



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

January 27, 2017

**Company Name:** SUMITOMO DAINIPPON PHARMA CO., LTD.

**Stock Exchange Listings:** Tokyo

**Security Code Number:** 4506 (URL: <http://www.ds-pharma.co.jp>)

**Representative:** Masayo Tada, Representative Director, President and Chief Executive Officer

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**Filing Date of Quarterly Financial Report:** February 3, 2017

**Starting Date of Dividend Payments:** —

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

**Information Meeting for Quarterly Financial Results to be held:** Yes (for institutional investors and analysts)

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

### 1. Consolidated Financial Results for the Third Quarter of the Year Ending March 31, 2017 (April 1, 2016 to December 31, 2016)

#### (1) Results of Operations

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Nine months ended December 31, 2016	305,507	0.3	44,241	42.3	49,864	60.2	29,571	26.7
Nine months ended December 31, 2015	304,532	9.1	31,086	36.2	31,133	38.3	23,345	22.9

Note: Comprehensive income  
 Nine months ended December 31, 2016 : ¥34,203 million, 25.9%  
 Nine months ended December 31, 2015 : ¥27,169 million, (55.6) %

	Earnings per share	Earnings per share (diluted)
Nine months ended December 31, 2016	¥74.43	—
Nine months ended December 31, 2015	¥58.76	—

#### (2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio
As of December 31, 2016	750,946	473,715	63.1%
As of March 31, 2016	707,715	446,472	63.1%

Reference: Shareholders' Equity  
 As of December 31, 2016 : ¥473,715 million  
 As of March 31, 2016 : ¥446,472 million

### 2. Dividends

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

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

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

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

	Net sales		Operating income		Ordinary income		Net income attributable to owners of the parent		Earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Year ending March 31, 2017	404,000	0.2	46,000	24.6	46,000	30.6	26,000	5.3	¥65.44

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

#### Notes:

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

- Specified subsidiaries

(New : 4 Companies)

Cynapsus Therapeutics Inc.

Project Pegasus Sub Acquisition ULC

Sunovion CNS Development Canada ULC(old company)

Sunovion CNS Development Canada ULC

(Excluded : 3 Companies)

Cynapsus Therapeutics Inc.

Project Pegasus Sub Acquisition ULC

Sunovion CNS Development Canada ULC(old company)

Sunovion Pharmaceuticals Inc. (Sunovion), which is a consolidated subsidiary of the Company completed to acquire Cynapsus Therapeutics Inc (Cynapsus) by way of Plan of Arrangement, which is available under Canadian law.

In the process, Sunovion established a new wholly-owned subsidiary named Sunovion CNS Development Canada ULC (old company) (Sunovion CNS Canada (old company)) in Canada for the purpose of acquisition of all common shares and warrants issued by Cynapsus. As a result, Sunovion CNS Canada (old company) became a consolidated subsidiary of the Company.

On completion of the acquisition, Cynapsus and its wholly-owned subsidiary Project Pegasus Sub Acquisition ULC (Pegasus) became in the scope of consolidated subsidiaries.

Furthermore, on the closing day of the acquisition, Sunovion CNS Canada(old company), Cynapsus and Pegasus integrated into Sunovion CNS Development Canada ULC (Sunovion CNS Canada) in accordance with the "Amalgamation" under the British Columbia Law in Canada. As a result of this reorganization, Sunovion CNS Canada became a consolidated subsidiary and Sunovion CNS Canada (old company), Cynapsus and Pegasus were out of scope in consolidation.

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

- Calculation of income taxes

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

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

① Changes due to changes in accounting standards: Yes

• Guidance on “Recoverability of Deferred Tax Assets”

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

With regard to the application, in accordance with the provisions on transitional implementation indicated in Paragraph 49(4) of Guidance on Recoverability of Deferred Tax Assets, the differences between the amount of deferred tax assets and deferred tax liabilities when Paragraph 49(3)①to③ of Guidance on Recoverability of Deferred Tax Assets are applied at the beginning of the current fiscal year, and the amount of deferred tax and deferred tax liabilities at the end of the previous fiscal year have been added to or subtracted from retained earnings and accumulated other comprehensive income(loss) at the beginning of the current fiscal year.

