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Matters Available on the Website in Relation to the Notice of Convocation of the 198th Annual Shareholders' Meeting

- Consolidated Statement of Changes in Equity
- Notes to Consolidated Financial Statements
 - Non-Consolidated Statement of Changes in Equity
- 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 Equity

(April 1, 2017 to March 31, 2018)

(millions of yen)

| | Equity attributable to owners of the parent | | | | | |
|---|---|-----------------|-----------------|-------------------|---|---|
| | Share capital | Capital surplus | Treasury shares | Retained earnings | Other components of equity | |
| | | | | | Net gain on revaluation of financial assets measured at fair value through other comprehensive income | Remeasurements of defined benefit plans |
| Balance at April 1, 2017 | 22,400 | 15,860 | (667) | 357,769 | 18,797 | - |
| Net profit | | | | 53,448 | | |
| Other comprehensive income | | | | | 8,527 | (2,824) |
| Total comprehensive income | | | | 53,448 | 8,527 | (2,824) |
| Purchase of treasury shares | | | (2) | | | |
| Dividends | | | | (7,945) | | |
| Reclassification from other components of equity to retained earnings | | | | (7,235) | 4,411 | 2,824 |
| Total transactions with owners | - | - | (2) | (15,180) | 4,411 | 2,824 |
| Balance at March 31, 2018 | 22,400 | 15,860 | (669) | 396,037 | 31,735 | - |

| | Equity attributable to owners of the parent | | | | | Total equity |
|---|---|------------------|---------|---------|---------|--------------|
| | Other components of equity | | | | Total | |
| | Exchange differences on translation of foreign operations | Cash flow hedges | Total | Total | | |
| Balance at April 1, 2017 | (1,871) | (20) | 16,906 | 412,268 | 412,268 | |
| Net profit | - | - | - | 53,448 | 53,448 | |
| Other comprehensive income | (10,748) | (1) | (5,046) | (5,046) | (5,046) | |
| Total comprehensive income | (10,748) | (1) | (5,046) | 48,402 | 48,402 | |
| Purchase of treasury shares | | | | (2) | (2) | |
| Dividends | | | | (7,945) | (7,945) | |
| Reclassification from other components of equity to retained earnings | | | 7,235 | - | - | |
| Total transactions with owners | - | - | 7,235 | (7,947) | (7,947) | |
| Balance at March 31, 2018 | (12,619) | (21) | 19,095 | 452,723 | 452,723 | |

(Note) All amounts are rounded to the nearest million yen

Notes to Consolidated Financial Statements

1. Summary of significant accounting policies for consolidated financial statements

(1) Accounting standards of consolidated financial statement

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) from the fiscal year ended March 31, 2018 pursuant to Article 120, paragraph 1 of the Ordinance on Company Accounting. Part of the disclosures required by IFRS have been omitted pursuant to Article 120, the later part of paragraph 1 of the Ordinance on Company Accounting.

The Group first adopted IFRS from the fiscal year ended March 31, 2018. The date of transition to IFRS was April 1, 2016.

(2) Early application of the new standard

The Group early applied IFRS 9 Financial Instruments (final version issued in July 2014) at the IFRS transition date (April 1, 2016).

(3) Scope of consolidation

Number of consolidated subsidiaries: 15 companies

Names of 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.

Boston Biomedical Pharma, Inc. has been excluded from the scope of consolidation for the fiscal year ended March 31, 2018, because it was extinguished while Boston Biomedical, Inc. became the surviving company as a result of the absorption-type merger transaction.

(4) Application of the equity method

Number of affiliated companies applied by the equity method: 2 companies

Names of affiliated companies applied by the equity method

Suntegre Co., Ltd., and Sighregen K.K.

Create Vaccine Company Ltd. has been excluded from the scope of the application of the equity method in the fiscal year ended March 31, 2018 because it was dissolved.

(5) Fiscal year end of consolidated subsidiaries

Among the consolidated subsidiaries, the account closing date of Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. is December 31. Consolidated financial statements are prepared based on the financial statements on which a provisional financial closing has been performed according to the year-end closing requirements as of the consolidated fiscal year end.

(6) Significant accounting policies

① Valuation standards and methods of significant assets (except for financial instruments)

(a) Property, plant and equipment

Cost model is applied for measurement of property, plant and equipment after initial recognition. Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses.

