Summary of Consolidated Financial Results for the Year Ended March 31, 2019 [IFRS]

May 10, 2019

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Stock Exchange Listings: Tokyo
Security Code Number: 4506 (URL https://www.ds-pharma.com/)
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Filing Date of Financial Report: June 20, 2019
Date of Annual Shareholder's Meeting: June 20, 2019
Starting Date of Dividend Payments: June 21, 2019
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 to the nearest million yen)

1. Consolidated Financial Results for the Year Ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(1) Results of Operations

(% represents changes from the previous year)

	Revenue		Core operating profit		Operating profit		Net profit		Net profit attributable to owners of the parent		Total comprehensive income	
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%
Year ended March 31, 2019	459,267	(1.6)	77,299	(14.7)	57,884	(34.4)	48,627	(9.0)	48,627	(9.0)	56,195	16.1
Year ended March 31, 2018	466,838	14.3	90,604	40.8	88,173	118.9	53,448	70.7	53,448	70.7	48,402	62.3

Note: Profit before taxes Year ended March 31, 2019: ¥65,046 million
Year ended March 31, 2018: ¥84,866 million

"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors that the Group designates (hereinafter referred to as "Non-recurring Items").

	Basic earnings per share	Earnings per share (diluted)	Net profit / Equity attributable to owners of the parent	Profit before taxes / Total assets	Core operating profit / Revenue
Year ended March 31, 2019	¥122.39	—	10.2%	7.9%	16.8%
Year ended March 31, 2018	¥134.53	—	12.4%	10.7%	19.4%

Reference: Share of profit(loss) of associates accounted for using the equity method.
Year ended March 31, 2019 : ¥27 million
Year ended March 31, 2018 : (¥10 million)

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Equity attributable to owners of the parent	Ratio of equity attributable to owners of the parent to total assets	Equity attributable to owners of the parent per share (yen)
As of March 31, 2019	834,717	498,138	498,138	59.7%	¥1,253.82
As of March 31, 2018	809,684	452,723	452,723	55.9%	¥1,139.50

(3) Cash Flows

(Millions of yen)

	Net cash provided by operating activities	Net cash used in investing activities	Net cash provided by (used in) financing activities	Cash and cash equivalents at the end of period
Year ended March 31, 2019	48,711	(35,049)	(28,645)	137,296
Year ended March 31, 2018	93,420	(16,523)	(29,610)	147,775

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, 2018	—	¥9.00	—	¥19.00	¥28.00	¥11,124	20.8%	2.6%
Year ended March 31, 2019	—	¥9.00	—	¥19.00	¥28.00	¥11,124	22.9%	2.3%
Year ending March 31, 2020 (Forecasts)	—	¥14.00	—	¥14.00	¥28.00		22.7%	

3. Consolidated Financial Forecasts for the Year Ending March 31, 2020 （April 1, 2019 to March 31, 2020）

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

	Net sales		Core operating profit		Operating profit		Net profit		Net profit attributable to owners of parent		Earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Six months ending September 30, 2019	226,500	0.2	38,500	3.6	34,500	16.5	25,000	(10.3)	25,000	(10.3)	¥62.93
Year ending March 31, 2020	460,000	0.2	77,000	(0.4)	69,000	19.2	49,000	0.8	49,000	0.8	¥123.33

Note: Profit before taxes Six months ending September 30, 2019: ¥36,500 million
Year ending March 31, 2020 : ¥72,000 million

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 in accounting standards required by IFRS: Yes

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

③ Changes in accounting estimates: None

(3) Number of shares outstanding (Common stock)

① Number of shares outstanding (Including treasury stock) at the end of period

March 31, 2019: 397,900,154 shares

March 31, 2018: 397,900,154 shares

② Number of treasury stock at the end of period

March 31, 2019: 603,851 shares

March 31, 2018: 601,983 shares

③ Average number of shares during the period

March 31, 2019: 397,297,097 shares

March 31, 2018: 397,299,021 shares

(Reference) Outline of Non-Consolidated Financial Results (Japanese GAAP)