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

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

③ Changes in accounting estimates: None

④ Retrospective restatements: None

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

① Number of shares outstanding (Including treasury stock)

December 31, 2016: 397,900,154 shares

March 31, 2016 : 397,900,154 shares

② Number of treasury stock

December 31, 2016: 599,896 shares

March 31, 2016 : 598,599 shares

③ Average number of shares during the period

December 31, 2016 : 397,300,708 shares

December 31, 2015 : 397,302,836 shares

*Indication of quarterly review procedure implementation status:*

*This summary of financial results is exempt from quarterly review procedure based upon the Financial Instruments and Exchange Act. It is under the quarterly review procedure process at the time of disclosure of this report.*

*Explanation for Appropriate Use of Forecasts and Other Notes:*

*This document contains forward-looking statements which are based on management’s assumptions and beliefs in light of the information currently available and involves risks and uncertainties, and are not the commitment made by the Company. Actual financial results may differ materially depending on a number of factors, including economic conditions. Please refer to page 3 of attachment document with regard to the assumptions and other related matters concerning financial forecasts.*

*The Company holds the earnings presentation for institutional investors and analysts on Friday, January 27, 2017. The documents distributed at the presentation are scheduled to be posted on our website.*

**【Attachment Documents】**

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## 1. Qualitative Information for the Nine Months Ended December 31, 2016

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

In the Japan segment, our strategic products, such as therapeutic agent for hypertension AIMIX<sup>®</sup>, therapeutic agent for Parkinson's disease TRERIEF<sup>®</sup>, and Type 2 diabetes treatment Trulicity<sup>®</sup>, which were launched during the previous fiscal year, maintained their sales momentum. However, this was still insufficient to offset the negative impact of NHI price revisions and declining sales of long-listed drugs, with the result that sales of this geographic segment decreased overall. In the North America segment, on the other hand, sales continued to increase overall as atypical antipsychotic agent LATUDA<sup>®</sup> and other mainstay products' sales continued to expand. As a result, total net sales for the Sumitomo Dainippon Pharma Group (the "Group") edged up by 0.3% year-on-year to 305,507 million yen. Operating income for the period increased substantially by 42.3% year-on-year to 44,241 million yen due to, in addition to the lower cost of sales ratio, a decrease in selling, general expenses, and administrative expenses resulting primarily from currency movements. Ordinary income also increased significantly by 60.2% year-on-year to 49,864 million yen owing primarily to foreign exchange gains after conversion to the yen. Meanwhile, net income attributable to owners of the parent increased by 26.7% year-on-year to 29,571 million yen, as we reported gain on sales of investment securities under extraordinary income and business structure improvement expenses under extraordinary loss in preparation for the Early Retirement Program.

Operating results by segment are as follows.

#### ① Japan segment

Sales of the Group's three strategic products of AIMIX<sup>®</sup>, TRERIEF<sup>®</sup>, and atypical antipsychotic agent LONASEN<sup>®</sup>, as well as sales of Trulicity<sup>®</sup>, continued to grow. However, net sales decreased by 5.2% year-on-year to 108,563 million yen due to the negative impact of NHI price revisions and declining sales of long-listed drugs. Segment income fell by 11.8% year-on-year to 31,246 million yen, as the decrease in gross profit due to NHI price revisions exerted a significant influence.

#### ② North America segment

Net sales increased by 4.6% year-on-year to 143,624 million yen thanks to the continued growth of mainstay products such as LATUDA<sup>®</sup>, long-acting beta<sub>2</sub>-agonist BROVANA<sup>®</sup>, and antiepileptic agent APTIOM<sup>®</sup>. Segment income increased by 33.9% year-on-year to 62,149 million yen as a result of top-line growth and a decrease in cost of sales and selling, general expenses, and administrative expenses owing primarily to currency movements.

#### ③ China segment

Sales of mainstay carbapenem antibiotic MEROPEN<sup>®</sup> performed strongly on a local currency basis. Owing to currency movements, however, net sales of this segment nevertheless decreased by 10.5% year-on-year to 12,930 million yen and segment income decreased by 18.4% year-on-year to 4,641 million yen.

#### ④ Other Regions segment

Net sales increased by 9.8% year-on-year to 7,389 million yen and segment income increased by 46.5% year-on-year to 1,575 million yen, due mainly to an increase in exports of MEROPEN<sup>®</sup> and other drugs.

In addition to the above-mentioned reportable segments, the Group markets food ingredients, food additives,

materials for chemical products, veterinary drugs, diagnostic agents, etc. Net sales from those types of business increased by 4.8% year-on-year to 32,999 million yen and the segment income increased by 26.1% year-on-year to 1,769 million yen.