The acquisition cost includes direct costs of acquisition, estimated costs of dismantlement, removal and restoration, and borrowing costs eligible for capitalization requirements.

(b) Goodwill

Goodwill is carried at cost less accumulated impairment losses.

Goodwill is not amortized and is allocated to cash-generating units or group of cash-generating units. Goodwill is tested for impairment annually and whenever there is an indication of that may be impaired. Impairment loss on goodwill is recognized in profit or loss and is not reversed in subsequent periods.

(c) Intangible assets

Intangible assets are non-monetary assets without physical substance, other than goodwill, including patents, technologies, marketing rights and in-process research and development acquired separately or acquired in a business combination.

Separately acquired intangible assets are measured initially at cost. Intangible assets acquired in a business combination are measured at fair value at the acquisition date.

Cost model is applied for measurement of intangible assets after initial recognition. Intangible assets are carried at its cost less accumulated amortization and accumulated impairment losses.

Research expenditures of an internal project are recognized as expenses when they are incurred. Development expenditures of an internal project that satisfy all the recognition criteria are recognized as intangible assets. However, internally generated development expenditures incurred before acquisition of marketing approval, including clinical trial expenditures, etc. are recognized as expenses when they are incurred, because such expenditures are considered not meeting the criteria for recognition of intangible assets due to the uncertainties related to the length of period and the development.

Acquisition costs and development expenditures of software for internal use purpose are recognized as intangible assets if future economic benefits are expected to flow to the Group.

(d) Impairment of non-financial assets

The Group assesses whether there is any indication that non-financial assets other than inventories, retirement benefit assets and deferred tax assets may be impaired.

If there is an indication of impairment or annual impairment test is required, the recoverable amount of each asset is measured. Goodwill, intangible assets with indefinite useful lives and an intangible asset not yet available for use are tested for impairment annually or whenever there is an indication of impairment.

Recoverable amount of an asset or a cash-generating unit is measured at the higher of its fair

value less disposal costs and its value in use. The value in use of an asset is measured at the present value of estimated future cash flows by applying the discount rate that is a pre-tax rate reflecting the time value of money and the risk specific to the asset. Only if the recoverable amount of an asset or a cash-generating unit is less than its carrying amount, the carrying amount is reduced to its recoverable amount and the reduction is recognized in profit or loss.

A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets.

The impairment loss recognized for a cash-generating unit is first allocated to reduce the carrying amount of goodwill allocated to the unit, and subsequently to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit.

Impairment losses on goodwill are not reversed.

The Group assesses at each reporting date whether there is any indication that reversal of impairment loss recognized in prior periods for an asset other than goodwill may exist. An impairment loss recognized in prior periods for an asset other than goodwill is reversed if there has been a change in the estimates used to determine the asset's recoverable amount.

The reversal of an impairment loss does not exceed the carrying amount (net of amortization or depreciation) that would have been determined if no impairment loss had been recognized for the asset in prior periods.

(e) Inventories

Inventories mainly comprise merchandise and finished goods, work-in-process, raw materials and supplies.

Inventories are measured at the lower of acquisition cost and net realizable value. The cost of inventories is calculated by the average method and comprises purchase costs, processing costs and other related production costs. Finished goods and work-in-process include a proper allocation of production overheads that are based on the expected capacity of the production facilities. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

② Depreciation and amortization of significant depreciable assets

(a) Property, plant and equipment

Property, plant and equipment other than land and construction in progress is depreciated by using straight-line method over each asset's useful life. Depreciation of such asset begins when it is available for use.

The estimated useful lives of major categories of property, plant and equipment are as follows:

- Buildings and structures 3 - 60 years
- Machinery, equipment and vehicle 2 - 17 years
- Tools, furniture and fixtures 2 - 20 years

The depreciation method, the residual value and the estimated useful life are reviewed at each fiscal year-end and are subject to revise when necessary.

(b) Intangible assets

Intangible assets other than in-process research and development project are amortized using straight-line method over each asset's useful life. Amortization of such asset begins when it is available for use.

The estimated useful lives of major categories of intangible assets are as follows:

- Intangible assets related to products 3 - 20 years
- Software 3 - 5 years

The amortization method, the residual value and the estimated useful life are reviewed at each fiscal year-end and are subject to revise when necessary.

In-process research and development project recognized as intangible asset is not amortized because it is not available for use. Impairment test is performed annually and whenever there is an indication that the in-process research and development project may be impaired.

