

(English Translation)

Consolidated Financial Results
for the Second Quarter of the Fiscal Year Ending March 31, 2020 (IFRS)

November 12, 2019

Company name: Nichi-Iko Pharmaceutical Co., Ltd.	Stock exchange listings: Tokyo Stock Exchange (URL https://www.nichiiko.co.jp/)
Securities code: 4541	
Representative: Yuichi Tamura President and CEO	
Contact: Shuji Ishida Senior Operating Officer, Head of Administrative Division	Tel: 076-432-2121
Scheduled date of filing of quarterly report:	November 13, 2019
Scheduled date of commencement of dividend payment:	December 6, 2019
Presentation of supplementary materials on quarterly financial results:	Yes
Holding of quarterly financial presentation meeting:	Yes

(Note that all amounts have been rounded down to the nearest one million yen.)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to September 30, 2019)

(1) Consolidated Results of Operations (cumulative)
(Percentage figures represent changes from the same period of the previous fiscal year)

	Revenue	Core operating profit	Operating profit	Profit before tax	Profit	Profit attributable to owners of parent
Second quarter of fiscal year ending March 31, 2020	¥91,519 million (11.1%)	¥3,917 million (-20.7%)	¥3,777 million (-20.0%)	¥4,544 million (-20.7%)	¥2,940 million (-36.4%)	¥3,006 million (-34.9%)
Second quarter of fiscal year ended March 31, 2019	¥82,346 million (-0.9%)	¥4,939 million (-%)	¥4,720 million (75.1%)	¥5,727 million (119.1%)	¥4,620 million (88.8%)	¥4,620 million (88.8%)

	Total comprehensive income	Basic earnings per share	Diluted earnings per share
Second quarter of fiscal year ending March 31, 2020	¥72 million (-99.3%)	¥47.14	¥46.90
Second quarter of fiscal year ended March 31, 2019	¥10,342 million (130.8%)	¥80.93	¥79.79

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of total equity attributable to owners of the parent to total assets	Equity attributable to owners of parent per share
Second quarter of fiscal year ending March 31, 2020	¥316,789 million	¥116,132 million	¥115,359 million	36.4%	¥1,806.75
Fiscal year ended March 31, 2019	¥306,838 million	¥116,323 million	¥116,323 million	37.9%	¥1,825.00

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended March 31, 2019	¥-	¥15.00	¥-	¥15.00	¥30.00
Fiscal year ending March 31, 2020	¥-	¥15.00			
Fiscal year ending March 31, 2020 (forecast)			¥-	¥15.00	¥30.00

(Note)

Revisions to recently announced dividends forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020
(From April 1, 2019 to March 31, 2020)

(Percentage figures represent changes from the same period of the previous fiscal year)

	Revenue	Core operating profit	Operating profit	Profit attributable to owners of parent	Basic earnings per share
Annual	¥194,000 million (16.5%)	¥8,500 million (-36.2%)	¥8,500 million (3.4%)	¥6,000 million (-12.6%)	¥93.99

(Note)

Revisions to recently announced forecast of financial results: Yes

For details, please refer to “(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements” in “1. Qualitative Information on Financial Results for the Quarter under Review” on page 5 of the Attachment.

***Notes**

(1) Changes in significant subsidiaries during the consolidated cumulative quarter under review (changes in specified subsidiaries resulting in change in scope of consolidation): No

(2) Changes in accounting policies and changes in accounting estimates

(i) Changes in accounting policies required by IFRS: Yes

(ii) Changes in accounting policies due to other reasons: No

(iii) Changes in accounting estimates: No

(3) Total number of issued shares (common stock)

(i) Total number of issued shares as of the end of the period (including treasury shares):

As of September 30, 2019 65,162,652 shares

As of March 31, 2019 65,162,652 shares

(ii) Number of treasury shares as of the end of the period:

As of September 30, 2019 1,313,489 shares

As of March 31, 2019 1,423,511 shares

(iii) Average number of shares during the period (cumulative quarter):

Second quarter of fiscal year ending March 31, 2020 63,785,258 shares

Second quarter of fiscal year ended March 31, 2019 57,088,597 shares

(Note)

Number of treasury shares as of the end of the period includes shares held by the Employee Shareholding Incentive Plan.

*** Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.**

*** Explanation on the appropriate usage of forecast of financial results, and other specific matters**

(Considerations on forward-looking statements)

The forward-looking statements including forecast of financial results contained in these materials are based on the information currently available to the Company and certain assumptions which are regarded as legitimate. As such, they do not constitute the Company's guarantee that such results would be achieved. Actual business and other results may differ substantially from the forecasts provided in these materials as a result of various factors.

(How to obtain supplementary materials for financial results)

Supplementary materials for financial results will be provided on the website of the Company on Tuesday, November 12, 2019.

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1. Qualitative Information on Financial Results for the Quarter under Review

(1) Explanation on Operating Results

In the cumulative second quarter under review, although the Japanese economy was on a trend of moderate recovery due to improvements in the employment and income environment, the future of the economy remains unclear due to heightened uncertainty about the global economy such as the evident impact of trade friction between the United States and China on exports and production.

In the generic drug industry, the usage rate of generic drugs is steadily increasing toward the government's target of "an 80% usage rate of generic drugs." Meanwhile, a revision of drug prices was implemented in October 2019 to coincide with the consumption tax hike. Furthermore, the revisions of drug prices that had generally been made once every two years in the past are scheduled to be implemented every year from April 2020 onward, and the earning environment is expected to become increasingly harsh in the generic drug industry.

Under such conditions, the Company formulated the 8th Medium-term Management Plan "Nexus ∞" (from the fiscal year ending March 31, 2020 until the fiscal year ending March 31, 2022) in May 2019, and has been pursuing the four core strategies of "Continue our deeper pursuit of business arenas (where to play)," "Relentless efforts for operational excellence," "Drive for global standard of quality and competitive edge" and "Be the most trusted life science company driven by our ESG activities" in order to evolve into a global comprehensive generic pharmaceutical company.

(in millions of yen)	Second quarter of fiscal year ended March 31, 2019	Second quarter of fiscal year ending March 31, 2020	Change
Revenue	82,346	91,519	+9,173
Core operating profit	4,939	3,917	-1,022
Profit before tax	5,727	4,544	-1,183
Profit attributable to owners of parent	4,620	3,006	-1,613
Diluted earnings per share	¥79.79	¥46.90	- ¥32.89

** The Group has adopted "core operating profit" as an indicator representing ordinary profitability. "Core operating profit" is calculated by deducting gains and losses caused by extraordinary factors from operating profit.*

Although revenue decreased in the Sagent Group, revenue on a consolidated basis increased by 9,173 million yen year-on-year mainly due to an increase in sales resulting from making Elmed Co., Ltd. (hereinafter referred to as "Elmed") a consolidated subsidiary.

Although gross profit increased due to increased revenue in the Nichi-Iko Group, this was outweighed by the decrease in gross profit caused by increased selling, general and administrative expenses due to the integration of Elmed and the decrease in revenue in the Sagent Group. As a result, core operating profit decreased by 1,022 million yen year-on-year.

Profit before tax decreased by 1,183 million yen year-on-year due to factors such as foreign exchange gains and losses changing significantly from a gain of 443 million yen in the previous fiscal year to a loss of 364 million yen in the current fiscal year, and the absence of the investment gain on equity method of 997 million yen recorded in the previous fiscal year, despite gains on sale due to the partial sale of shares of Aprogen Inc., which is an equity method affiliate.

Profit attributable to owners of parent decreased by 1,613 million yen year-on-year reflecting the above factors.

The Company has changed to the following reportable segments from the first quarter, and the figures of the same period of the previous fiscal year have been reclassified for year-on-year comparison to reflect that change. The two segments are the “Nichi-Iko Group” and the “Sagent Group,” with the “Sagent Group” being made up of Sagent Pharmaceuticals, Inc. (hereinafter referred to as “Sagent”) and its consolidated subsidiaries, and the “Nichi-Iko Group” being made up of companies excluding the “Sagent Group.”

The results by segment are as follows. Note that “core operating profit” is used for segment profit.