## (2) Qualitative Information on Financial Condition

Current assets decreased by 29,733 million yen from the previous fiscal year-end, as marketable securities and short-term loans receivable decreased while cash and time deposits increased. Fixed assets decreased due to sales of some equity holdings, but nevertheless increased by 72,965 million yen from the previous fiscal year-end owing primarily to expanded in-process research and development following the merger of Cynapsus Therapeutics, Inc., which was later renamed to make a new start as Sunovion CNS Development Canada ULC. As a result, total assets increased by 43,231 million yen from the previous fiscal year-end to 750,946 million yen.

Total liabilities increased by 15,987 million yen from the previous fiscal year-end to 277,230 million yen, due mainly to an increase in short-term loans payable on account of the reporting of reserve for sales rebates and financing while income taxes payable declined, in addition to payment of long-term loans payable and redemption of bonds payable.

Net assets increased by 27,243 million yen from the previous fiscal year-end to 473,715 million yen, primarily due to an increase in retained earnings and foreign currency translation adjustment.

The shareholders' equity ratio as of the end of the current half-year was 63.1%.

## (3) Qualitative Information on Consolidated Financial Forecasts

In light of recent performance trends, the October 27, 2016 forecast for consolidated financial performance in the fiscal year ending March 2017 has been revised as follows.

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

(April 1, 2016 to March 31, 2017)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Earnings per share
	Yen million	Yen million	Yen million	Yen million	
Previous forecasts (A)	398,000	46,000	44,000	25,000	62.92
New forecasts (B)	404,000	46,000	46,000	26,000	65.44
(B-A)	6,000	—	2,000	1,000	
Change (%)	1.5	—	4.5	4.0	
(Reference) Results for the year ended March 31, 2016	403,206	36,929	35,221	24,697	62.16

Both net sales and income are performing strongly in all reporting segments. Given recent foreign currency exchange movements, however, the assumptions of foreign currency exchange rates that were used for previous forecasts have been revised. Accordingly, net sales are now forecast to be up by 6.0 billion yen from the previous forecast to 404.0 billion yen, operating income is forecast to remain the same at 46.0 billion yen, ordinary income is forecast to be up by 2.0 billion yen to 46.0 billion yen, and net income attributable to owners of the parent is forecast to be up by 1.0 billion yen to 26.0 billion yen.

## 2. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

	(Millions of yen)	
	As of March 31, 2016	As of December 31, 2016
<b>Assets</b>		
Current assets:		
Cash and time deposits	54,922	72,786
Notes and accounts receivables	107,165	115,460
Marketable securities	81,039	34,962
Merchandise and finished goods	48,100	57,722
Work-in-process	3,206	3,561
Raw materials and supplies	8,281	10,679
Deferred tax assets	63,991	71,639
Short-term loans receivable	48,426	15,143
Others	6,454	9,898
Allowance for doubtful receivables	(4)	(5)
Total current assets	421,584	391,850
Fixed assets:		
Property, plant and equipment:		
Buildings and structures	95,279	95,937
Accumulated depreciation and impairment loss	(54,944)	(56,601)
Buildings and structures, net	40,335	39,336
Machinery, equipment and carriers	79,734	79,725
Accumulated depreciation and impairment loss	(71,937)	(72,615)
Machinery, equipment and carriers, net	7,796	7,110
Land	6,269	6,281
Construction in progress	1,497	2,234
Others	33,498	33,184
Accumulated depreciation and impairment loss	(27,572)	(28,252)
Others, net	5,926	4,931
Total property, plant and equipment	61,824	59,893
Intangible assets:		
Goodwill	76,950	76,610
In-process research and development	60,144	140,131
Others	19,485	20,976
Total intangible assets	156,580	237,718
Investments and other assets:		
Investment securities	60,432	51,764
Asset for retirement benefits	66	63
Deferred tax assets	2,313	4,154
Others	4,953	5,531
Allowance for doubtful receivables	(40)	(29)
Total investments and other assets	67,725	61,483
Total fixed assets	286,130	359,095
Total assets	707,715	750,946

(Millions of yen)