In-process research and development expenditures are reclassified to patents, marketing rights or other related accounts when marketing approval from regulatory authorities is obtained and are amortized when they are available for use.

③ Valuation standards and methods of financial instruments

(a) Financial assets

(i) Initial recognition and measurement

The Group initially recognizes financial assets on transaction date and classifies as financial assets measured at amortized cost and financial assets measured at fair value at the initial recognition. Financial assets are classified as financial asset measured at amortized cost if the following conditions are met. Otherwise, financial assets are classified as financial assets measured at fair value.

- The financial asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows; and

- Contractual terms of the financial asset gives rise on specified dates to cash flows that are solely payments of principals and interests.

(ii) Subsequent measurement

After initial recognition, financial assets are measured as follows:

a) Financial assets measured at amortized cost

Financial assets measured at amortized cost are measured using the effective interest method to calculate amortized cost (net of impairment loss).

b) Financial assets measured at fair value through profit or loss

Financial assets measured at fair value through profit or loss are measured at fair value and subsequent changes in fair value are recognized in profit or loss.

c) Financial assets measured at fair value through other comprehensive income

Among the financial assets measured at fair value, an entity may make an irrevocable election at initial recognition for an investment in an equity instrument that is not held for trading purpose to present subsequent changes in the fair value in other comprehensive income. Therefore, the Group makes such election for each financial instrument.

Financial assets measured at fair value through other comprehensive income are measured at fair value, and subsequent changes in fair value are recognized in other comprehensive income. The cumulative amount recognized in other comprehensive income is reclassified to retained earnings, but not profit or loss, when equity instruments are derecognized or when the fair value of equity instruments declines significantly. However, dividends are recognized in profit or loss.

(iii) Derecognition

A financial asset is derecognized when it meets one of the following conditions:

- the contractual rights to the cash flows from the financial assets expire; or
- the Group transfers the financial assets and substantially all the risks and rewards related to the ownership of the financial assets.

(iv) Impairment

Financial assets measured at amortized cost are presented at the carrying amount reduced by a loss allowance recognized for expected credit losses to be incurred in the future. The Group assesses whether a credit risk on a financial asset measured at amortized cost has increased significantly since initial recognition and considers all reasonable and supportable information in addition to delinquency information when assessing the credit risk.

The Group estimates expected credit losses for each individual financial asset measured at amortized cost at an amount equal to the lifetime expected credit losses if the credit risk on that financial asset has increased significantly since initial recognition. If not, the Group estimates expected credit losses for that financial asset at an amount equal to expected credit losses for 12 months after the reporting date.

Among the financial assets measured at amortized cost, the Group estimates expected credit losses at an amount equal to lifetime expected credit losses for trade receivables, independently by each type of similar receivables.

(b) Financial liabilities

The Group initially recognizes debt securities as financial liabilities at the date of issuance. Other financial liabilities are all initially recognized at the date when the Group becomes party to the contractual provisions of the instrument.

A financial liability is derecognized only when the obligation specified in the contract is fulfilled, discharged, cancelled or expires.

The Group holds corporate bonds, borrowings, trade payables and other liabilities, as non-derivative financial liabilities.

The Group initially recognizes the above financial liabilities at fair value deducted by directly attributable transaction costs. After initial recognition, financial liabilities are subsequently measured at amortized cost by using the effective interest method.

(c) Derivatives

The Group uses derivatives to hedge foreign currency risk exposures. Such derivatives used by the Group are foreign currency forward contracts. However, the Group does not use derivatives for speculative purpose. Derivatives are initially recognized at fair value and the related transaction costs are recognized as expenses when incurred. Derivatives not qualified for hedge accounting are measured at fair value after initial recognition and the change in fair value is recognized in profit or loss.

(d) Hedge accounting

Certain derivatives are designated as hedging instruments in cash flow hedges and if they meet certain hedging criteria, the effective portion of fair value changes of derivatives is recognized in other comprehensive income and is cumulated in accumulated other comprehensive income.

At the inception of the designation of hedge, the Group has a formal documentation of the relationship between hedging instruments and hedged items, including risk management objective, strategy for undertaking the hedge and method for assessing whether the hedge effectiveness requirements are met. At the inception of the hedge and on an ongoing basis, the Group assesses whether the Group can forecast if the hedging instrument is effective in offsetting changes in fair value or cash flows of the hedged item attributable to the hedged risk throughout the period for which the hedge is designated.