(in millions of yen)	Nichi-Iko Group			Sagent Group		
	Second quarter of fiscal year ended March 31, 2019	Second quarter of fiscal year ending March 31, 2020	Change	Second quarter of fiscal year ended March 31, 2019	Second quarter of fiscal year ending March 31, 2020	Change
Revenue	63,853	76,851	+12,998	18,493	14,668	-3,824
Core operating profit	4,455	4,664	+208	483	-747	-1,230

(i) Nichi-Iko Group

In the Nichi-Iko Group, we have continued to expand the product line-up through the added-value products of Elmed, which became a consolidated subsidiary in April 2019, and launching newly listed 5 products with 10 strengths in June 2019. In August 2019, a comprehensive partnership agreement was concluded with the municipality of Namerikawa, Toyama and a comprehensive partnership agreement on the streamlining of medical expenses and other issues was concluded with Matsudo, Chiba, with efforts being made to resolve issues in society and the community as a company involved with health and life. In September 2019, a comprehensive partnership agreement on the generic pharmaceutical business in China was concluded with Eisai Co., Ltd., making progress in the preparations to enter into the Chinese market, which is the second largest pharmaceutical market in the world.

The results in the Nichi-Iko Group during the cumulative second quarter of the current fiscal year showed segment profit of 4,664 million yen (an increase of 208 million yen year-on-year) due to the increase in revenue and resulting increase in gross profit arising as a result of making Elmed a consolidated subsidiary, despite an increase in selling, general and administrative expenses caused mainly by the integration of Elmed.

(ii) Sagent Group

In the Sagent Group, the Montreal Plant of Sagent’s subsidiary Omega Laboratories Limited became the Group’s second FDA-approved plant in September 2019, following Sagent’s Raleigh Plant, as we made an effort to expand the Company’s production capacity for the United States, become more cost competitive, strengthen stable supply capability, and maintain global-standard quality. Furthermore, we have continued to work toward application for approval of Infliximab BS in the United States with the aim of its prompt release on the market.

The results in the Sagent Group during the cumulative second quarter of the current fiscal year showed a segment loss of 747 million yen (a decrease of 1,230 million yen year-on-year in segment profit), mainly due to the impact of delays in the supply from contract manufacturers for certain products.

(2) Explanation on Financial Position

(i) Assets, Liabilities and Equity

Assets on a consolidated basis at the end of the second quarter of the current fiscal year increased by 9,950 million yen from the previous fiscal year-end to 316,789 million yen. This was mainly attributable to the following factors:

- Due to the additional acquisition of shares of Elmed, which used to be an equity method affiliate, to make it a consolidated subsidiary, cash and cash equivalents decreased by 5,832 million yen, trade and other receivables increased by 11,339 million yen, inventories increased by 5,832 million yen, and investments accounted for using equity method decreased by 5,863 million yen.
- Cash and cash equivalents increased by 3,200 million yen due to the partial sale of shares of Aprogen Inc., which is an equity method affiliate.

Liabilities on a consolidated basis increased by 10,142 million yen from the previous fiscal year-end to 200,657 million yen. This was mainly attributable to the following factors:

- Trade and other payables increased by 10,051 million yen due to making Elmed a consolidated subsidiary.

Equity on a consolidated basis decreased by 191 million yen from the previous fiscal year-end to 116,132 million yen. This was mainly attributable to the following factors:

- Retained earnings increased by 3,006 million yen due to recording profit attributable to owners of parent.
- Foreign currency translation adjustment decreased by 2,097 million yen due to appreciation of the yen against the dollar since the previous fiscal year-end.

(ii) Cash Flows

At the end of the second quarter of the current fiscal year, cash and cash equivalents on a consolidated basis decreased by 7,684 million yen from the previous fiscal year-end to 34,408 million yen.

Details of cash flows from each of the three activities for the cumulative second quarter of the current fiscal year are described below.

(Cash flows from operating activities)

Net cash provided by operating activities during the cumulative second quarter of the current fiscal year amounted to income over expenditure by 11,732 million yen. The main outflows included inventories increasing by 3,434 million yen as a result of factors such as making Elmed a consolidated subsidiary. In terms of inflows, there were trade and other receivables decreasing by 7,177 million yen, depreciation and amortization of 5,498 million yen, and profit before tax of 4,544 million yen.

(Cash flows from investing activities)

Net cash used in investing activities during the cumulative second quarter of the current fiscal year amounted to expenditure over income by 13,370 million yen. This was due to an inflow of 3,200 million yen due to the proceeds from sale of investments accounted for using equity method as a result of the partial sale of shares of Aprogen Inc., which is an equity method affiliate, and outflows including 6,341 million yen for the payments for acquisition of subsidiaries as a result of the acquisition of 66.6% of the shares issued by Elmed, 3,923 million yen in expenditure due to the purchase of property, plant and equipment and 6,318 million yen in purchase of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities during the cumulative second quarter of the current fiscal year amounted to expenditure over income by 6,120 million yen. The main outflows were 4,288 million yen in repayments of long-term borrowings, 957 million yen in dividends paid and 772 million yen in repayments of lease obligations.

