Summary of Consolidated Financial Results for the Year Ended March 31, 2016[Japanese GAAP] (Unaudited)

May 11, 2016

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
Contact: Atsuko Higuchi, Senior Communication Officer
Telephone: 03-5159-3300
Filing Date of Financial Report: June 23, 2016
Date of Annual Shareholder's Meeting: June 23, 2016
Starting Date of Dividend Payments: June 24, 2016
Preparation of Supplementary Financial Data for Financial Results: Yes
Information Meeting for Financial Results to be held: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Year Ended March 31, 2016 （April 1, 2015 to March 31, 2016）

(1) Results of Operations

(% represents changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31, 2016	403,206	8.6	36,929	58.7	35,221	51.0	24,697	59.9
Year ended March 31, 2015	371,370	(4.2)	23,275	(44.8)	23,331	(42.6)	15,447	(23.0)

Note: Comprehensive income Year ended March 31, 2016: ¥5,579 million, (90.7%)
Year ended March 31, 2015: ¥60,107 million, 33.1%

	Earnings per share	Earnings per share (diluted)	Net income / Shareholders' equity (ROE)	Ordinary income / Total assets	Operating income / Net sales
Year ended March 31, 2016	¥62.16	—	5.5%	5.0%	9.2%
Year ended March 31, 2015	¥38.88	—	3.6%	3.4%	6.3%

Reference: Equity in earnings of non-consolidated subsidiaries and affiliates
Year ended March 31, 2016 : ¥96 million
Year ended March 31, 2015 : ¥79 million

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2016	707,715	446,472	63.1%	¥1,123.76
As of March 31, 2015	711,583	451,021	63.4%	¥1,135.21

Reference: Shareholders' Equity As of March 31, 2016 : ¥446,472 million
As of March 31, 2015 : ¥451,021 million

(3) Cash Flows

(Millions of yen)

	Net cash provided by operating activities	Net cash provided by investing activities	Net cash used in financing activities	Cash and cash equivalents at the end of period
Year ended March 31, 2016	49,415	15,887	(42,605)	135,575
Year ended March 31, 2015	30,251	23,447	(15,725)	122,794

2. Dividends

	Dividends per share					Dividends paid for the year (million)	Payout ratio	Dividends to net assets ratio
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual			
Year ended March 31, 2015	—	¥9.00	—	¥9.00	¥18.00	¥7,151	46.3%	1.7%
Year ended March 31, 2016	—	¥9.00	—	¥9.00	¥18.00	¥7,151	29.0%	1.6%
Year ending March 31, 2017 (Forecasts)	—	¥9.00	—	¥9.00	¥18.00		28.6%	

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 parent		Earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Six months ending September 30, 2016	199,000	0.0	16,000	(5.0)	16,000	(8.6)	8,000	(39.5)	¥20.14
Year ending March 31, 2017	410,000	1.7	40,000	8.3	40,000	13.6	25,000	1.2	¥62.92

Notes:

(1) Shift of significant subsidiaries during the period (shift of specified subsidiaries accompanied by changes in scope of consolidation): None

(2) Changes in accounting policies, accounting estimates, and retrospective restatements
① Changes due to changes in accounting standards: Yes
② Changes due to changes in accounting standards other than (2),①: None
③ Changes in accounting estimates: Yes
④ Retrospective restatements: None

Note: For detail, please refer to 5.Consolidated Financial Statement, (5) Notes to Consolidated Financial Statements (Changes to accounting policies) on page 25 of Attachment Documents.

(3) Number of shares outstanding (Common stock)
① Number of shares outstanding (Including treasury stock) at the end of period
March 31, 2016: 397,900,154 shares
March 31, 2015: 397,900,154 shares
② Number of treasury stock at the end of period
March 31, 2016: 598,599 shares
March 31, 2015: 596,335 shares
③ Average number of shares during the period
March 31, 2016: 397,302,552 shares
March 31, 2015: 397,305,152 shares

(Reference)

Non-consolidated Financial Results for the year ended March 31, 2016 (April 1, 2015 to March 31, 2016)

(1) Results of Operations

(% represents changes from the previous year)

	Net sales		Operating income		Ordinary income		Net income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31,2016	265,691	45.1	95,115	563.8	94,525	524.5	66,624	292.6
Year ended March 31,2015	183,073	(8.8)	14,329	(40.1)	15,136	(35.3)	16,968	11.6

	Earnings per share	Earnings per share (diluted)
Year ended March 31,2016	¥167.69	—
Year ended March 31,2015	¥42.71	—

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2016	647,720	465,410	71.9%	¥1,171.43
As of March 31, 2015	595,144	400,110	67.2%	¥1,007.06

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

As of March 31, 2015 : ¥400,110 million

Indication of audit procedure implementation status:

This summary of financial results is exempt from audit procedure based upon the Financial Instruments and Exchange Act. It is under the audit 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.

The Company holds an earnings presentation for institutional investors and analysts on Thursday, May 12, 2016. The documents distributed at the presentation are scheduled to be posted on our website.

【Attachment Documents】

1. Operating Results and Financial Condition

(1) Analysis of Operating Results

(i) Overview of overall operating results

During the fiscal year ended March 31, 2016, the Japanese economy continued on a mild recovery path, overall, with corporate earnings remaining at high levels but exports and manufacturing output weakening somewhat, primarily due to slowdowns in emerging economies. The U.S. economy also continued to expand, driven chiefly by increased consumer spending under a stable employment environment. The Chinese economy, on the other hand, experienced a gradual slowdown. Overall, the outlook for the global economy is growing more uncertain in light of downside risks in emerging economies, including China, and falling oil prices.

In the pharmaceutical sector, businesses are obliged to run high risks, as visibility lowers owing primarily to the increasing difficulty of developing new drugs, the rise in R&D costs, and intensifying international competition in line with the price curb on brand-name drugs and accelerated use of generic drugs in a bid to put the brakes on expansion of social security benefits expenditures worldwide.

Against this background, the Group focused on providing scientific information in Japan in an effort to further boost sales of its strategic products, such as AIMIX® (therapeutic agent for hypertension), TRERIEF® (therapeutic agent for Parkinson's disease), and LONASEN® (atypical antipsychotic).

In North America, the Company's U.S. subsidiary Sunovion Pharmaceuticals Inc. poured its resources into expanding sales of the atypical antipsychotic LATUDA® (generic name: lurasidone hydrochloride), with the result that this global strategic product for the group became a blockbuster drug with North American sales topping 1.0 billion US dollar. In the Oncology area, Boston Biomedical, Inc., another U.S. subsidiary of the Company, concentrated its efforts on the ongoing development of napabucasin (product code: BBI608), placing top priority on an early launch of this drug in the U.S.A.

In Europe, all development and commercialization rights with respect to LATUDA® in that region have been transferred back to the Company from Takeda Pharmaceutical Company Limited out of market and business considerations at Takeda Pharmaceutical Company Limited.

Sales in Japan fell sharply, primarily due to the decline in sales of long-listed brands as the government encourages the use of generic drugs. However, North America saw sales increase substantially on the back of steady growth for LATUDA® and the antiepileptic agent APTIOM®, which has recently been approved for an additional indication as monotherapy, and the benefits of the weaker yen. On a consolidated basis, net sales increased by 8.6% year-on-year to reach 403,206 million yen. Selling, general, and administrative expenses increased due to the Group's series of strategic investments, including aggressive R&D activities in North America, and the additional impact of yen depreciation. As a result, operating income increased by 58.7% year-on-year to 36,929 million yen and ordinary income increased by 51.0% to 35,221 million yen. Meanwhile, net income attributable to owners of the parent increased by 59.9% to 24,697 million yen after recording extraordinary gains on the sale of investment securities, etc.

(ii) Status of each business segment

[Japan segment]

Sales advanced for products including the rapid-acting insulin secretagogue SUREPOST®, as well as the three strategic products AIMIX®, TRERIEF®, and LONASEN®, but this was not enough to offset the decline in sales of long-listed brands due to the greater spread of generic drug use. Accordingly, net sales decreased by 6.4% year-on-year to 146,492 million yen. Segment income declined by 17.9% year-on-year to 41,535 million yen due to the top line fall and increases in selling, general, and administrative expenses, excluding R&D expenses.

[North America segment]

Net sales grew by 24.8% year-on-year to 184,869 million yen, thanks to the rapid sales growth of

LATUDA® and sales expansion of APTIOM® and long-acting beta-agonist BROVANA®. On the income side, selling, general, and administrative expenses, excluding R&D expenses, showed an increase due to the weaker yen. However, as a result of the contribution of a substantial increase in net sales, segment income jumped by 87.7% year-on-year to 65,154 million yen.

[China segment]

Net sales increased by 7.2% year-on-year to 18,374 million yen, due primarily to increased sales of the mainstay carbapenem antibiotic MEROPEN®. On the income side, selling, general, and administrative expenses, excluding R&D expenses, increased due to the weaker yen. Despite those increased costs, segment income increased by 27.9% year-on-year to 7,992 million yen.