The other components of equity are reclassified to profit or loss, in the hedged item related account in the consolidated statement of profit or loss, during the same period in which the expected cash flows of hedged item affect profit or loss. If a hedged forecasted transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the cumulative amount previously recognized in other components of equity are reclassified to and included in the initial amount of the cost of the non-financial asset or the non-financial liability. In the changes in the fair value of derivatives, the portion of hedging ineffectiveness is immediately recognized in profit or loss.

Hedge accounting is discontinued when the Group revokes the designation of hedge, when the hedging instrument expires or is sold, terminated or executed or when the hedge no

longer meets the criteria for hedge accounting.

④ Accounting for significant provisions

Provisions are recognized when the Group has a present legal or constructive obligation arising as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is generally a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(a) Reserve for sales returns

Reserve for sales returns is provided based on the estimated amount of sales return of products and goods. The future outflow of economic benefits is expected to be incurred within one year from the end of each reporting period.

(b) Reserve for sales rebates

Reserve for sales rebates is provided based on the estimated amount to be paid for sales rebates related to public programs, wholesales and other contacts. The future outflow of economic benefits is expected to be incurred within one year from the end of each reporting period.

⑤ Post-employment benefits

The Group has both defined benefit plans and defined contribution plans as employee post-retirement benefits.

(a) Defined benefit plan

The present value of the defined benefit obligations arising from a defined benefit plan and the related current service cost and past service cost are measured by using the projected unit credit method by each plan. The discount rates are determined by reference to market yields at the fiscal year-end on high quality corporate bonds for the corresponding periods in which the retirement benefits are to be paid. The amount of the net defined benefit liability (asset) is calculated by deducting the fair value of plan assets from the present value of the defined benefit obligation. Service cost and net interest on the net defined benefit liability (asset) are recognized as post-retirement benefit expense in profit or loss. Remeasurement of the net defined benefit liability (asset) are recognized in other comprehensive income and immediately reclassified to retained earnings in the period in which they occur.

(b) Defined contribution plan

The expense related to post-retirement arising from a defined contribution plan is recognized as

post-retirement benefit expense in profit or loss in the period which the employee renders service to the Group.

⑥ Standards applicable to the translation of significant foreign currency-denominated assets and liabilities into Japanese Yen

(a) Foreign currency transactions

Foreign currency transactions are translated into the functional currency at the spot exchange rate at the date of transactions or at the foreign exchange rate that approximates the spot exchange rate at the date of the translation.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency using the exchange rate at the reporting date. Non-monetary assets and liabilities measured at fair value that are denominated in foreign currency are translated into the functional currency at the exchange rates prevailing at the date when the fair value was measured.

Exchange differences arising from foreign currency translations and settlements are recognized in the profit or loss. However, exchange differences arising from financial assets measured at fair value through other comprehensive income and the effective portion of cash flow hedges are recognized in other comprehensive income.

(b) Foreign operations

The assets and liabilities (including any goodwill arising on the acquisition and fair value adjustments) of the Group's foreign operations are translated into Japanese yen at the spot exchange rate at the reporting date. Income and expenses are translated into Japanese yen at the average exchange rate for the period except for the case that the exchange rate fluctuates significantly.

Exchange differences arising from translation of financial statements of the foreign operations are recognized in other comprehensive income. The cumulative amount of such exchange differences is recognized as other components of equity in the consolidated statements of financial position.

On the disposal of a foreign operation, the cumulative amount of the exchange differences relating to the foreign operation is reclassified to profit or loss during the period in which the foreign operation is disposed.

The Group elects to apply the exemption prescribed in IFRS 1 and deems the cumulative translation differences for all foreign operations as zero and reclassifies the total amount to retained earnings at the date of transition.

⑦ Other significant accounting policies for consolidated financial statements

Accounting for consumption taxes

Consumption taxes are excluded from revenues and expenses.

2. Notes to consolidated statement of financial position

(1) Assets pledged as collateral and secured liabilities

133 million yen of investment securities (included in “Other financial assets” under Non-current assets) has been pledged as collateral for 82 million yen of accounts payable (included in “Trade and other payables”). In addition, 199 million yen of pledged assets as collateral for lease contracts are included in “Other financial assets” under Current assets.

