closing day, Sunovion CNS Development Canada ULC is established in reorganization including Cynapsus Therapeutics Inc. and Sunovion CNS Development Canada ULC (old company).

(2) Terms of performance of the acquired company included in the consolidated financial statements

From October 21, 2016 to March 31, 2017

(3) Acquisition cost of the acquired company and the breakdown thereof

Purchase price	Cash	63,237 million yen
<hr/>		
Acquisition cost		63,237 million yen

(4) Major acquisition-related costs and amounts

Advisory fees and others 681 million yen

(5) Amount of recognized goodwill, cause for recognition, amortization method, and amortization period

① Amount of goodwill

1,255 million yen

The amount of goodwill is a temporarily calculated.

② Cause for recognition

As the acquisition cost exceeds the net amount allocated to the acquired assets and assumed debts, such excess amount has been recorded as goodwill.

③ Amortization method and amortization period

Straight-line method over 20 years

(6) Total assets acquired and liabilities assumed on the date of business combination and the main breakdown thereof

Current assets	1,024 million yen
Fixed assets	69,774 million yen
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Total assets	70,799 million yen
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Current liabilities	8,415 million yen
Long-term liabilities	401 million yen
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Total liabilities	8,816 million yen

(7) Amount allocated to intangible fixed assets other than goodwill, the breakdown thereof by main types and weighted-average depreciation period for the entity and by main types

Breakdown by main types	Amount	Depreciation period
In-process research and development	69,686 million yen	Available period

(8) Allocation of acquisition cost

As of the end of the fiscal year, the calculation of the fair value of assets and liabilities have not been completed and the purchase price allocation has not been finalized yet. Therefore, the purchase price was allocated on a tentative basis based on reasonable information that is available as of the end of the fiscal year.

(9) Estimated impact on the consolidated statement of income in the current consolidated fiscal year, if it was assumed that the business combination was concluded on April 1, 2016 and the method of calculation

Sales	—
Ordinary income	(3,261) million yen
Net income attributable to owners of the parent	(3,261) million yen

(Method by which estimated amounts were calculated)

The estimated amounts of impact were calculated according to the difference between information on sales and income calculated on the assumption if the business combination was concluded on the first day of this consolidated fiscal year and information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of impact have not been audited.

#### Tolero Pharmaceuticals, Inc.

(1) Summary of the business combination

① Name of the acquired company and the contents of its business operations

Name of the acquired company: Tolero Pharmaceuticals, Inc.

Contents of the business operations: Research and Development of pharmaceuticals in the areas of oncology and hematological disorders.

② Main reason for the business combination

Tolero Pharmaceuticals, Inc.(Tolero) is a biotechnology company in the U.S. specializing in research and development of therapeutic agents in the areas of oncology and hematological disorders. Tolero possesses excellent drug discovery capabilities for kinase inhibitors and other drug targets, and they are developing six compounds, including cyclin-dependent kinase 9 (CDK9) inhibitor alvocidib, which is under clinical development for hematologic malignancies. It is expected that this acquisition will help the Company to reinforce our oncology pipeline to add these compounds. And also high drug discovery abilities in Torelo contribute to create a continuous flow of development compounds going forward to achieve sustainable growth of Sumitomo Dainippon Pharma Group.

③ Date of business combination

January 25, 2017 (U.S. Pacific Standard Time)

④ Legal form of business combination

Acquisition of shares for cash consideration

⑤ Name of the company after combination

Tolero Pharmaceuticals, Inc.

⑥ Ratio of voting right acquired

100%

⑦ Main grounds for reaching a decision on the company to be acquired

It is because Dainippon Sumitomo Pharma America Holdings, Inc. which is the U.S. holding Company wholly-owned by the Company, acquired shares in exchange for cash.

(2) Terms of performance of the acquired company included in the consolidated financial statements

From January 25, 2017 to March 31, 2017

(3) Acquisition cost of the acquired company and the breakdown thereof

Purchase price	Cash	22,164 million yen
	Fair value of contingent consideration	35,268 million yen
Acquisition cost		57,433 million yen

(4) Major acquisition-related costs and amounts

Advisory fees and others 1,066 million yen

(5) Amount of recognized goodwill, cause for recognition, amortization method, and amortization period

① Amount of goodwill

18,585 million yen

The amount of goodwill is a temporarily calculated.

② Cause for accrual

As the acquisition cost exceeds the net amount allocated to the acquired assets and assumed debts, such excess amount has been recorded as goodwill.