(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements

The forecast of consolidated financial results for the fiscal year ending March 31, 2020 that was announced on May 13, 2019 has been revised as follows based on the results during the cumulative second quarter of the current fiscal year and the outlook for future results.

Revisions to the forecast of consolidated financial results for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

	Revenue	Core operating profit	Operating profit	Profit attributable to owners of parent	Basic earnings per share
Previous forecast (A)	¥201,000 million	¥8,500 million	¥8,500 million	¥7,000 million	¥109.70
Revised forecast (B)	¥194,000 million	¥8,500 million	¥8,500 million	¥6,000 million	¥93.99
Change in amount (B-A)	-¥7,000 million	-	-	-¥1,000 million	
Change (%)	-3.5%	-	-	-14.3%	
(Reference) Actual results for the fiscal year ended March 31, 2019	¥166,592 million	¥13,320 million	¥8,223 million	¥6,864 million	¥115.46

Although the revenue from the third quarter onward is expected to be in line with the initial forecast, given that the results of the cumulative second quarter fell short of the initial forecast, the full-year revenue is expected to be lower than that in the previous forecast.

The forecast for core operating profit and operating profit remains unchanged from the previous forecast because although results during the cumulative second quarter exceeded the initial forecast, the selling, general and administrative expenses not utilized by the second quarter are expected to be utilized by the end of the fiscal year.

Profit attributable to owners of parent is expected to fall below the previous forecast due to foreign exchange losses caused by the appreciation of the yen exceeding the initial forecast.

The forecast of financial results was made based on information available to the Company at this point, and actual business and other results may differ from the forecast values provided in these materials as a result of various factors in the future.

2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

(1) Condensed Quarterly Consolidated Statement of Financial Position

	(in millions of yen)	
	Fiscal year ended March 31, 2019 (as of March 31, 2019)	Second quarter of fiscal year ending March 31, 2020 (as of September 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	42,093	34,408
Trade and other receivables	30,035	34,083
Inventories	66,783	75,922
Income taxes receivable	72	-
Other financial assets	447	425
Other current assets	3,290	3,292
Subtotal	142,722	148,132
Assets held for sale	-	1,430
Total current assets	142,722	149,563
Non-current assets		
Property, plant and equipment	55,710	58,483
Goodwill	42,892	44,172
Intangible assets	46,721	56,615
Investments accounted for using equity method	12,993	3,154
Other financial assets	5,724	4,689
Deferred tax assets	9	11
Other non-current assets	64	98
Total non-current assets	164,115	167,226
Total assets	306,838	316,789

	(in millions of yen)	
	Fiscal year ended March 31, 2019 (as of March 31, 2019)	Second quarter of fiscal year ending March 31, 2020 (as of September 30, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	44,172	54,698
Borrowings	37,435	37,119
Other financial liabilities	956	1,653
Income taxes payable	74	518
Refund liabilities	2,196	2,199
Contract liabilities	116	116
Other current liabilities	6,884	8,216
Total current liabilities	91,837	104,522
Non-current liabilities		
Borrowings	90,739	86,594
Other financial liabilities	1,589	2,399
Retirement benefit liability	173	407
Provisions	57	81
Refund liabilities	75	121
Contract liabilities	865	806
Deferred tax liabilities	3,329	4,274
Other non-current liabilities	1,847	1,450
Total non-current liabilities	98,677	96,135
Total liabilities	190,514	200,657
Equity		
Share capital	23,360	23,360
Capital surplus	21,896	21,866
Other equity instruments	9,918	9,918
Treasury shares	(2,893)	(2,706)
Retained earnings	55,016	56,873
Other components of equity	9,025	6,047
Total equity attributable to owners of parent	116,323	115,359
Non-controlling interests	0	773
Total equity	116,323	116,132
Total liabilities and equity	306,838	316,789

(2) Condensed Quarterly Consolidated Statement of Income and Condensed Quarterly Consolidated Statement of Comprehensive Income