(2) Accumulated depreciation and accumulated impairment losses of property, plant and equipment

161,841 million yen

(3) Guaranteed obligations

46 million yen

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

3. Notes to consolidated statement changes in equity

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

Ordinary share 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 22, 2017 Annual shareholders meeting | Ordinary share | 4,370 million yen | 11.00 yen | March 31, 2017 | June 23, 2017 |
| October 30, 2017 Meeting of the Board of Directors | Ordinary share | 3,576 million yen | 9.00 yen | September 30, 2017 | December 1, 2017 |

② Dividends for which the declaration date belonged to the current consolidated fiscal year and for which the effective date of distribution falls in the following consolidated fiscal year

| Resolution schedule | Type of share | Total dividend amount | Source of funds for dividend distribution | Dividend amount per share | Declaration date | Effective date of distribution |
|---|----------------|-----------------------|---|---------------------------|------------------|--------------------------------|
| June 19, 2018 Annual shareholders meeting | Ordinary share | 7,549 million yen | Retained earnings | 19.00 yen | March 31, 2018 | June 20, 2018 |

4. Notes to financial instruments

(1) Matters pertaining to financial instruments

① Overview of financial risk management

In order to reduce the financial risks (such as credit risk, liquidity risk, market risk and etc.) arising from business operations, the Group performs risk management. Derivatives are used to mitigate part of such risks and are not used for speculative purposes.

② Credit risk

Credit risk is the risk of financial loss to the Group if a customer or a counterparty of financial instrument fails to meet its contractual obligations. It mainly arises from the debtors, such as trade receivables due from the Group's customers.

As for the customers' credit risk arising from trade receivables and etc., the Group monitors the status of overdue balances, reviews outstanding balances of each customer according to the Group's internal credit management policies and assesses the credibility of major customers on a regular basis in order to reduce credit risks.

③ Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Group manages the liquidity risk by preparing monthly funding plan by each company and etc.

④ Market risk

Market risk is the risk that changes in market prices-such as foreign exchange rates, interest rates, and equity prices - will affect the Group's income or the value of its holdings of financial instruments. The Group implements certain measures for each kind of risks.

(2) Fair value of financial instruments

The carrying amounts of financial assets and liabilities, and fair values as of March 31, 2018 are as follows:

(millions of yen)

| | Carrying amount on the consolidated statement of financial position | Fair value | Difference |
|--|--|------------|------------|
| Financial liabilities | | | |
| Financial liabilities measured at amortized cost | | | |
| Bonds | 10,000 | 10,032 | 32 |
| Borrowings | 37,400 | 37,370 | (30) |
| Total | 47,400 | 47,402 | 2 |

(Note)

1. The financial assets and financial liabilities of which carrying amounts approximate their fair values are not included.
2. The fair values of bonds are based on market prices.
3. The fair values of borrowings are calculated based on the present values of the total amount of principle and interests discounted by using an interest rate assuming that would presumably apply if similar borrowings were newly made.

5. Notes to per share information

| | |
|---|--------------|
| (1) Equity per share attributable to owners of the parent | 1,139.50 yen |
| (2) Basic earnings per share | 134.53 yen |

6. Notes to business combination

Cynapsus Therapeutics Inc.

Provisional accounting treatment had been applied to the purchase price allocation in the fiscal year ended March 31, 2017, but it has been finalized in the fiscal year ended March 31, 2018. There are no adjustments to the amounts of goodwill, etc.

Tolero Pharmaceuticals, Inc.

Provisional accounting treatment had been applied to the purchase price allocation in the fiscal year ended March 31, 2017, but it has been finalized in the fiscal year ended March 31, 2018. Accordingly, the consolidated statement of financial position as of March 31, 2017 has been adjusted retrospectively. As a result, provisional fair values of a certain assets acquired, liabilities assumed and the consideration transferred have been adjusted as follows.