Non-consolidated Financial Results for the year ended March 31, 2019 (April 1, 2018 to March 31, 2019)

(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 31,2019	264,462	5.3	87,637	17.5	95,834	34.4	68,470	61.6
Year ended March 31,2018	251,101	(2.1)	74,568	(16.9)	71,320	(22.6)	42,364	(33.7)

	Earnings per share	Earnings per share (diluted)
Year ended March 31,2019	¥172.34	—
Year ended March 31,2018	¥106.63	—

(2) Financial Position

(Millions of yen)

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share (yen)
As of March 31, 2019	718,798	619,106	86.1%	¥1,558.30
As of March 31, 2018	675,891	561,109	83.0%	¥1,412.31

Reference: Shareholders' Equity As of March 31, 2019 : ¥619,106 million
As of March 31, 2018 : ¥561,109 million

Note: The Group adopted "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28 February 16, 2018) for the financial statements from the beginning of the year ended March 31, 2019, and the classification of Deferred tax assets and Deferred tax liabilities were changed as "Investments and other assets" and "Non-current liabilities", respectively. As a result of offsetting "Deferred tax assets" under "Current assets" with "Deferred tax liabilities" under "Non-current liabilities", the amount of total assets as of March 31, 2018 was changed from 680,400 million yen to 675,891 million yen and also equity ratio was changed from 82.5% to 83.0%.

This summary of financial results is exempt from audit procedures.

Explanation for Appropriate Use of Forecasts and Other Notes:

Starting from the fiscal year ended March 31, 2018 (FY2017), the Group has adopted the International Financial Reporting Standards (IFRS) for preparing its consolidated financial statements.

This material contains forecasts, projections, goals, plans, and other forward-looking statements regarding the Group's financial results and other data. Such forward-looking statements are based on the Company's assumptions, estimates, outlook, and other judgments made in light of information available at the time of preparation of such statements and involve both known and unknown risks and uncertainties. Accordingly, forecasts, plans, and other statements may not be realized as described, and actual financial results, success/failure or progress of development, and other projections may differ materially from those presented herein. Please refer to page 7, (4) Forecasts for the Year Ending March 31, 2020 with regard to the assumptions and other related matters for forecasts.

Supplementary financial data and the presentation materials for the earnings presentation are disclosed together with the summary of financial results.

The Company holds an earnings presentation for institutional investors and analysts on Monday, May 13, 2019. 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

Adoption of the International Financial Reporting Standards (IFRS)

Starting from the fiscal year ended March 31, 2018 (FY2017), the Group has adopted the International Financial Reporting Standards (IFRS) for preparing its consolidated financial statements with a view toward improving the international comparability of its financial statements in the capital markets and improving business management within the Group by standardizing accounting treatment.

(i) Overview of overall operating results

During the fiscal year ended March 31, 2019, the world economy continued to follow a mild recovery track overall as the U.S. economy remained strong due to the increase of personal consumption, despite increased uncertainties including the trade issues between the U.S. and China, unpredictable political situations in Europe, and slowdown of the Chinese economy. Likewise, the Japanese economy showed a mild recovery overall, as corporate capital expenditures increased and consumer spending picked up, although weakness was suggested in some areas of exports and production and corporate earnings experienced a standstill in improvement.

In the pharmaceutical sector, R&D expenses continue to rise and competition is intensifying, as authorities around the world are taking further steps to curb prices of brand-name drugs and promote use of generics in a bid to put the brakes on ever-expanding social security benefit expenditures. Meanwhile, this industrial sector is showing signs of change, such as a growing interest in preventive medicine and advancements in drug discovery utilizing digital technology.

Against this backdrop, in Japan the Group has focused its management resources to bolster sales of Trulicity® (therapeutic agent for type 2 diabetes), TRERIEF® (therapeutic agent for Parkinson's disease), and LONASEN® (atypical antipsychotic agent), to name but a few, while at the same time increasing efficiency in its business activities.