(Condensed Quarterly Consolidated Statement of Income)

	(in millions of yen)	
	Second quarter of previous fiscal year (from April 1, 2018 to September 30, 2018)	Second quarter of current fiscal year (from April 1, 2019 to September 30, 2019)
Revenue	82,346	91,519
Cost of sales	64,166	72,509
Gross profit	18,179	19,009
Selling, general and administrative expenses	11,615	12,980
Research and development expenses	1,915	2,100
Other operating income	273	168
Other operating expenses	202	318
Operating profit	4,720	3,777
Finance income	484	44
Finance costs	474	789
Share of profit (loss) of investments accounted for using equity method	997	(31)
Other income	-	2,166
Other expenses	-	624
Profit before tax	5,727	4,544
Income tax expense	1,107	1,604
Profit	4,620	2,940
Profit attributable to:		
Owners of parent	4,620	3,006
Non-controlling interests	(0)	(66)
Profit	4,620	2,940
Earnings per share		
Basic earnings per share (Yen)	80.93	47.14
Diluted earnings per share (Yen)	79.79	46.90

(Condensed Quarterly Consolidated Statement of Comprehensive Income)

	(in millions of yen)	
	Second quarter of previous fiscal year (from April 1, 2018 to September 30, 2018)	Second quarter of current fiscal year (from April 1, 2019 to September 30, 2019)
Profit	4,620	2,940
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	665	(690)
Share of other comprehensive income of investments accounted for using equity method	(109)	(80)
Total of items that will not be reclassified to profit or loss	555	(770)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	5,070	(1,981)
Share of other comprehensive income of investments accounted for using equity method	96	(115)
Total of items that may be reclassified to profit or loss	5,167	(2,097)
Other comprehensive income (net of tax)	5,722	(2,867)
Comprehensive income	10,342	72
Comprehensive income attributable to:		
Owners of parent	10,343	137
Non-controlling interests	(0)	(65)
Comprehensive income	10,342	72

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

Second Quarter of Previous Fiscal Year (from April 1, 2018 to September 30, 2018)

(in millions of yen)

	Equity attributable to owners of parent					Other components of equity	
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2018	19,976	18,827	-	(9,046)	51,912	3,448	2,165
Changes in accounting policies					(480)		
Restated balance	19,976	18,827	-	(9,046)	51,431	3,448	2,165
Profit (loss)					4,620		
Other comprehensive income						5,167	565
Total comprehensive income	-	-	-	-	4,620	5,167	565
Purchase of treasury shares				(0)			
Disposal of treasury shares		(1,996)		6,044			
Transfer of loss on disposal of treasury shares		1,681			(1,681)		
Forfeiture of share acquisition rights					13		
Dividends					(846)		
Share-based payment transactions							
Transfer from other components of equity					(10)		
Total transactions with owners	-	(315)	-	6,043	(2,524)	-	-
Balance as of September 30, 2018	19,976	18,511	-	(3,002)	53,527	8,615	2,731

	Equity attributable to owners of parent					
	Other components of equity					
	Remeasure- ments of defined benefit plans	Other	Total	Total	Non- controlling interests	Total
Balance as of April 1, 2018	-	258	5,872	87,542	0	87,542
Changes in accounting policies				(480)		(480)
Restated balance	-	258	5,872	87,062	0	87,062
Profit (loss)				4,620	(0)	4,620
Other comprehensive income	(10)		5,722	5,722	(0)	5,722
Total comprehensive income	(10)	-	5,722	10,343	(0)	10,342
Purchase of treasury shares				(0)		(0)
Disposal of treasury shares		(3)	(3)	4,043		4,043
Transfer of loss on disposal of treasury shares				-		-
Forfeiture of share acquisition rights		(13)	(13)	-		-
Dividends				(846)		(846)
Share-based payment transactions		44	44	44		44
Transfer from other components of equity	10		10	-		-
Total transactions with owners	10	27	37	3,240	-	3,240
Balance as of September 30, 2018	-	285	11,633	100,646	0	100,646

(Note)

The amount of dividends does not include the amount of dividends to the Employee Shareholding Incentive Plan.