③ Amortization method and amortization period

Straight-line method over 20 years

(6) Total assets acquired and liabilities assumed on the date of business combination and the main breakdown thereof

Current assets	159 million yen
Fixed assets	59,852 million yen
Total assets	60,012 million yen
Current liabilities	106million yen
Long-term liabilities	21,058million yen
Total liabilities	21,164million yen

(7) Content of the conditional compensation for acquisition set out in the business combination contract and the accounting treatment policy for the current and subsequent consolidated fiscal years

① Content of the contingent consideration

The contingent consideration is contingent liabilities determined by agreement with former shareholders under which an additional payment shall be made according to specific milestone-achieving level after business combination.

② Accounting policy for the relevant and subsequent consolidated fiscal years

The contingent consideration has been recognized in accordance with generally accepted accounting principles in the U.S. .

(8) Amount allocated to intangible fixed assets other than goodwill, the breakdown thereof by main types and weighted-average depreciation period for the entity and by main types

Breakdown by main types	Amount	Depreciation period
In-process research and development	59,843 million yen	Available period

(9) Allocation of acquisition cost

As of the end of the fiscal year, the calculation of the fair value of assets and liabilities have not been completed and the purchase price allocation has not been finalized yet. Therefore, the purchase price is allocated on a tentative basis based on reasonable information that is available as of the end of the fiscal year.

(10) Estimated impact on the consolidated statement of income in the current consolidated fiscal year, if it is assumed that the business combination was concluded on April 1, 2016 and the method of calculation

Sales	—
Ordinary income	(758) million yen
Net income attributable to owners of the parent	(758) million yen

(Method by which estimated amounts were calculated)

The estimated amounts of impact were calculated according to the difference between information on sales and income calculated on the assumption if the business combination was concluded on the first day of this consolidated fiscal year and information on sales and income contained in the consolidated statement of income of the acquiring company.

The estimated amounts of impact have not been audited.

## Non-Consolidated Statement of Changes in Net Assets

(April 1, 2016 to March 31, 2017)

(millions of yen)

	Shareholders' equity								
	Common stock	Capital surplus			Retained earnings				
		Legal capital surplus	Other capital surplus	Total capital surplus	Legal retained earnings	Other retained earnings			Total retained earnings
						Reserve for advanced depreciation of fixed assets	General reserve	Retained earnings carried forward	
Balance as of April 1, 2015	22,400	15,860	0	15,860	5,288	1,580	275,510	120,516	402,894
Cumulative effects of changes in accounting policies								384	384
Restated balance	22,400	15,860	0	15,860	5,288	1,580	275,510	120,900	403,278
Changes during the fiscal year									
Cash dividends								(7,151)	(7,151)
Provision of reserve for advanced depreciation of noncurrent assets						56		(56)	—
Reversal of reserve for advanced depreciation of noncurrent assets						(72)		72	—
Net income								63,902	63,902
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	—	(15)	—	56,766	56,750
Balance as of March 31, 2016	22,400	15,860	0	15,860	5,288	1,564	275,510	177,666	460,029

	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	(663)	440,491	24,918	24,918	465,410
Cumulative effects of changes in accounting policies		384	(192)	(192)	192
Restated balance	(663)	440,875	24,726	24,726	465,602
Changes during the fiscal year					
Cash dividends		(7,151)			(7,151)
Provision of reserve for advanced depreciation of noncurrent assets		—			—
Reversal of reserve for advanced depreciation of noncurrent assets		—			—
Net income		63,902			63,902
Purchases of treasury stock	(3)	(3)			(3)
Sales of treasury stock	0	0			0
Changes in items other than shareholders' equity (net)			(6,764)	(6,764)	(6,764)
Total changes during the fiscal year	(3)	56,747	(6,764)	(6,764)	49,983
Balance as of March 31, 2016	(666)	497,622	17,962	17,962	515,585

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      Moving-average cost 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 “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 valuation, translation adjustments and others 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 192 million yen, retained earnings increased by 384 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 was increased by 384 million yen, unrealized gains on available-for-sale securities was decreased by 192 million yen on non-consolidated statement of changes in net assets.

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

(Non-consolidated balance sheet)

“Long-term other accounts payable” under “Long-term liabilities” which had been separately disclosed until the previous fiscal year, is included in “Others” under “Long-term liabilities” from this fiscal year because of the lack of monetary significance. Accordingly, the non-consolidated financial statements for the previous fiscal year were represented to conform to the presentation in this fiscal year. Consequently, the amounts of 155 million yen as indicated for “Long-term other accounts payable” and 410 million yen as indicated for “Others” under “Long-term liabilities” on the non-consolidated balance sheet for the previous fiscal year were merged into the amount of 565 million yen in “Others” under “Long-term liabilities.”