The details of fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

(millions of yen)

| | Provisional fair value | Fair value adjustment | Provisional Fair value (As adjusted) |
|--|---------------------------|--------------------------|--|
| Fair values of the assets acquired and the liabilities assumed | | | |
| Intangible assets | 59,843 | (14,335) | 45,508 |
| Cash and cash equivalents | 115 | | 115 |
| Other assets | 54 | | 54 |
| Deferred tax liabilities | 20,365 | (5,304) | 15,061 |
| Other liabilities | 799 | | 799 |
| Fair values of the assets acquired and the liabilities assumed (net amount) | 38,848 | (9,031) | 29,817 |
| Goodwill | 18,586 | 3,911 | 22,497 |
| Total | 57,434 | (5,120) | 52,314 |
| Fair value of consideration transferred | | | |
| Cash | 22,165 | | 22,165 |
| Contingent consideration | 35,269 | (5,120) | 30,149 |
| Total | 57,434 | (5,120) | 52,314 |

7. Others

(1) Impairment losses

Impairment losses amounting to 2,147 million yen of Japan segment in pharmaceutical business were recognized in the current fiscal year, which was mainly led by the assessment result of recoverable amounts of certain closed welfare benefit facilities. The recoverable amounts were measured at fair value less costs of disposal. The fair value was measured by the real estate appraisal value which was assessed by using the market approach by third party.

(2) Additional information

(The impact of change in tax rate)

As the U.S. Tax Reform Act "The Tax Cuts and Jobs Act of 2017" was enacted on December 22, 2017, the effective statutory tax rate used for calculating the deferred tax assets and deferred tax liabilities as of the current year end of the consolidated subsidiaries located in the United States was changed from 37.0% of prior year to 22.7%.

As a result, the income tax expenses for the fiscal year ended March 31, 2018 increased by 13,577 million yen.

Non-consolidated Statement of Changes in Equity

(April 1, 2017 to March 31, 2018)

(millions of yen)

| | Shareholders' equity | | | | | | | | |
|---|----------------------|-----------------------|-----------------------|-----------------------|---|-------------------------|-----------------------------------|---------|-------------------------|
| | Share capital | Capital surplus | | | Legal retained earnings | Retained earnings | | | Total retained earnings |
| | | Legal capital surplus | Other capital surplus | Total capital surplus | | Other retained earnings | | | |
| | | | | | Reserve for advanced depreciation of non-current assets | General reserve | Retained earnings carried forward | | |
| Balance at April 1, 2017 | 22,400 | 15,860 | 0 | 15,861 | 5,288 | 1,564 | 275,510 | 177,667 | 460,029 |
| Changes during the fiscal year | | | | | | | | | |
| Cash dividends | | | | | | | | (7,946) | (7,946) |
| Reserve for advanced depreciation of non-current assets | | | | | | (75) | | 75 | - |
| Net profit | | | | | | | | 42,364 | 42,364 |
| Purchase of treasury shares | | | | | | | | | |
| Changes in items other than shareholders' equity (net) | | | | | | | | | |
| Total changes during the fiscal year | - | - | - | - | - | (75) | - | 34,492 | 34,418 |
| Balance at March 31, 2018 | 22,400 | 15,860 | 0 | 15,861 | 5,288 | 1,489 | 275,510 | 212,159 | 494,447 |

| | Shareholders' equity | | Valuation, translation adjustments and others | | Total net assets |
|---|----------------------|----------------------------|---|---|------------------|
| | Treasury shares | Total shareholders' equity | Unrealized gains on available-for-sale securities, net of tax | Total valuation, translation adjustments and others | |
| Balance at April 1, 2017 | (667) | 497,623 | 17,962 | 17,962 | 515,585 |
| Changes during the fiscal year | | | | | |
| Cash dividends | | (7,946) | | | (7,946) |
| Reserve for advanced depreciation of non-current assets | | - | | | - |
| Net profit | | 42,364 | | | 42,364 |
| Purchase of treasury shares | (2) | (2) | | | (2) |
| Changes in items other than shareholders' equity (net) | | | 11,108 | 11,108 | 11,108 |
| Total changes during the fiscal year | (2) | 34,415 | 11,108 | 11,108 | 45,524 |
| Balance at March 31, 2018 | (669) | 532,038 | 29,071 | 29,071 | 561,109 |

(Note) All amounts are rounded 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 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 - 60 years

Machinery and equipment and vehicles 2 - 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 reporting period.

(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, 2018.

(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 contracts 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 consumption taxes

Consumption taxes are excluded from revenues and expenses.

2. Notes to the non-consolidated Balance Sheet

(1) **Accumulated depreciation of tangible fixed assets** 148,481 million yen

Accumulated depreciation of tangible fixed assets includes accumulated impairment losses.