[Other Regions segment]

Net sales increased by 27.4% year-on-year to 11,187 million yen, due mainly to an increase in exports of MEROPEN®. Segment income rose sharply by 192.6% year-on-year to 2,446 million yen, as gross profit increased due to a change in the product mix.

Besides the above reportable segments, the Group is engaged in sales of food ingredients, food additives, materials for chemical products, veterinary drugs, diagnostic agents, and other lines, which together generated net sales of 42,282 million yen, up by 3.9% year-on-year, and segment income of 1,821 million yen, down by 17.5% year-on-year.

(iii) Status of research and development activities:

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

In the initial research stage, the Group optimizes research efficiency by utilizing its proprietary cutting-edge technologies in the areas of genomics, proteomics, and metabolomics, to name but a few, while concurrently applying state-of-the-art science in such areas as iPS cells to drug discovery and regenerative medicine/cell therapy. The Company continues developing the joint research with Kyoto University’s Center for iPS Cell Research and Application (hereinafter referred to as the “CiRA”), which is aimed at developing a new treatment for rare intractable diseases. The Company is also an integral member of the Research Center Network for Realization of Regenerative Medicine, a project that involves industry, government, and academia.

In the latter research stage and the development stage, a global perspective is taken to optimize the project portfolio for the Group’s focus therapeutic areas and newer fields, as well as other areas. The Group is also committed to product life cycle management including development of dosage forms aimed at maximizing product value.

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

〔Psychiatry and Neurology〕

(a) APTIOM®

An additional indication for partial epilepsy (monotherapy) was approved in the U.S.A. in August 2015.

(b) Lurasidone hydrochloride

A new Phase III clinical study for schizophrenia has been launched in Japan. An application for approval for schizophrenia was submitted in China in December 2015.

(c) Dasotraline (product code: SEP-225289)
In addition to the ongoing Phase III clinical study for attention-deficit hyperactivity disorder (ADHD), a Phase II/III clinical study for binge eating disorder (BED) has begun in the U.S.A.

〔Oncology〕

(a) Napabucasin
A Phase III global clinical trial for gastric and gastroesophageal junction adenocarcinoma (combination therapy) is underway in the U.S.A. and elsewhere. In addition, a Phase III global clinical trial for colorectal cancer (combination therapy) has begun in the U.S.A. Meanwhile, Phase II of the Phase I/II clinical studies for malignant pleural mesothelioma has been launched in Japan.

(b) Amcasertib (product code: BBI503)
A Phase II clinical study for ovarian cancer has begun in the U.S.A.

(c) DSP-7888
Phase II of the Phase I/II clinical studies for myelodysplastic syndrome (MDS) has begun in Japan.

〔Regenerative medicine/cell therapy〕

(a) Regenerative medicine
Sighregen K.K., a joint venture between the Company and Healios K.K., has commenced studying the manufacturing processes for retinal pigment epithelial (RPD) cells with commercial application in view. The Company has begun preparations for the installation of new cell production equipment.

(b) Cell therapy
A Phase IIb clinical study of SB623 for chronic stroke has begun in the U.S.A., in collaboration with SanBio, Inc. (hereinafter referred to as “SanBio”).

The Group continues to be proactive in pursuing in-licensing of products under development and research partnerships. During the fiscal year under review, the Company launched the Partnership to Realize Innovative Seeds and Medicines (PRISM), an open innovation program through which research institutions and researchers in Japan are invited to submit ideas that meet the Company’s drug discovery research needs.

(iv) Forecasts for the year ending March 31, 2017

(Millions of yen)

	Fiscal 2015 Results	Fiscal 2016 Forecasts	Change	Change %
Net sales	403,206	410,000	6,793	1.7
Operating income	36,929	40,000	3,070	8.3
Ordinary income	35,221	40,000	4,778	13.6
Net income attributable to owners of parent	24,697	25,000	302	1.2

<Net sales>

In Japan, the Company will attempt to maximize sales of its strategic products, such as AIMIX® and LONASEN® as well as its new offerings of REMITCH®, pruritus treatment, and Trulicity®, Type II diabetes treatment. Nonetheless, net sales in Japan are expected to decline as the negative impact of NHI price revisions and falling sales of long-listed drugs are forecast to continue. In North America, on the other hand, net sales are expected to increase as sales of LATUDA®, BROVANA®, and APTIOM® appear set to rise. All things considered, net sales are expected to reach 410.0 billion yen, up 6.8 billion yen from the previous year.

<Income>

Selling, general and administrative expenses less R&D expenses will likely to increase in the sales expense in North America despite the impact of strong yen. Research and development cost is expected to rise because of the clinical development costs for products in later development phases.

As a result, the Company expects operating income of 40.0 billion yen, up by 3.1 billion yen year-on-year, ordinary income of 40.0 billion yen, up by 4.8 billion yen, and net income attributable to owners of the parent company of 25.0 billion yen, up by 0.3 billion yen.

<Prior condition>

Foreign currency exchange rate used for the forecasts 1 USD = 110 yen, 1 RMB = 17.0 yen

(2) Analysis of Financial Condition

Analysis of the status of assets, liabilities, net assets, and cash flows

(i) Summary of assets, liabilities, and net assets

- Assets

Current assets increased by 19,885 million yen from the previous fiscal year-end as the increase in cash and time deposits and deferred tax assets more than offset the decrease in marketable securities. Fixed assets decreased substantially by 23,753 million yen from the previous fiscal year-end owing to depreciation, amortization and appreciation of the yen, despite the increase in investment securities. As a result, total assets decreased by 3,868 million yen from the previous fiscal year-end to 707,715 million yen.

- Liabilities

Despite the decrease in interest-bearing debts (bonds and long-term loans payable), liabilities increased by 680 million yen from the previous fiscal year-end to 261,242 million yen as income tax payable rose and the reserve for rebates of sales increased due to greater sales in North America.

- Net assets

Net assets declined by 4,548 million yen from the previous fiscal year-end to 446,472 million yen, as retained earnings and unrealized gains on available-for-sale securities increased while foreign currency translation adjustments decreased significantly due to the stronger yen.

The shareholders' equity ratio as of the end of the fiscal year under review was 63.1%.

(ii) Status of cash flows

- Net cash provided by operating activities

Cash flows provided by operating activities rose by 19,163 million yen from the previous fiscal year to 49,415 million yen, owing primarily to the increase in income before income tax and the decrease in income tax paid.

- Net cash provided by investing activities

Cash flows provided by investing activities decreased by 7,560 million yen from the previous fiscal year to 15,887 million yen due to a significant decline in proceeds from sales of property, plants and equipment, although proceeds from sales of investment securities increased

- Net cash used in financing activities

Cash flows used in financial activities increased by 26,879 million yen from the previous fiscal year to 42,605 million due to the Company's redemption of bonds during the fiscal year under review, in addition to repayment of debts and payment of dividends.

After adding the impact of foreign currency translations applied to cash and cash equivalents and the adjustments in cash and cash equivalents associated with fiscal year-end changes of subsidiaries, the balance of cash and cash equivalents as of March 31, 2016 amounted to 135,575 million yen, an increase of 12,781 million yen from the end of the previous fiscal year.

(Reference) Trend of cash flow indicators

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015
Shareholder's equity ratio	57.1%	57.5%	60.5%	63.4%	63.1%
Shareholder's equity ratio (market value basis)	62.3%	114.8%	98.9%	79.5%	72.8%
Ratio of interest-bearing debt cash flow	205.4%	195.9%	172.9%	175.7%	86.4%
Interest coverage ratio [times]	57.9	56.9	60.2	59.2	102.4

Shareholders' equity ratio: Shareholders' equity / total assets
Shareholders' equity ratio (market value basis): total market capitalization / total assets
Ratio of interest-bearing debt to cash flow: interest-bearing debt / operating cash flow
Interest coverage ratio: operating cash flow / interest paid

Notes: 1. Each indicator is calculated on a consolidated basis.
2. Total market capitalization is calculated based on the number of shares outstanding, less treasury stock.
3. Operating cash flow is based on the net cash provided by operating activities in the consolidated statements of cash flows less the amounts of "Interest paid" and "Income taxes paid".
4. Interest-bearing debt includes all consolidated balance sheet liabilities which are subject to an interest payment. Interest paid equal to the "Interest paid" of the consolidated statements of cash flows.

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

The allocation of the Company's profits in a customarily appropriate manner to its shareholders is one of the Company's fundamental management policies.

The Company's basic policy is to make dividends payments twice each year from retained earnings, including an interim dividend, as determined by the Company's Board of Directors; and a year-end dividend, as determined by the general meeting of shareholders.

In addition to stressing the distribution of surplus in a manner that reflects the Company's performance, the Company intends to make decisions on distribution from a comprehensive standpoint, while actively investing in its future growth, ensuring a solid management base and enhancing its financial condition to further increase its enterprise value. The Company believes that it is important to allocate profits to its shareholders in a consistent manner.

The Company plans to declare a cash dividend of ¥9 per share for the current term, which is equal to the interim cash dividend for the current term, resulting in a total dividend of ¥18 per share for the current term.