Second Quarter of Current Fiscal Year (from April 1, 2019 to September 30, 2019)

(in millions of yen)

	Equity attributable to owners of parent					Other components of equity	
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	23,360	21,896	9,918	(2,893)	55,016	6,367	2,371
Changes in accounting policies					(49)		
Restated balance	23,360	21,896	9,918	(2,893)	54,967	6,367	2,371
Profit (loss)					3,006		
Other comprehensive income						(2,097)	(770)
Total comprehensive income	-	-	-	-	3,006	(2,097)	(770)
Direct issuance expenses due to issuance of new shares		(5)					
Distributions to owners of other equity instruments					(243)		
Disposal of treasury shares		(38)		187			
Transfer of loss on disposal of treasury shares		8			(8)		
Dividends					(956)		
Share-based payment transactions							
Equity transactions with non-controlling interests and other							
Transfer to capital surplus from retained earnings		5			(5)		
Transfer from other components of equity					113		(114)
Total transactions with owners	-	(29)	-	187	(1,100)	-	(114)
Balance as of September 30, 2019	23,360	21,866	9,918	(2,706)	56,873	4,269	1,487

	Equity attributable to owners of parent					
	Other components of equity					
	Remeasure- ments of defined benefit plans	Other	Total	Total	Non- controlling interests	Total
Balance as of April 1, 2019	-	285	9,025	116,323	0	116,323
Changes in accounting policies				(49)		(49)
Restated balance	-	285	9,025	116,274	0	116,274
Profit (loss)				3,006	(66)	2,940
Other comprehensive income	(0)		(2,868)	(2,868)	0	(2,867)
Total comprehensive income	(0)	-	(2,868)	137	(65)	72
Direct issuance expenses due to issuance of new shares				(5)		(5)
Distributions to owners of other equity instruments				(243)		(243)
Disposal of treasury shares		(37)	(37)	111		111
Transfer of loss on disposal of treasury shares				-		-
Dividends				(956)		(956)
Share-based payment transactions		41	41	41		41
Equity transactions with non-controlling interests and other				-	838	838
Transfer to capital surplus from retained earnings				-		-
Transfer from other components of equity	0		(113)	-		-
Total transactions with owners	0	4	(109)	(1,052)	838	(213)
Balance as of September 30, 2019	-	289	6,047	115,359	773	116,132

(Note)

The amount of dividends does not include the amount of dividends to the Employee Shareholding Incentive Plan.

(4) Condensed Quarterly Consolidated Statement of Cash Flows

	(in millions of yen)	
	Second quarter of previous fiscal year (from April 1, 2018 to September 30, 2018)	Second quarter of current fiscal year (from April 1, 2019 to September 30, 2019)
Cash flows from operating activities		
Profit before tax	5,727	4,544
Depreciation and amortization	4,601	5,498
Impairment losses (reversal of impairment losses)	111	0
Interest and dividend income	(40)	(44)
Interest expenses	345	294
Share of loss (profit) of investments accounted for using equity method	(997)	31
Loss (gain) on sale of investments in associates	-	(1,762)
Decrease (increase) in trade and other receivables	5,859	7,177
Decrease (increase) in inventories	6,556	(3,434)
Increase (decrease) in trade and other payables	(7,933)	47
Increase (decrease) in provisions	(506)	(100)
Other	(108)	(216)
Subtotal	13,615	12,036
Dividends received	59	86
Interest received	16	4
Interest paid	(340)	(293)
Income taxes paid	(1,294)	(331)
Income taxes refund	7	229
Net cash provided by (used in) operating activities	12,064	11,732
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,066)	(3,923)
Purchase of intangible assets	(3,853)	(6,318)
Purchase of investments	(994)	(4)
Purchase of investments accounted for using equity method	(3,400)	-
Proceeds from sale of investments accounted for using equity method	-	3,200
Collection of loans receivable	598	71
Proceeds from reversal of international interests	999	-
Payments for acquisition of subsidiaries	-	(6,341)
Other	(68)	(54)
Net cash provided by (used in) investing activities	(11,785)	(13,370)

(in millions of yen)

	Second quarter of previous fiscal year (from April 1, 2018 to September 30, 2018)	Second quarter of current fiscal year (from April 1, 2019 to September 30, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	91	55
Proceeds from long-term borrowings	5,000	-
Repayments of long-term borrowings	(3,918)	(4,288)
Proceeds from sale of treasury shares	4,031	106
Repayments of finance lease obligations	(469)	-
Repayments of lease obligations	-	(772)
Dividends paid	(847)	(957)
Distributions to owners of other equity instruments	-	(243)
Other	40	(19)
Net cash provided by (used in) financing activities	3,927	(6,120)
Effect of exchange rate changes on cash and cash equivalents	(128)	73
Net increase (decrease) in cash and cash equivalents	4,077	(7,684)
Cash and cash equivalents at beginning of period	18,529	42,093
Cash and cash equivalents at end of period	22,606	34,408

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on premise of going concern)

Not applicable.