(Non-consolidated statements of income)

“Gains on investments in partnership” under “Non-operating income” which had been separately disclosed until the previous fiscal year, is included in “Others” under “Non-operating income” from this fiscal year because of the lack of monetary significance. Accordingly, the non-consolidated financial statements for the previous fiscal year were represented to conform to the presentation in this fiscal year. Consequently, the amounts of 1,324 million yen as indicated for “Gains on investments in partnership” and 287 million yen as indicated for “Others” under “Non-operating income” on the non-consolidated statements of income for the previous fiscal year were merged into the amount of 1,611 million yen in “Others” under “Non-operating income.”

### 4. Notes to the non-consolidated Balance Sheet

(1) Accumulated depreciation of tangible fixed assets 146,999 million yen

Accumulated depreciation of tangible fixed assets includes accumulated impairment losses.

(2) Liabilities on guarantees 67 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 88,672 million yen

Short-term monetary liabilities 5,490 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 102,969 million yen

Amount of goods purchased 7,155million yen

Other operating transactions 10,526 million yen

Non-operating transactions 2,695 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		1,928million yen
Reserve for sales rebates		117million yen
Accrued enterprise taxes		629 million yen
Liabilities for retirement benefits		3,402 million yen
Loss on valuation of investment securities		585 million yen
Research and development costs		8,558 million yen
Inventories		1,941million yen
Stocks of subsidiaries and affiliates		2,149 million yen
	[Stocks of succeeding company associated with corporate separation]	
Others		<u>7,512 million yen</u>
Subtotal of deferred tax assets		26,821 million yen
Valuation allowance		<u>(2,467 million yen)</u>
Total deferred tax assets		24,354million yen
Deferred tax liabilities		
Unrealized gains (losses) on available-for-sale securities		(7,719million yen)
Prepaid pension cost		(1,529million yen)
Reserve for advanced depreciation of fixed assets		(690million yen)
Refund of capital surplus of a subsidiaries		<u>(405million yen)</u>
Total deferred tax liabilities		<u>(10,343million yen)</u>
Net amount of deferred tax assets		<u>14,011 million yen</u>

### (2) Reconciliation of effective tax rate

Statutory tax rate		30.8%
(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		(0.5%)
R&D tax credit		(5.6%)
Residence tax on per-capita basis		0.1%
Others		<u>(0.3%)</u>
Actual effective tax rate		<u>24.8%</u>

## 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: 50.65%	<ul style="list-style-type: none"> <li>• Supplier of raw materials</li> <li>• Leasing land, etc.</li> <li>• Purchasing plant utilities, etc.</li> <li>• Lending funds</li> </ul>	Collection of loans	29,854 million yen	Short-term loans to affiliates	16,731 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	Dainippon Sumitomo Pharma America Holdings, Inc.	Direct ownership: 100%	• Lending funds	Lending Funds (Note 1)	25,627 million yen	Short-term loans to affiliates	24,681 million yen
Subsidiary company	Sunovion Pharmaceuticals Inc.	Indirect ownership: 100%	• Supplier of intermediate products • Commission of development • Lending funds • Borrowing funds	Supplier of intermediate products, etc. (Note 2)	95,802 million yen	Accounts receivable	22,148 million yen
				Lending funds (Note 1)	18,069 million yen	Short-term loans to affiliates	19,633 million yen
				Repayment of borrowings (Note 1)	48,475 million yen	Short-term loans payable to affiliates	—
Subsidiary company	Boston Biomedical, Inc.	Direct ownership: 100% (Note 3)	• Technology in-licensing	Underwriting of capital increase (Note 4)	11,440 million yen	—	—

Transaction terms and policies for determining transaction terms, etc.

Notes: 1. With respect to the lending and borrowing of funds, a reasonable rate of interest is determined, by considering the market rate of interest.

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

3. On April 1, 2017, the Company contributed all of Boston Biomedical shares to the U.S. holding company which is wholly-owned by the Company. As a result of this, the Company has the 100% indirect ownership in Boston Biomedical.

4. 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 600,484 shares

## 9. Notes to per share information

(1) Net assets per share 1,297.72yen

(2) Net income per share 160.84yen