The Company further plans to declare a cash dividend of ¥18 per share for the next term (the same amount as declared for the current term) in order to continue to provide regular dividends to the Company's shareholders.

(4) Business Risks

Below is a discussion of the most significant risks that could negatively impact the operating results and financial position of the Sumitomo Dainippon Pharma Group.

Forward-looking statements in the discussion of risks discussed below reflect the judgment of the Group as of March 31, 2016.

(i) Risk relating to research and development of new products

The Group works to research and develop highly original and globally viable products. While the Group strives to maintain an extensive product pipeline and to bring products to market as early as possible, all in the pipeline may not be successfully developed and launched to the market because of the growing difficulty of development of new drug. It is possible that some development project may be delayed or abandoned at all. Depending on the nature of the product under development, such cases could have a significant and negative impact on the Group's operating results and financial position.

(ii) Problems concerning adverse events

The Group conducts rigorous safety testing of its pharmaceutical products at different stages of development, with products receiving approval only after rigorous screening by the competent authorities in all the countries. These efforts notwithstanding, previously unreported adverse events are sometimes discovered only after a drug has already been marketed. The appearance of such unexpected adverse events once a product has been sold could have a significant and negative impact on the Group's operating results and financial position.

(iii) Healthcare system reforms

The precipitous decline in Japan's birthrate and the rapid rise in the country's elderly population are the prime factors causing the financial state of Japan's healthcare insurance system to deteriorate. In this climate, measures continue to emerge aimed at curbing healthcare costs by price restraint of branded prescription drug and promotion of generic drug use, and how to best reform the country's healthcare system continues to be debated. The direction that any healthcare system reforms might take, including mandated NHI price revisions, could ultimately have a significant and negative impact on the Group's operating results and financial position. Pharmaceutical products are subject to various kinds of regulations in foreign countries as well. The Group's operating results and financial position may be significantly affected, depending on the future courses of the U.S. healthcare system reform and other administrative measures overseas.

(iv) Risk relating to the sale of products

The Group can envision scenarios in which sales of its pharmaceutical products are threatened to decrease due to a competition with the products of the same area of other manufacturers or a launching of generic products following the expiration of a patent period or otherwise. Such cases could have a significant and negative impact on the Group's operating results and financial position.

(v) Risk relating to intellectual property rights

The Group utilizes a wide range of intellectual property during the course of its R&D activities, including both property owned by the Group and property that the Group lawfully uses with the authorization of the property's owner. Nevertheless, the Group recognizes the possibility, no matter how slight, that some use might be deemed an infringement of a third party's intellectual property rights.

Consequently, legal disputes pertaining to intellectual property rights could arise and have a significant and negative impact on the Group's operating results and financial position.

(vi) Termination of partnerships

The Group enters into a variety of partnerships with other companies for the sale of purchased goods, the establishment of joint ventures, co-promotion, and the licensing in and out of products under development, as well as for collaborative research and other purposes. The termination, for whatever reason, of such partnerships could have a significant and negative impact on the Group's operating results and financial position.

(vii) Prerequisites for primary business activities

The Group's core business is the ethical pharmaceutical products business. Accordingly, the Group requires licenses and other certifications to engage in R&D and the manufacture and sale of drugs pursuant to Japan's "The Law on Securing Quality, Efficacy and Safety of Products including Pharmaceuticals and Medical Devices" and other laws and regulations related to pharmaceuticals. The

Company has obtained licenses and other certifications, including Type 1 and Type 2 Pharmaceuticals Manufacturing and Sales Business licenses (both valid for five years). In addition, in order to engage in the ethical pharmaceutical products business in overseas countries, the Group also has obtained licenses as needed under laws and regulations related to pharmaceuticals of those countries. These licenses and other certifications will cease to be valid unless gone through procedures as stipulated by the applicable laws and regulations. These laws and regulations also stipulate that these licenses and certifications may be revoked and/or that the Group may be ordered to suspend part of or all of its operations for a fixed period of time or be subject to other measures in the event that the Group violates these laws and regulations. The Group currently has no knowledge of any facts that would warrant the revocation of its licenses or other certifications.

However, an order to revoke the Group's licenses or other certifications could have a significant and negative impact on the Group's operating results and financial position.

(viii) Risk relating to litigation

There is a possibility that a suit may be brought to court in terms of an adverse effect of a pharmaceutical product, product liability, labor issues, fair trade, etc., relating to the business activities of the Group. Depending on the development thereof, such cases could have a significant and negative impact on the Group's operating results and financial position.

(ix) Closedown or shutdown of a plant

The Group can envision scenarios in which the Group's plant is closed down or shut down due to technical problems, stoppage of supply of raw materials, fire, earthquake, or any other disaster where the supply of products is delayed or halted. Such cases could have a significant and negative impact on the Group's operating results and financial position.

(x) Impact of financial market situation and foreign exchange fluctuations

A sluggish equity market will give rise to a loss on valuation or sale of shares held, and the interest rate trend may increase interest expenses on borrowings etc., and the deterioration of financial market situation will cause the retirement benefit obligations to increase. All these factors could have a significant and negative impact on the Group's operating results and financial position. Furthermore, foreign exchange fluctuations may have a material impact on importing and exporting transactions and the conversion of operating results of consolidated subsidiaries into yen.

(xi) Impact of impairment of fixed assets

The Group owns various types of tangible and intangible fixed assets, such as business assets and goodwill. In the future, in the event of substantial deterioration of operating results or reduction in values, the need to treat the impairment will arise, which could have a significant and negative impact on the Group's operating results and financial position.

(xii) Transactions with the parent company

The Company and its parent company, Sumitomo Chemical Co., Ltd., have concluded agreements for the leasing of land for the Osaka Research Laboratories, Ehime Plant and Oita Plant, as well as for the purchase of raw materials used in the production of active pharmaceutical ingredients at these sites and other locations. These agreements involve prices that are determined based on discussions between the two parties with reference to general market prices. These agreements are customarily renewed every year. The Company also accepts employees on loan from the parent company.

Furthermore, during the year we also made short-term loans to our parent company to raise capital efficiency.

The Company’s policy is to continue these transactions and other ties with the parent company.

However, changes in these agreements, including changes in the transaction terms specified therein, could have a significant and negative impact on the Group’s operating results and financial position.

(xiii) Risk relating to overseas operation

The Group conducts global business activity mainly in regions North America and China. The risks such as change of local restrictions, worsening of diplomatic relations and political uncertainties are inherent in these activities. In the event the Group faces such risks, it could have a significant and negative impact on the Group’s operating results and financial position.

(xiv) Risk relating to compliance

The Group makes every effort to promote the observance of laws and regulations and business ethics, being aware that compliance is the very basis of all its business activities. With all the measures, however, there is a possibility of the situation running counter to the spirit of compliance, which circumstances could result in social disgrace of the Group and could significantly affect its operating results and financial position

There are risks other than those described above, and the risks listed here do not include all of the risks faced by the Group.

2. Summary of the Business of the Group

The Sumitomo Dainippon Pharma Group consists of the Company, the parent company, 19 subsidiaries (13 consolidated subsidiaries and 6 non-consolidated subsidiaries), and 7 affiliated companies (3 equity method affiliates and 4 non-equity method affiliates) as of March 31, 2016. The description of the main business of the Group, the summary of the positioning relating to the relevant business of each company being part of the Group and its relationship with business segments are as follows:

<Pharmaceuticals>

(1) Japan

The Company manufactures, purchases, and sells ethical pharmaceuticals.

In addition, Create Vaccine Company, Ltd., the joint venture company by joint contribution of the Company, Japan BCG Laboratory, and Innovation Network Corporation of Japan, is committed to development of tuberculosis vaccine with National Institutes of Biomedical Innovation, Health and Nutrition and the authorized NPO Aeras.

Sighregen K.K. is a joint venture company established with Healios K.K. It will manufacture and market the pharmaceutical products, medical equipment and regenerative medical products developed by the collaborative study of regenerative medical techniques. The company has been included in the scope of the application of the equity method since the beginning of this fiscal year because its importance has increased.

Kyoto Pharmaceutical Industries, Ltd., the Company’s non-equity method affiliate company, is engaged in the manufacture and sales of ethical pharmaceuticals and non-prescription drugs.

(2) North America

Under the initiative of Dainippon Sumitomo Pharma America Holdings, Inc., the consolidated subsidiary and holding company, Sunovion Pharmaceuticals Inc. and 4 other subsidiaries manufactures, purchases, and sells ethical pharmaceutical products.

Boston Biomedical, Inc., a consolidated subsidiary, involves in research and development in the oncology area.

Boston Biomedical Pharma, Inc., a subsidiary company of Dainippon Sumitomo Pharma America Holdings, Inc., prepares for sales of anti-cancer drugs in the U.S.A

(3) China

In China, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd., a consolidated subsidiary, manufactures (subdivide packaging) and sells ethical pharmaceuticals.

(4) Other Regions

Sunovion Pharmaceuticals Europe Ltd., a consolidated subsidiary, manufactures and sells ethical pharmaceuticals in Europe.