	As of March 31, 2016	As of December 31, 2016
<b>Liabilities</b>		
Current liabilities:		
Notes and accounts payables	12,153	14,977
Short-term loans payable	1,010	40,000
Current portion of bonds payable	10,000	—
Current portion of long-term loans payable	12,000	8,000
Income taxes payable	26,357	9,730
Reserve for bonuses	10,809	7,054
Reserve for sales returns	9,086	11,367
Reserve for sales rebates	49,224	59,307
Accounts payable-other	34,212	35,386
Others	14,869	25,766
Total current liabilities	179,722	211,589
Long-term liabilities:		
Bonds payable	20,000	20,000
Long-term loans payable	8,000	—
Deferred tax liabilities	16,209	16,670
Liability for retirement benefits	16,158	14,862
Others	21,152	14,109
Total long-term liabilities	81,520	65,641
Total liabilities	261,242	277,230
<b>Net assets</b>		
Shareholders' equity:		
Common stock	22,400	22,400
Capital surplus	15,860	15,860
Retained earnings	341,401	364,208
Treasury stock	(663)	(665)
Total shareholders' equity	378,999	401,803
Accumulated other comprehensive income (loss)		
Unrealized gains on available-for-sale securities	25,293	20,940
Deferred gains (losses) on hedges	(12)	9
Foreign currency translation adjustment	48,025	56,631
Remeasurements of defined benefit plans	(5,832)	(5,668)
Total accumulated other comprehensive income (loss)	67,473	71,912
Total net assets	446,472	473,715
Total liabilities and net assets	707,715	750,946



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

## Consolidated Statements of Income

(Millions of yen)

	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net sales	304,532	305,507
Cost of sales	79,064	74,343
Gross profit	225,468	231,163
Reversal of reserve for sales returns	—	2
Provision of reserve for sales returns	5	—
Gross profit, net	225,462	231,166
Selling, general and administrative expenses		
Salaries	31,393	29,922
Provision for reserve for bonuses	3,599	3,703
Retirement benefit expenses	3,938	3,375
Research and development costs	58,953	57,167
Others	96,491	92,756
Total selling, general and administrative expenses	194,376	186,925
Operating income	31,086	44,241
Non-operating income		
Interest income	400	619
Dividend income	1,014	1,028
Foreign exchange gains	—	4,849
Others	1,653	346
Total non-operating income	3,067	6,844
Non-operating expenses		
Interest expense	706	474
Contribution	441	487
Foreign exchange losses	1,011	—
Others	861	258
Total non-operating expenses	3,020	1,220
Ordinary income	31,133	49,864
Extraordinary income		
Gain on sales of investment securities	6,070	4,813
Total extraordinary income	6,070	4,813
Extraordinary loss		
Business structure improvement expenses	—	9,992
Impairment loss	266	—
Total extraordinary loss	266	9,992
Income before income taxes	36,937	44,685
Income taxes	13,591	15,113
Net income	23,345	29,571
Net income attributable to non-controlling interests	—	—
Net income attributable to owners of the parent	23,345	29,571

Consolidated Statements of Comprehensive Income

	(Millions of yen)	
	Nine months ended December 31, 2015	Nine months ended December 31, 2016
Net income	23,345	29,571
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	3,506	(4,160)
Deferred gains (losses) on hedges	(1)	22
Foreign currency translation adjustment	(78)	8,606
Remeasurements of defined benefit plans	397	163
Total other comprehensive income (loss)	<u>3,823</u>	<u>4,631</u>
Comprehensive income	<u>27,169</u>	<u>34,203</u>
Comprehensive income attributable to		
Owners of the parent	27,169	34,203
Non-controlling interests	—	—

### (3) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

Not applicable.

(Segment Information)

I Nine months ended December 31, 2015

1. Information on sales and income by reportable segment

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	114,506	137,340	14,453	6,732	273,033	31,499	304,532
Intersegment sales and transfers	38	—	—	—	38	62	100
Total	114,544	137,340	14,453	6,732	273,071	31,561	304,632
Income of segment	35,441	46,422	5,690	1,075	88,629	1,403	90,032

Note: The "Other Business" category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, diagnostics and other products.

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

(Millions of yen)

Income	Amount
Reportable segments total	88,629
Income of "Other Business"	1,403
Research and development costs*	(58,953)
Elimination of intersegment transactions	6
Operating income on consolidated statements of income	31,086

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

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

(Significant impairment losses relating to fixed assets)

In the North America segment, in-process research and development and other assets deemed to have little future profitability is evaluated in terms of collectability, therefore 266 million yen is recorded as an impairment loss.

II Nine months ended December 31, 2016

1. Information on sales and income by reportable segment

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	108,563	143,624	12,930	7,389	272,507	32,999	305,507
Intersegment sales and transfers	41	—	—	—	41	53	94
Total	108,604	143,624	12,930	7,389	272,548	33,052	305,601
Income of segment	31,246	62,149	4,641	1,575	99,613	1,769	101,383

Note: The "Other Business" category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, diagnostics and other products.

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

(Millions of yen)

Income	Amount
Reportable segments total	99,613
Income of "Other Business"	1,769
Research and development costs*	(57,167)
Elimination of intersegment transactions	24
Operating income on consolidated statements of income	44,241

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