(Changes in significant subsidiaries during the consolidated cumulative quarter under review)

Not applicable.

There were no changes in specified subsidiaries, but the Company acquired additional shares of Elmed Eisai Co., Ltd. and made it a consolidated subsidiary of the Company in the first quarter of the current fiscal year. The trade name of Elmed Eisai Co., Ltd. was also changed to Elmed Co., Ltd. on the same day.

(Changes in accounting policies)

The significant accounting policies applied to the Condensed Quarterly Consolidated Financial Statements are the same as the accounting policies applied to the consolidated financial statements for the previous fiscal year with the exception of the changes in the accounting policies listed below. Income tax expense for the cumulative second quarter of the current fiscal year is calculated based on the estimated annual effective tax rate.

The following standards are applied from the first quarter of the current fiscal year.

The Group has applied IFRS 16 “Leases” (issued in January 2016) from the first quarter of the current fiscal year. The new standard replaces IAS 17 “Leases.” The new accounting policies by the application of IFRS 16 are as follows.

The Group determines whether a contract contains a lease at the inception of the contract. Lease liabilities are measured at the present value of the total accrued lease payments at the commencement date of the lease by discounting them at the lessee’s incremental borrowing rate. The right-of-use asset is initially measured at the initial measurement amount of lease liabilities adjusted by the initial direct cost and other costs such as prepaid lease payments, and adding the cost of restoration obligations required by the lease contract.

A right-of-use asset is depreciated by using the straight-line method over the shorter period of either from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. When measuring lease liabilities, these are measured at the present value of accrued lease payments.

The Group has included right-of-use assets under “property, plant and equipment” and lease liabilities under “other financial liabilities” on the consolidated statement of financial position.

In the application of IFRS 16, the Group has adopted the method where the cumulative effect of applying this standard is recognized as an adjustment of retained earnings at the date of initial application, which is allowed as the transition approach. Due to the adoption of this method, there are no restatements of comparative information.

In transitioning to IFRS 16, the Group has elected the practical expedient provided in paragraph C3 of IFRS 16 and followed the assessment of whether a contract contains a lease in accordance with IAS 17 “Leases” (“IAS 17”) and IFRIC 4 “Determining whether an Arrangement Contains a Lease.”

The Group recognized lease liabilities on the date of initial application of IFRS 16 for leases previously classified as operating leases under IAS 17. The lease liabilities are initially measured at the present value of the total accrued lease payments at the commencement date by discounting them at the lessee’s incremental borrowing rate. The weighted average lessee’s incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 0.40%.

Furthermore, right-of-use assets are measured using one of the following methods.

- The carrying amount calculated by assuming that IFRS 16 was applied from the commencement date of the lease. However, lessee’s incremental borrowing rate on the date of initial application is used as the discount rate.
- Same amount as the lease liabilities. However, this is the amount adjusted by any prepaid or accrued lease payments.

The following is the reconciliation of operating lease contracts disclosed under IAS 17 as of the previous fiscal year-end and lease liabilities at the date of initial application recognized in the consolidated statement of financial position.

	(in millions of yen)
Operating lease contracts disclosed as of March 31, 2019	295
Lease contracts discounted at the incremental borrowing rate as of April 1, 2019	295
Finance lease contracts disclosed as of March 31, 2019	2,524
Cancelable operating lease contracts	1,451
Lease liabilities as of April 1, 2019	4,271

As a result of application of IFRS 16, compared to if the previous accounting standards are applied, right-of-use assets increased by 1,617 million yen, lease liabilities increased by 1,746 million yen and retained earnings decreased by 49 million yen at the beginning of the first quarter of the current fiscal year.

When applying IFRS 16, the Group used the following practical expedients:

- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.
- Ex-post assessment is used, such as in determining the lease term, if the contract contains options to extend or terminate the lease.
- This is dependent on the assessment of whether a lease is disadvantageous by applying IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” immediately prior to the initial application as a substitute for implementing an impairment review.