In Southeast Asia and the surrounding countries, Sunovion Pharmaceuticals Asia Pacific Pte Ltd., a non-consolidated subsidiary, negotiates contracts with business partners and provides support for obtaining approval for the Company's products.

<Other Products>

DSP Gokyo Food & Chemical Co., Ltd., a consolidated subsidiary, manufactures, purchases, and sells food ingredients, food additives and chemical product materials, part of which is supplied to the Company.

DS Pharma Animal Health Co., Ltd., a consolidated subsidiary, manufactures, purchases, and sells veterinary drugs, etc.

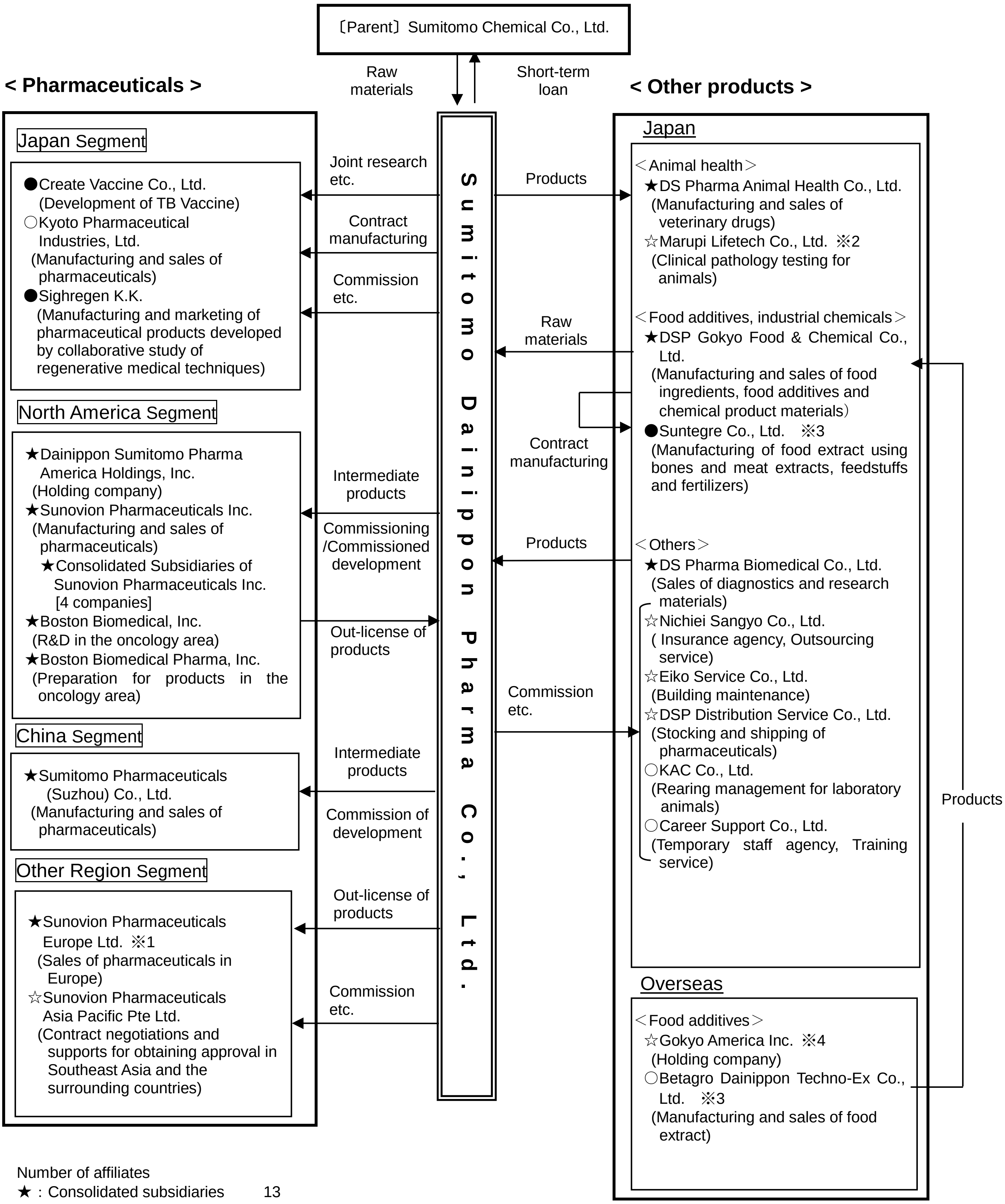
DS Pharma Biomedical Co., Ltd., a consolidated subsidiary, manufactures, purchases, and sells clinical diagnostic products, machinery, and equipment for research and testing. Part of the diagnostic products are purchased and sold by the Company.

Suntegre Co., Ltd., an affiliated company under equity method, manufactures food extract products, feed, fertilizer, and provides them to DSP Gokyo Food & Chemical Co., Ltd.

A non-consolidated subsidiary, Marupi Lifetech Co., Ltd., is engaged in clinical pathology testing operations for animals.

In Thailand, Betagro Dainippon Techno-Ex Co., Ltd., a non-equity method affiliates, manufactures food extracts products and provides them to DSP Gokyo Food & Chemical Co., Ltd.

In addition to the above, the Group has 4 non-consolidated subsidiaries and 2 non-equity method affiliates that provide various services, such as storage, delivery.



Number of affiliates

★	: Consolidated subsidiaries	13
☆	: Non-consolidated subsidiaries	6
●	: Equity method affiliates	3
○	: Non-Equity method affiliates	4

※1 : Sunovion Europe Limited is a subsidiary of Sunovion Pharmaceuticals Inc.
※2 : Marupi Lifetech Co., Ltd. is a subsidiary of DS Pharma Animal Health Co., Ltd.
※3 : Suntegre Co., Ltd. and Betagro Dainippon Techno-Ex Co., Ltd. are affiliates of DSP Gokyo Food & Chemical Co., Ltd.
※4 : Gokyo America Inc. is an subsidiary of DSP Gokyo Food & Chemical Co., Ltd.
※5 : During the current fiscal year, the Group sold all the share of N.S. Life Corporation Co., Ltd. which was a non-consolidated subsidiary.

3. Management Policy

(1) Fundamental Management Policy of the Company

The Company has set our corporate mission, “To broadly contribute to society through value creation based on innovative research and development activities for the betterment of healthcare and fuller lives of people worldwide” and in order to accomplish this corporate mission, we are striving to conduct business activities based on the following management missions:

- ■ To contribute to healthcare and peoples well-being based upon the principles of patient-oriented management and innovative research
- ■ To continuously strive to maximize corporate value through constant business development and to fulfill shareholder expectations
- ■ To create an environment in which employees can fulfill their potential and increase their creativity
- ■ To maintain the trust of society and to contribute to the realization of a better global environment

By fulfilling these management missions, we sincerely hope to enhance our presence in Japan by living up to the expectations of patients and their family members, medical personnel, our shareholders, business partners, employees, and stakeholders of the local communities to become a highly advanced R&D-oriented pharmaceutical company capable of global business expansion.

(2) Medium-to-Long-Term Management Strategy and Outstanding Issues

The Company’s Corporate Mission is to broadly contribute to society through value creation based on innovative research and development activities for the betterment of healthcare and fuller lives of people worldwide. To better live up to this Mission, the Company has set forth its vision: to “aspire to be a globally active R&D-based company” and to “contribute to medical care through leading-edge technologies.” Accordingly, the Company drew up its 3rd Mid-Term Business Plan (MTBP) for the five-year period from April 1, 2013 through March 31, 2018 and adopted the new global slogan of “Innovation today, healthier tomorrows,” to coincide with the 10th anniversary of the foundation of Sumitomo Dainippon Pharma Co., Ltd. in October 2015.

During the roughly three-year period since the launch of the 3rd MTBP, the business environment has deteriorated significantly due to several unforeseen circumstances, including delayed launches of new drugs in the Japanese market, sluggish sales of main products, and the faster-than-expected sales decline of long-listed brands on the back of accelerated use of generic drugs, leaving the Company to address these urgent issues. Meanwhile, the Company needs to make strategic investments in order to minimize the impact on earnings of the FY2018 expiry of the exclusivity period for its mainstay LATUDA® and ensure renewed growth thereafter. In response to these rapid changes in the business environment, the Company has revised its original targets for FY2017 within the context of the 3rd MTBP as follows.

(billions of yen)

	Previous Target FY2017	Revised Target FY2017
Net sales (Pharmaceutical)	450.0 (400.0)	440.0 (395.0)
Operating income	80.0	50.0
EBITDA	110.0	75.0
R&D expense	85.0	85.0

In order to reach these targets and achieve sustainable growth, the Group will make concerted efforts to proactively address the following corporate imperatives.

(a) Promotion of CSR management

Promotion of CSR management is the single most important corporate imperative if the Group is to sustain its growth. Priority programs include enhancement of the compliance system, pursuit of an effective corporate governance structure and transparent management, efforts to make social contributions both within and outside of Japan, efforts for diversification, including active participation by female employees, and communication with various stakeholders.