(2) **Guaranteed obligation** 46 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 76,544 million yen

Short-term monetary liabilities 5,967 million yen

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

Amounts of transactions with affiliated companies

Transaction amounts based on operating transactions

Net sales 91,315 million yen

Amount of goods purchased 7,628 million yen

Other operating transactions 10,640 million yen

Non-operating transactions 4,333 million yen

4. Notes to deferred tax accounting

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

| | |
|--|-----------------------------|
| Deferred tax assets | |
| Reserve for bonuses | 1,926 million yen |
| Reserve for sales rebates | 40 million yen |
| Accrued enterprise taxes | 680 million yen |
| Liabilities for retirement benefits | 3,511 million yen |
| Loss on valuation of investment securities | 2,556 million yen |
| Research and development costs | 11,223 million yen |
| Inventories | 1,787 million yen |
| Stocks of subsidiaries and affiliates 〔Stocks of succeeding company associated with corporate separation〕 | 2,149 million yen |
| Others | <u>8,983 million yen</u> |
| Subtotal of deferred tax assets | 32,855 million yen |
| Valuation allowance | <u>(4,437 million yen)</u> |
| Total deferred tax assets | 28,418 million yen |
| Deferred tax liabilities | |
| Unrealized gains (losses) on available-for-sale securities | (12,636 million yen) |
| Prepaid pension cost | (1,916 million yen) |
| Reserve for advanced depreciation of fixed assets | (656 million yen) |
| Refund of capital surplus of a subsidiaries | <u>(405 million yen)</u> |
| Total deferred tax liabilities | <u>(15,613 million yen)</u> |
| Net amount of deferred tax assets | <u>12,805 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 | 0.4% |
| Dividend income and other items that are excluded from taxable income | (0.8%) |
| R&D tax credit | (5.0%) |
| Residence tax on per-capita basis | 0.2% |
| Others | <u>3.3%</u> |
| Actual effective tax rate | <u>28.9%</u> |

5. 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: 51.58% | <ul style="list-style-type: none"> • Supplier of raw materials • Leasing land, etc. • Purchasing plant utilities, etc. • Lending funds | Lending Funds | 5,467 million yen | Short-term loans to affiliates | 21,250 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) Subsidiaries

| 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 | Sumitomo Dainippon Pharma America, Inc. (Note 1) | Direct ownership: 100% | <ul style="list-style-type: none"> • Lending funds • In-kind contribution | Lending Funds (Note 2) | 13,414 million yen | Short-term loans to affiliates | 36,125 million yen |
| | | | | In-kind contribution (Note 3) | 53,857 million yen | — | — |
| Subsidiary | Sunovion Pharmaceuticals Inc. | Indirect ownership: 100% | <ul style="list-style-type: none"> • Supplier of intermediate products • Commission of development • Lending funds | Supplier of intermediate products, etc. (Note 4) | 77,090 million yen | Accounts receivable | 11,533 million yen |
| | | | | Collection of loans (Note 2) | 19,633 million yen | Short-term loans to affiliates | — |

Transaction terms and policies for determining transaction terms, etc.

Notes: 1. The subsidiary changed its company name from Dainippon Sumitomo Pharma America Holdings, Inc. to Sumitomo Dainippon Parma America, Inc. in the current fiscal year.

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

3. The Company injected all its shares of Boston Biomedical, Inc., a wholly owned subsidiary of the Company, into the subsidiary, Sumitomo Dainippon Parma America, Inc., as in-kind contribution.

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

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

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

Ordinary share 601,983 shares

7. Notes to per share information

(1) Net assets per share 1,412.31 yen

(2) Net profit per share 106.63 yen

8. Notes to Other

(Impairment losses)

Among the fixed assets held by the Company, business assets are grouped by segment, while individual asset, such as idle asset, marketing rights, etc., is identified as the smallest group of assets.

The Company recognized impairment losses the below assets for the year ended March 31, 2018.

| Use | Category | Location | Amount |
|---|------------------------------|----------|-------------------|
| Idle assets (welfare benefit facilities) | Building, land, etc. | Japan | 2,100 million yen |
| Idle assets (research equipment) | Machinery and equipment, etc | Japan | 47 million yen |

The Company assessed the recoverability of idle property, plant and equipment, and recognized impairment losses by reducing part of the carrying amounts.

The recoverable amount of idle property, plant and equipment (welfare benefit facilities) is measured at net realizable value, and determined by the appraisal value obtained from real estate appraiser.

The recoverable amount of idle property, plant and equipment (research equipment) is measured at value in use, and valued at zero as it is not expected to have future cash inflows derived from the assets.