(Segment information)

(1) Reportable segments

The Group's reportable segments are components of the business units of the Group for which discrete financial statements are available and evaluated regularly by the Board of Directors in determining the allocation of management resources and assessing the segment's performance.

The Group has established the 8th Medium-term Management Plan "Nexus ∞" starting this fiscal year and with the fiscal year ending March 31, 2022 as the final year. It aims to maximize synergies in three areas (therapeutic area/region, cost and people) under the theme of "Going Beyond with Infinite Power to Connect," seeking to further evolve into a global comprehensive generic pharmaceutical company by pursuing the four core strategies of "Continue our deeper pursuit of business arenas (where to play)," "Relentless efforts for operational excellence," "Drive for global standard of quality and competitive edge" and "Be the most trusted life science company driven by our ESG activities," and one of the targets is to achieve 60.0 billion yen in overseas sales in the fiscal year ending March 31, 2022. In order to clearly indicate progress in these efforts, the Group's reportable segments have been changed from the single segment of the pharmaceutical business to the "Nichi-Iko Group" and the "Sagent Group" making up the pharmaceutical business. The "Sagent Group" is made up of Sagent Pharmaceuticals, Inc. and its consolidated subsidiaries. The "Nichi-Iko Group" is made up of companies excluding the "Sagent Group."

Revenue, profit and loss of the reportable segments are as follows.

Second Quarter of Previous Fiscal Year (from April 1, 2018 to September 30, 2018)

(in millions of yen)

	Reportable segment			Adjustment	Consolidated
	Nichi-Iko Group	Sagent Group	Total		
Revenue					
External revenue	63,853	18,493	82,346	-	82,346
Inter-segment revenue	-	-	-	-	-
Total	63,853	18,493	82,346	-	82,346
Segment profit (loss) (Core operating profit) (Note)	4,455	483	4,939	-	4,939

(Note)

Core operating profit is calculated by deducting gains and losses caused by extraordinary factors from operating profit.

Second Quarter of Current Fiscal Year (from April 1, 2019 to September 30, 2019)

(in millions of yen)

	Reportable segment			Adjustment	Consolidated
	Nichi-Iko Group	Sagent Group	Total		
Revenue					
External revenue	76,851	14,668	91,519	-	91,519
Inter-segment revenue	-	-	-	-	-
Total	76,851	14,668	91,519	-	91,519
Segment profit (loss) (Core operating profit) (Note)	4,664	(747)	3,917	-	3,917

(Note)

Core operating profit is calculated by deducting gains and losses caused by extraordinary factors from operating profit.

Adjustments from segment profit to profit before tax are as follows.

(in millions of yen)

	Second quarter of previous fiscal year (from April 1, 2018 to September 30, 2018)	Second quarter of current fiscal year (from April 1, 2019 to September 30, 2019)
Segment profit	4,939	3,917
Integration-related expenses	107	138
Other	111	0
Operating profit	4,720	3,777
Finance income	484	44
Finance costs	474	789
Share of profit (loss) of investments accounted for using equity method	997	(31)
Other income	-	2,166
Other expenses	-	624
Profit before tax	5,727	4,544

(2) Information about products and services

Revenue from each product and service is as follows.

	(in millions of yen)	
	Second quarter of previous fiscal year (from April 1, 2018 to September 30, 2018)	Second quarter of current fiscal year (from April 1, 2019 to September 30, 2019)
Treatments for circulatory system	12,925	17,431
Treatments for blood and body fluid	13,576	13,906
Antibiotics	12,111	9,799
Treatments for nervous system	6,259	8,695
Treatments for digestive system	7,389	8,361
Treatments for allergies	4,573	6,740
Chemotherapeutics	6,721	6,431
Others	18,789	20,152
Total	82,346	91,519

(3) Information by geographical area

Revenue by geographical area is shown below.

	(in millions of yen)	
	Second quarter of previous fiscal year (from April 1, 2018 to September 30, 2018)	Second quarter of current fiscal year (from April 1, 2019 to September 30, 2019)
Japan	63,782	76,686
United States	16,638	12,786
Others	1,925	2,046
Total	82,346	91,519

(Note)

Revenue is based on the location of the destination of sales.