(b) Strengthening business foundation

In order to flexibly transform business structures in response to changes in the business environment, the Group will continue to enhance business efficiency by rationalizing labor costs and general expenses, improving asset efficiency, streamlining organizations, etc. In addition, it will reinforce its business foundations by establishing a resilient corporate culture and developing competitive employees.

(c) Strategies and business activities in each regional segment

In Japan, while fostering the growth of AIMIX®, LONASEN®, and TRERIEF®, the Company will strive to achieve early expansion of REMITCH®, for which a promotion arrangement was made with Torii Pharmaceutical Co., Ltd. last year, and Trulicity®, which has been released through a sales collaboration arrangement with Eli Lilly Japan K.K. last year. Accordingly, the Company strives to minimize the impact of NHI (National Health Insurance) drug price revisions and declining sales of long-listed brands. In response to changes in the business environment in Japan, where the use of generic drugs is being promoted at an accelerated rate, the Group will move quickly to build an efficient business management structure that helps to maximize income.

In North America, the Company aims to expand its business by further advancing sales of LATUDA® that generated over 1.0 billion US dollar in FY2015, and by fostering the growth of APTIOM® and BROVANA®.

In China, the Group will continue to market MEROPEN® in order to maintain the current business scale, there.

In Europe, the Group will consider every option available, including collaboration with a new partner, in determining how to go about pursuing the LATUDA® business.

(d) Research and development strategies

The top priority of the Group's R&D activities will be development of products in later phases. By therapeutic area, the Group will continue to focus on the Psychiatry & Neurology and Oncology areas, while aggressively allocating management resources to rare and other diseases for which no approved drugs currently exist and new areas of regenerative medicine/cell therapy.

In the Psychiatry & Neurology area, the Group will aggressively develop dasotraline and other drugs in North America, and lurasidone hydrochloride, a transdermal patch formulation of LONASEN®, an indication for Parkinsonism in Dementia with Lewy Bodies (DLB) for TREFIEF®, and others in Japan.

In the Oncology area, the Group will make the utmost efforts for the global Phase III clinical study of napabucasin as a combination therapy for gastric cancer and gastroesophageal junction adenocarcinoma, with a view to filing an application for approval of the drug, which is a first-in-class cancer treatment expected to be an inhibitor targeting cancer stemness, by the end of FY2017. Meanwhile, the Group will also actively proceed with the global Phase III clinical study as a combination therapy for colorectal cancer, which was commenced in FY2015.

In the field of diseases for which no approved drugs exist, the Group will promote development of obeticholic acid (product code: DSP-1747), which was in-licensed from the Intercept Pharmaceuticals, Inc. (U.S.A.) for nonalcoholic steatohepatitis (NASH).

In Cell Therapy, the Company will continue developing SB623, which was in-licensed from SanBio. In the Regenerative Medicine area, it will accelerate joint development with Healios K.K. in an attempt to be the first in the world to commercialize iPS cells in the eye disease area. Meanwhile, Sighregen K.K. will consider setting up production and sales promotion structures. Also, the Company will expedite joint research with RIKEN, Japan for the development of iPS cell-derived three-dimensional retinas for treatment of retinal degenerative diseases. Key initiatives outside of the eye disease area include a joint research project with CiRA and Hitachi, Ltd. for practical application of human iPS cell-based regenerative medicine for Parkinson’s disease and a joint research project with Keio University and the National Hospital Organization Osaka Medical Center for regenerative medicine for spinal cord injury using iPS cell-originated neutral precursor cells.

(e) Returns to Shareholders and financial strategy

The Company’s basic policy on returns to shareholders is to achieve sustainable and integrated improvement of corporate and shareholder value. Accordingly, a performance-linked dividend hike will be considered in addition to stable dividend payment.

With regard to the financial strategy, the Company will be paying interest-bearing debts as appropriate. Meanwhile, for its sustainable growth, financial leverage will be used to generate cash whenever necessary, so that the Company can consider new in-licensing of products and products under development and make aggressive investments in Japan, and North America, as well as in new businesses.

(f) Responses to risks

Risks associated with pursuit of the above business plans include loss of social trust due to non-compliance, delay or termination of product development, unexpected adverse events after a product has been sold, litigation, plant shutdowns, and others.

The Company is striving to prevent or minimize such risks by ensuring stringent risk management by the Risk Management Committee, Compliance Committee, and other organizations. In the event that any such risk should surface, its impact will be minimized through agile response actions.

4. Basic policy for application of accounting standard

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

2. Consolidated Financial Statements
(1) Consolidated Balance Sheets

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Assets		
Current assets:		
Cash and time deposits	※1 30,553	※1 54,922
Notes and accounts receivable	103,072	107,165
Marketable securities	111,293	81,039
Merchandise and finished goods	50,749	48,100
Work-in-process	1,626	3,206
Raw materials and supplies	10,012	8,281
Deferred tax assets	38,867	63,991
Short-term loans receivable	49,052	48,426
Others	6,598	6,454
Allowance for doubtful receivables	(125)	(4)
Total current assets	401,699	421,584
Fixed assets:		
Property, plant and equipment:		
Buildings and structures	94,184	95,279
Accumulated depreciation and impairment loss	(52,819)	(54,944)
Buildings and structures, net	41,365	40,335
Machinery, equipment and carriers	78,075	79,734
Accumulated depreciation and impairment loss	(69,007)	(71,937)
Machinery, equipment and carriers, net	9,068	7,796
Land	6,297	6,269
Construction in progress	1,245	1,497
Others	33,628	33,498
Accumulated depreciation and impairment loss	(26,446)	(27,572)
Others, net	7,182	5,926
Total property, plant and equipment	65,160	61,824
Intangible assets:		
Goodwill	88,075	76,950
In-process research and development	64,456	60,144
Others	21,332	19,485
Total intangible assets	173,863	156,580
Investments and other assets:		
Investment securities	※1,※2 58,193	※1,※2 60,432
Asset for retirement benefits	1,935	66
Deferred tax assets	4,794	2,313
Others	5,982	4,953
Allowance for doubtful receivables	(44)	(40)
Total investments and other assets	70,860	67,725
Total fixed assets	309,884	286,130
Total assets	711,583	707,715

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Liabilities		
Current liabilities:		
Notes and accounts payable	※1 12,492	※1 12,153
Short-term loans payable	―	1,010
Current portion of bonds payable	30,000	10,000
Current portion of long-term loans payable	6,522	12,000
Income taxes payable	3,288	26,357
Reserve for bonuses	9,416	10,809
Reserve for sales returns	8,580	9,086
Reserve for sales rebates	36,351	49,224
Accounts payable-other	35,252	34,212
Others	14,939	14,869
Total current liabilities	156,843	179,722
Long-term liabilities:		
Bonds payable	30,000	20,000
Long-term loans payable	20,000	8,000
Deferred tax liabilities	17,354	16,209
Liability for retirement benefits	15,274	16,158
Others	21,089	21,152
Total long-term liabilities	103,718	81,520
Total liabilities	260,562	261,242
Net assets		
Shareholders' equity:		
Common stock	22,400	22,400
Capital surplus	15,860	15,860
Retained earnings	326,686	341,401
Treasury stock	(660)	(663)
Total shareholders' equity	364,286	378,999
Accumulated other comprehensive income (loss)		
Unrealized gains on available-for-sale securities	23,099	25,293
Deferred gains (losses) on hedges	1	(12)
Foreign currency translation adjustment	68,171	48,025
Remeasurements of defined benefit plans	(4,536)	(5,832)
Total accumulated other comprehensive income (loss)	86,735	67,473
Total net assets	451,021	446,472
Total liabilities and net assets	711,583	707,715

(2) Consolidated Statements of (Comprehensive) Income

Consolidated Statements of Income

(Millions of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net sales	371,370	403,206
Cost of sales	※1 101,227	※1 104,470
Gross profit	270,142	298,736
Provision of reserve for sales returns	–	1
Reversal of reserve for sales returns	0	–
Gross profit, net	270,143	298,734
Selling, general and administrative expenses		
Advertising expenses	28,820	26,963
Salaries	37,453	41,485
Provision for reserve for bonuses	6,711	6,313
Retirement benefit expenses	4,170	5,552
Depreciation	5,129	5,720
Research and development costs	※2 71,304	※2 82,033
Others	93,277	93,736
Total selling, general and administrative expenses	246,867	261,805
Operating income	23,275	36,929
Non-operating income		
Interest income	399	627
Dividend income	1,174	1,029
Gain on investments in partnership	1,990	1,296
Others	614	277
Total non-operating income	4,178	3,231
Non-operating expenses		
Interest expense	937	919
Contribution	1,111	952
Foreign exchange losses	996	2,993
Others	1,078	74
Total non-operating expenses	4,122	4,940
Ordinary income	23,331	35,221
Extraordinary income		
Gain on sales of investment securities	–	6,106
Gain on sales of property, plant and equipment	※3 15,984	–
Compensation income for damage	1,711	–
Total extraordinary income	17,695	6,106
Extraordinary loss		
Business structure improvement expenses	※4 1,961	※4 612
Loss on disposal of property, plant and equipment	–	※5 601
Impairment loss	※6 5,310	※6 552
Total extraordinary loss	7,271	1,766
Income before income taxes	33,755	39,560
Income taxes	14,034	39,586
Income taxes-deferred	4,273	(24,723)
Total income taxes	18,307	14,863
Net income	15,447	24,697
Net income attributable to non-controlling interests	–	–
Net income attributable to owners of the parent	15,447	24,697

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net income	15,447	24,697
Other comprehensive income (loss)		
Unrealized gains (losses) on available-for-sale securities	5,851	2,193
Deferred gains (losses) on hedges	2	(14)
Foreign currency translation adjustment	41,378	※1 (20,001)
Remeasurements of defined benefit plans	(2,572)	(1,295)
Total other comprehensive income (loss)	※2 44,660	※2 (19,117)
Comprehensive income	60,107	5,579
Comprehensive income attributable to		
Owners of the parent	60,107	5,579
Non-controlling interests	–	–

(3) Consolidated Statements of Changes in Net Assets

Year ended March 31, 2015

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of April 1, 2014	22,400	15,860	318,861	(656)	356,465
Cumulative effects of changes in accounting policies			(198)		(198)
Restated balance	22,400	15,860	318,663	(656)	356,266
Changes during the fiscal year					
Cash dividends			(7,151)		(7,151)
Net income			15,447		15,447
Purchases of treasury stock				(3)	(3)
Sales of treasury stock		0		0	0
Change of scope of consolidation			(4)		(4)
Change of scope of equity method			(268)		(268)
Changes in items other than shareholders' equity (net)					
Total changes during the fiscal year	—	0	8,023	(3)	8,019
Balance as of March 31, 2015	22,400	15,860	326,686	(660)	364,286

	Accumulated other comprehensive income (loss)					Total net assets
	Unrealized gains (losses) on available-for-sale securities, net of tax	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	
Balance as of April 1, 2014	17,247	(0)	26,792	(1,964)	42,074	398,540
Cumulative effects of changes in accounting policies						(198)
Restated balance	17,247	(0)	26,792	(1,964)	42,074	398,341
Changes during the fiscal year						
Cash dividends						(7,151)
Net income						15,447
Purchases of treasury stock						(3)
Sales of treasury stock						0
Change of scope of consolidation						(4)
Change of scope of equity method						(268)
Changes in items other than shareholders' equity (net)	5,851	2	41,378	(2,572)	44,660	44,660
Total changes during the fiscal year	5,851	2	41,378	(2,572)	44,660	52,679
Balance as of March 31, 2015	23,099	1	68,171	(4,536)	86,735	451,021

Year ended March 31, 2016

(Millions of yen)

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

	Accumulated other comprehensive income (loss)					Total net assets
	Unrealized gains (losses) on available-for-sale securities, net of tax	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	
Balance as of April 1, 2015	23,099	1	68,171	(4,536)	86,735	451,021
Changes during the fiscal year						
Cash dividends						(7,151)
Net income						24,697
Purchases of treasury stock						(3)
Sales of treasury stock						0
Change of scope of equity method						(5)
Increase (decrease) due to change in fiscal period of consolidated subsidiaries						(2,824)
Changes in items other than shareholders' equity (net)	2,193	(14)	(20,145)	(1,295)	(19,261)	(19,261)
Total changes during the fiscal year	2,193	(14)	(20,145)	(1,295)	(19,261)	(4,548)
Balance as of March 31, 2016	25,293	(12)	48,025	(5,832)	67,473	446,472

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net cash provided by operating activities:		
Income before income taxes	33,755	39,560
Depreciation and amortization	※1 13,780	※1 14,286
Impairment loss	5,310	552
Amortization of goodwill	5,446	5,979
Increase (decrease) in net defined benefit liability	180	1,044
Provision for other liabilities	3,772	18,787
Interest and dividend income	(1,573)	(1,657)
Loss (gain) on investments in partnership	(1,930)	(1,296)
Interest expense	937	919
Loss (gain) on sales of property, plant and equipment	(15,982)	(0)
Loss (gain) on sales of investment securities	(36)	(6,106)
Business structure improvement expenses	1,961	612
Decrease (increase) in notes and accounts receivables	13,008	(6,786)
Decrease (increase) in inventories	(790)	(3,026)
Increase (decrease) in notes and accounts payables	(726)	2,190
Other-net	(4,833)	(231)
Subtotal	52,279	64,830
Interest and dividend received	1,823	1,744
Interest paid	(887)	(644)
Business structure improvement expenses paid	(1,588)	(584)
Income taxes paid	(21,375)	(15,930)
Net cash provided by operating activities	30,251	49,415
Net cash provided by investing activities:		
Purchases of marketable securities	(34,358)	–
Proceeds from redemption of marketable securities	47,914	18,499
Purchases of property, plant and equipment	(8,662)	(5,382)
Proceeds from sales of property, plant and equipment	20,014	22
Purchases of intangible assets	(3,704)	(4,358)
Purchases of investment securities	(1,666)	(297)
Proceeds from sales of investment securities	1,202	6,383
Proceeds from distribution of investments in partnership	2,272	3,071
Net decrease (increase) in short-term loans receivable	(546)	(2,088)
Other-net	982	37
Net cash provided by investing activities	23,447	15,887

(Millions of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Net cash used in financing activities:		
Repayments of long-term loans payable	(10,348)	(6,529)
Redemption of bonds	—	(30,000)
Dividends paid	(7,152)	(7,152)
Other-net	1,775	1,077
Net cash used in financing activities	(15,725)	(42,605)
Effect of exchange rate changes on cash and cash equivalents	10,703	(8,225)
Net increase (decrease) in cash and cash equivalents	48,677	14,472
Cash and cash equivalents at the beginning of period	73,919	122,794
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	198	—
Increase (decrease) in cash and cash equivalents resulting from change in the fiscal year-end of subsidiaries	—	(1,691)
Cash and cash equivalents at the end of period	※2 122,794	※2 135,575

(5) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Significant Basic Items for Preparing Consolidated Financial Statements)

1. Scope of consolidation

In 19 subsidiaries, 13 companies are consolidated subsidiaries. The names of the major consolidated subsidiaries are omitted as they are set out in the “2. Summary of the Business of the group”.

Sunovion Canada Holdings Inc. and other 2 subsidiaries have been excluded from the scope of consolidation since the beginning of this fiscal year because of the merger and liquidation.

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

2. Application of the equity method

In 6 non-consolidated subsidiaries and 7 affiliated companies, 3 affiliated companies have been included in the scope of the equity method. The names of the major affiliated companies are omitted as they are set out in the “2. Summary of the Business of the group”.

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

Non-consolidated subsidiaries and affiliated companies other than 3 companies listed above have been excluded from the scope of the application of the equity method as their exclusion does not have a material impact on our consolidated financial statements.

3. Fiscal year of consolidated subsidiaries

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

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

In accordance with these changes, business results for the twelve-month period from April 1, 2015, to March 31, 2016, for the said consolidated subsidiary have been consolidated for this fiscal year. Gains or losses for the three-month period from January 1, 2015, to March 31, 2015, have been directly posted to “Retained earnings” on the consolidated balance sheet and described as “Increase (decrease) due to change in fiscal period of consolidated subsidiaries” on consolidated statements of changes in net assets. In addition, increase (decrease) of cash and cash equivalents in this period has been described as “Increase (decrease) in cash and cash equivalents resulting from change in the fiscal year-end of subsidiaries” on consolidated statements of cash flows.

4. Accounting policies and methods

(1) Valuation standards and methods of significant assets

(i) 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 period (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 market principle) Certain consolidated subsidiaries use the FIFO (first-in, first-out) costing method (Book values are calculated using the lower of cost or market principle).

(2) Depreciation and amortization of significant depreciable 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 allowance/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 uncollectable.

(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, other contracts.

(4) Accounting for retirement benefits

(i) Method of attributing expected retirement benefits to periods;

When calculating retirement benefit obligations, the benefit formula method is used for attributing expected retirement benefits to periods 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 (14 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 (14 years).

(iii) Adopting a simple method for small enterprises

For some 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 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 consolidated balance sheet date. Revenue and expenses are translated at the average exchange rate for the period into yen. Differences arising from translations are recognized as foreign currency translation adjustment in net asset section.

(6) Significant hedge accounting method

(i) Hedge accounting method

The Group 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.

(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) Hedging policy

Foreign exchange forward contract are conducted 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 20 years.

(8) Cash and cash equivalents in the consolidated statements of cash flows

Cash and cash equivalents in the consolidated statements of cash flows represents cash and deposits (excluding the time deposits with a term longer than 3 months), and short-term investment maturing within 3 months from the acquisition date.

(9) Other significant accounting policies for consolidated financial statements

Accounting for consumption taxes

All financial statement items are net of consumption taxes.

(Changes to accounting policies)

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

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

Application of the Accounting Standard for Business Combinations, etc. is in line with the transitional measures provided in Paragraph 58-2 (4) of the Accounting Standard for Business Combinations, Paragraph 44-5 (4) of the

Accounting Standard for Consolidated Financial Statements and Paragraph 57-4 (4) of the Accounting Standard for Business Divestitures. Application of the standard commenced on April 1, 2015, and will continue going forward. Regarding the consolidated financial statement of Cash Flows for the current quarter, the Company now records payments or proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation in "Net cash used in financing activities". In addition, the Company now records payments for acquisition-related costs arising from the purchase of shares of subsidiaries resulting in change in scope of consolidation, and the payments for transaction costs incurred in the acquisition or disposal of shares of subsidiaries that do not result in change in scope of consolidation in "Net cash flow provided by operating activities ".

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

(Accounting standards that have not been applied yet)

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

(1) Summary

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

(i) The treatment for the entity who does not apply any requirement of division 1 to 5
(ii) The requirement of division 2 and division 3
(iii) The treatment of future deductible temporary difference of which entity in division 2 cannot be scheduled the resolving year
(iv) The treatment in connection with the foreseeable future term of taxable income before adjusting future temporary difference in division 3 entity
(v) The treatment for the entity who is applicable to division 4 is also applicable to division 2 or division 3.

(2) Scheduled date of application

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

(3) Influence by the application of the relevant accounting standards

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

(Change of the indication method)

(Consolidated statements of cash flows)

(1) "Increase (decrease) in accounts payable-other" under "Net cash provided by operating activities" which had been separately noted up until the previous fiscal year, is to be included in "Others" under "Net cash provided by operating activities" from this fiscal year because the amount has become no longer significant. In order to reflect this change in indication method, the consolidated financial statements for the previous fiscal year was subject to a rearrangement. Consequently, the amounts of (2,453) million yen as indicated for "Increase (decrease) in accounts payable-other" and (2,380) million yen as indicated for "Others" under "Net cash provided by operating activities" in the consolidated statements of cash flows for the previous fiscal year were merged into the amount of (4,833) million yen in "Others" under "Net cash provided by operating activities".

(2) "Proceeds from sales of marketable securities" and "Purchase of stocks of subsidiaries and affiliates" under "Net cash provided by investment activities" which had been separately noted up until the previous fiscal year, are to be included in "Others" under "Net cash provided by investment activities" from this fiscal year because the amount has become no longer significant. In order to reflect this change in indication method, the consolidated financial

statements for the previous fiscal year was subject to a rearrangement. Consequently, the amounts of 1,705 million yen as indicated for “Proceeds from sales of marketable securities”, (729) million yen as indicated for “Purchase of stocks of subsidiaries and affiliates” and 5 million yen as indicated for “Others” under “Net cash provided by investment activities” in the consolidated statements of cash flows for the previous fiscal year were merged into the amount of 982 million yen in “Others” under “Net cash provided by investment activities”.

(3) “Proceeds from long-term loans payable” and “Net decrease (increase) in treasury stock” under “Net cash used in financing activities” which had been separately noted up until the previous fiscal year, are to be included in “Others” under “Net cash used in financing activities” from this fiscal year because the amount has become no longer significant. In order to reflect this change in indication method, the consolidated financial statements for the previous fiscal year was subject to a rearrangement. Consequently, the amounts of 1,785 million yen as indicated for “Proceeds from long-term loans payable”, (3) million yen as indicated for “Net decrease (increase) in treasury stock” and (6) million yen as indicated for “Others” under “Net cash used in financing activities” in the consolidated statements of cash flows for the previous fiscal year were merged into the amount of 1,775 million yen in “Others” under “Net cash used in financing activities”.

(Change of accounting estimates)

When accounting for retirement benefits, actuarial gains and losses and past service costs were previously amortized over 15 years but are now amortized over 14 years, effective from the year ended March 31, 2016, due to a decrease in the employees’ average remaining years of service. As a result, operating income, ordinary income and income before income taxes for the year ended March 31, 2016 decreased by 410 million yen. The impact of this change on segment information is noted in the corresponding section.

(Notes to consolidated balance sheets)

* 1. Assets pledged as collateral are as follows:

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Cash and time deposit (time deposit)	510	385
Investment securities	66	51

Note: Time deposit has pledged as collateral for L/C issued by bank.

Secured liabilities are as follows:

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Accounts payable	81	76

* 2. Investment in non-consolidated subsidiaries and affiliates are as follows:

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Investment securities (stock)	1,708	1,819

* 3. Contingent liabilities

(1) Debt guarantees covering amounts borrowed by non-consolidated companies from financial institutions have been extended as follows:

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
Suntegre Co., Ltd.	2	—

(2) Debt guarantees covering amounts of housing funds borrowed by employees from financial institutions have been extended as follows:

(Millions of yen)

	As of March 31, 2015	As of March 31, 2016
	108	101

(Notes to consolidated statements of income)

* 1. Inventory is stated at value after devaluation corresponding to reduced profitability, the following loss on valuation of inventories is included in the “Cost of sales”:

(Millions of yen)

	Year ended March 31, 2015 (April 1,2014 to March 31, 2015)	Year ended March 31, 2016 (April 1,2015 to March 31, 2016)
	(995)	(188)

* 2. Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

The total amount of research and development costs equals 71,304 million yen and has been included in “Selling, general and administrative expenses.”

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

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

* 3. Gain on sale of property, plant and equipment

Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

This is mainly driven by the sale of land, buildings and other assets of Osaka center and rental properties.

* 4. Business structure improvement expenses

Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

Business structure improvement expenses include special retirement benefit, and estimated dismantlement cost of the plant which we plan to close in connection with the reorganization of production site.

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

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

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

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

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

* 6. Impairment loss

Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

Among the fixed assets owned by the Group, business assets are grouped by segment, with individual assets constituting the smallest grouping unit for idle assets, In-process research and development, and other such assets.

In the year ended March 31, 2015, the Group posted impairment losses with respect to the following assets.

(Millions of yen)

Usage for	Item	Location	Impairment loss amount
Production facilities	Buildings and structures, Machinery, equipment and carriers, Construction in progress etc.	Japan	5,128
Results of research and development with respect to compound in development	In-process research and development	U.S.A	116
Idle assets	Land, Machinery, equipment and carriers	Japan	65

Upon evaluating the recoverability of idled tangible fixed assets, tangible fixed assets for which future profitability has been deemed to be lacking, and in-process research and development for which future profitability has been deemed through a review of the applicable business plan to be lacking, a part of their book value has been posted as impairment losses.

The recoverable value of production facilities of the plants which we plan to close in connection with reorganization of production sites was measured according to the net sales value while it was determined to be zero in light of the low likelihood that it could be sold or converted to other uses.

The recoverable value of idled land was measured according to the net sales value which was evaluated according to the appraised value as obtained from a real-estate appraiser.

The recoverable value of idled tangible fixed assets except land was evaluated according to the utility value while it was determined to be zero due to the lack of any likelihood of future cash flow.

The recoverable value of in-process research and development was measured according to value in use (discount rate 8.0%).

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

Among the fixed assets owned by the Group, business assets are grouped by segment, with individual assets constituting the smallest grouping unit for idle assets, In-process research and development, and other such assets.

In the year ended March 31, 2016, the Group posted impairment losses with respect to the following assets.

(Millions of yen)

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

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

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

The recoverable value of the idle tangible assets, in-process research and development, and construction in progress for software was measured according to the utility value while it was determined to be zero due to the lack of any likelihood of future cash flow.

The recoverable value of in-process research and development was measured according to value in use (discount rate 8.0%).

(Notes to consolidated statements of comprehensive income)

* 1. The reason why difference arises with “Changes in items other than shareholders’ equity (net)” on Consolidated Statement of Changes in Net Assets in current fiscal year is the change of fiscal year end of some subsidiaries.

* 2. Amount of recycling and amount of income tax effect associated with other comprehensive income (loss)

(Millions of yen)

	Year ended March 31, 2015	Year ended March 31, 2016
Valuation difference on available-for-sale securities		
Amount recognized in the period under review	9,687	10,358
Amount of recycling	(1,966)	(7,430)
Before income tax effect adjustment	7,720	2,927
Amount of income tax effect	(1,869)	(733)
Valuation difference on available-for-sale securities, net of tax	5,851	2,193
Deferred gains or losses on hedges		
Amount recognized in the period under review	3	(22)
Amount of income tax effect	(0)	7
Deferred gains or losses on hedges	2	(14)
Foreign currency translation adjustment		
Amount recognized in the period under review	41,378	(20,001)
Foreign currency translation adjustment	41,378	(20,001)
Remeasurements of defined benefit plans		
Amount recognized in the period under review	(4,144)	(2,929)
Amount of recycling	500	1,221
Before income tax effect adjustment	(3,643)	(1,708)
Amount of income tax effect	1,071	413
Remeasurements of defined benefit plans, net of tax	(2,572)	(1,295)
Total other comprehensive income	44,660	(19,117)

(Notes to consolidated statements of changes in net assets)

Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

1. Type and total number of issued shares and treasury stock

(Thousands of shares)

	Number of shares as of April 1, 2014	Increase during the period	Decrease during the period	Number of shares as of March 31, 2015
Issued shares				
Common stock	397,900	–	–	397,900
Total	397,900	–	–	397,900
Treasury stock				
Common stock	593	2	0	596
Total	593	2	0	596

Notes: 1. The increase of 2 thousand shares of treasury stock was a result of purchasing fractional shares.
2. The decrease of 0 thousand shares of treasury stock was a result of a request for purchase of fractional shares.

2. Dividends

(1) Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Record date	Effective date of distribution
June19, 2014 Annual shareholders' meeting	Common stock	3,575 million yen	9.00 yen	March 31, 2014	June 20, 2014
October 30, 2014 Meeting of the Board of Directors	Common stock	3,575 million yen	9.00 yen	September 30, 2014	December 1, 2014

(2) Dividends for which the base date belongs to the current fiscal year and for which the effective date of distribution falls in the following fiscal year

Resolution	Type of share	Total dividend amount	Source of funds for dividend distribution	Dividend amount per share	Record date	Effective date of distribution
June 19, 2015 Annual shareholders' meeting	Common stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2015	June 22, 2015

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

1. Type and total number of issued shares and treasury stock

(Thousands of shares)

	Number of shares as of April 1, 2015	Increase during the period	Decrease during the period	Number of shares as of March 31, 2016
Issued shares				
Common stock	397,900	–	–	397,900
Total	397,900	–	–	397,900
Treasury stock				
Common stock	596	2	0	598
Total	596	2	0	598

Notes: 1. The increase of 2 thousand shares of treasury stock was a result of purchasing fractional shares.
2. The decrease of 0 thousand shares of treasury stock was a result of a request for purchase of fractional shares.

2. Dividends

(1) Dividend payment amounts

Resolution	Type of share	Total dividend amount	Dividend amount per share	Record date	Effective date of distribution
June19, 2015 Annual shareholders' meeting	Common stock	3,575 million yen	9.00 yen	March 31, 2015	June 22, 2015
October 28, 2015 Meeting of the Board of Directors	Common stock	3,575 million yen	9.00 yen	September 30, 2015	December 1, 2015

(2) Dividends for which the base date belongs to the current fiscal year and for which the effective date of distribution falls in the following fiscal year

Resolution schedule	Type of share	Total dividend amount	Source of funds for dividend distribution	Dividend amount per share	Record date	Effective date of distribution
June 23, 2016 Annual shareholders' meeting	Common stock	3,575 million yen	Retained earnings	9.00 yen	March 31, 2016	June 24, 2016

(Notes to consolidated statements of cash flows)

* 1. Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

"Depreciation and amortization" includes 1,933 million yen, amortized amount of long-term prepaid expenses.

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

"Depreciation and amortization" includes 1,642 million yen, amortized amount of long-term prepaid expenses.

* 2. Reconciliation of balance of "cash and cash equivalents at the end of period" and the amounts of items stated in the consolidated balance sheet are as follows:

(Millions of yen)

	Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)	Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)
Cash and time deposit accounts	30,553	54,922
Time deposits with maturities exceeding 3 months	(511)	(386)
Short-term investments with a maturity within 3 months from acquisition date (marketable securities)	92,752	81,039
Cash and cash equivalents	122,794	135,575

(Segment information)

1. Outline of reportable segments

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

The Group assesses our pharmaceutical business performance by markets such as Japan, North America, China, and the like. The reportable segments of the Group consist of the following four segments: Japan, North America, China, Other regions.

2. Method of calculating sales and income (loss), identifiable assets, and other items by reportable segments

Accounting method for business segment reported is the same as presentations on "Significant Basic Items for Preparing Consolidated Financial Statements." Income by reportable segments is calculated based on operating income before R&D costs. Intersegment sales and transfers are calculated based on current market prices.

Assets and liabilities by reportable segment are not shown because they are not supplied to make decisions about resources to be allocated to the segment and assess their performance.

(Change of accounting estimates)

As stated in “Change of accounting estimates “, when accounting for retirement benefits, actuarial gains and losses and past service costs were previously amortized over 15 years but are now amortized over 14 years, effective from the year ended March 31, 2016, due to a decrease in the employees’ average remaining years of service. As a result, segment income for the year ended March 31, 2016 decreased by 300 million yen in Japan segment, 6 million yen in North America segment, 2 million yen in China segment, and 4 million yen in Other regions segment respectively.

3. Information on sales, income (loss), assets, liabilities, and other items by reportable segments

Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

(Millions of yen)

	Reportable Segments					Other Business*	Total
	Pharmaceuticals Business						
	Japan	North America	China	Other Regions	Subtotal		
Net sales							
Sales to customers	156,564	148,178	17,145	8,784	330,672	40,697	371,370
Intersegment sales and transfers	131	―	―	―	131	62	194
Total	156,696	148,178	17,145	8,784	330,804	40,760	371,565
Income of segment	50,571	34,716	6,248	836	92,371	2,207	94,578
Others							
Depreciation and amortization	3,675	3,908	384	344	8,312	201	8,514
Amortization of Goodwill	―	5,446	―	―	5,446	―	5,446

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

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

(Millions of yen)

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

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

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

(Millions of yen)

Net sales	Year ended March 31, 2015	Year ended March 31, 2016
Reportable segments total	330,804	361,065
Net sales of "Other Business"	40,760	42,359
Elimination of intersegment transaction	(194)	(218)
Net sales on consolidated statements of income	371,370	403,206

(Millions of yen)

Income	Year ended March 31, 2015	Year ended March 31, 2016
Reportable segments total	92,371	117,128
Income of "Other Business"	2,207	1,821
Research and development costs*	(71,304)	(82,033)
Elimination of intersegment transaction	0	14
Operating income on consolidated statements of income	23,275	36,929

Note: Because the Group manages R&D costs globally, they are not included in each segment.

(Millions of yen)

Other items	Reportable segments total		Other Business		Adjustment		Amount recorded on consolidated financial statements	
	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2015	Year ended March 31, 2016	Year ended March 31, 2015	Year ended March 31, 2016
Depreciation and amortization	8,312	8,931	201	152	3,332	3,560	11,846	12,644
Amortization of Goodwill	5,446	5,979	—	—	—	—	5,446	5,979

[Relative information]

Year ended March 31, 2015(April 1, 2014 to March 31, 2015)

1. Products and services information

(Millions of yen)

	Pharmaceuticals	Other products	Total
Sales to customers	330,672	40,697	371,370

2. Geographic segment information

(1) Net sales

(Millions of yen)

Japan	U.S.A	Others	Total
198,560	144,792	28,017	371,370

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

(2) Tangible fixed assets

(Millions of yen)

Japan	U.S.A	Others	Total
54,151	9,176	1,832	65,160

(3) Intangible fixed assets

(Millions of yen)

Japan	U.S.A	Others	Total
9,582	163,301	979	173,863

3. Information by major clients

(Millions of yen)

Name of customer	Net sales	Name of relative segment
McKesson Corporation	46,561	North America

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

1. Products and services information

(Millions of yen)

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

2. Geographic segment information

(1) Net sales

(Millions of yen)

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

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

(2) Tangible fixed assets

(Millions of yen)

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

(3) Intangible fixed assets

(Millions of yen)

Japan	U.S.A	Others	Total
8,792	147,240	547	156,580

3. Information by major clients

(Millions of yen)

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

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

Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Impairment loss	5,194	116	—	—	5,310	—	—	5,310

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

(Millions of yen)

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

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

Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

(Millions of yen)

	Reportable Segments					Other Business	Eliminations/ Corporate	Total
	Japan	North America	China	Other Regions	Subtotal			
Amortization	—	5,446	—	—	5,446	—	—	5,446
Balance as of March 31, 2015	—	88,075	—	—	88,075	—	—	88,075

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

(Millions of yen)

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

[Information regarding gain on negative goodwill by reportable segments]

Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)

Not applicable.

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

Not applicable.

(Per-share information)

	Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)	Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)
Net assets per share	1,135.21 yen	1,123.76 yen
Net income per share	38.88 yen	62.16 yen

Notes: 1. No diluted net income per share is stated as no potential dilution exists.

2. The basis for the calculation of the net income per share is as follows:

	Year ended March 31, 2015 (April 1, 2014 to March 31, 2015)	Year ended March 31, 2016 (April 1, 2015 to March 31, 2016)
Net income per share		
Net income (millions of yen)	15,447	24,697
Amount not belonging to common shareholders (millions of yen)	—	—
Net income related to common stocks (millions of yen)	15,447	24,697
Average number of common stock during the period (thousands of shares)	397,305	397,302

(Significant subsequent event)

Not applicable.

6. Others

Change of the Members, Board of Directors (as of June 23, 2016)

(1) Change of Representative

Not applicable.

(2) Change of other Members, Board of Directors

(i) New Members of the Board of Directors

Hitoshi Odagiri (currently Senior Executive Officer)
Toru Kimura (currently Executive Officer)

(ii) Retiring Members of the Board of Directors

Makoto Hara (currently Member, Board of Directors)
Yoshihiro Okada (currently Member, Board of Directors)