In North America, the Company's U.S. subsidiary Sunovion Pharmaceuticals Inc. (hereinafter referred to as "Sunovion") poured its resources into maximizing the sales of global strategic product LATUDA® (atypical antipsychotic agent) and expanding the sales of other mainstay products.

In FY2018, the Company and Sunovion were parties to (a) one (1) consolidated patent infringement lawsuit against 16 generic companies filed in February 2018 (the "Lawsuit"), and (b) three (3) additional patent infringement lawsuits against three (3) other generic companies (collectively, "Additional Lawsuits"). The Additional Lawsuits were filed during the period of August – October 2018. Both the Lawsuit and the Additional Lawsuits were filed in the U.S. District Court for the District of New Jersey (the "Court") and involved two U.S. patents protecting LATUDA®. With the assistance of the Court, the Company and Sunovion entered into settlement agreements with all of the defendants involved in the Lawsuit and the Additional Lawsuits except for one generic company. All of the defendants involved in the Lawsuit had entered into settlement agreements with the Company and Sunovion by December 3, 2018 and two of the defendants involved in the Additional Lawsuit had settled with the Company and Sunovion by March 31, 2019. Pursuant to the terms of the settlement agreements, the generic companies involved in the Lawsuit and the Additional Lawsuit will be permitted to distribute their generic versions of lurasidone HCL starting on February 20, 2023.

In the Oncology area, Boston Biomedical Inc. (hereinafter referred to as "Boston Biomedical"), another U.S. subsidiary of the Company, worked on its top priority agenda of an early launch of napabucasin (product code: BBI608), while Tolero Pharmaceuticals, Inc. (hereinafter referred to as "Tolero"), yet another U.S. subsidiary of the Company, focused on research and development of alvocidib (product code: DSP-2033) and other drugs.

In China, Sumitomo Pharmaceuticals (Suzhou) Co., Ltd. pursued business opportunities in a bid to expand sales of MEROPEN® (carbapenem antibiotic) and other products in the Chinese market.

Adoption of "core operating profit" as a performance indicator

To coincide with the adoption of the IFRS, the Group has set an original performance indicator for the Company's recurring profitability in the form of "core operating profit."

"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring

factors that the Group designates. Among the main Non-recurring Items are impairment losses, business structure improvement expenses, and changes in fair value of contingent consideration related to company acquisitions.

Highlights of the Group's consolidated financial results for the fiscal year under review are as follows:

(Billions of yen)

	FY2017	FY2018	Change	Change %
Revenue	466.8	459.3	(7.6)	(1.6)
Core operating profit	90.6	77.3	(13.3)	(14.7)
Operating profit	88.2	57.9	(30.3)	(34.4)
Profit before taxes	84.9	65.0	(19.8)	(23.4)
Net profit attributable to owners of the parent	53.4	48.6	(4.8)	(9.0)

Revenue decreased by 1.6% year-on-year to 459.3 billion yen.
Sales grew in the North America segment primarily owing to increases in sales of LATUDA®, one of the primary revenue sources of the Group, as well as antiepileptic agent APTIOM®. Nevertheless, revenue for the Group slightly decreased as sales in the Japan segment showed a decrease owing primarily to the National Health Insurance (NHI) drug price revisions of April 2018 and declines in sales of long-listed drugs.

Core operating profit decreased by 14.7% year-on-year to 77.3 billion yen.
Core operating profit decreased as gross profit showed a decrease in the Japan segment chiefly attributable to NHI drug price revisions and the absence of one factor that existed in the previous year: other income as a result of divestiture of marketing rights.

Operating profit decreased by 34.4% year-on-year to 57.9 billion yen.
Operating profit decreased even further than core operating profit. This is primarily owing to impairment losses on intangible assets, including in-process research and development and marketing rights, and to business structure improvement expenses associated with the consolidation of production sites by the Company. This occurred despite an increase in reversal of expenses under changes in fair value of contingent consideration resulting chiefly from modifications of business plans, including a review of development plans.

Profit before taxes decreased by 23.4% year-on-year to 65.0 billion yen.
In addition to an increase in interest income, the Company reported foreign exchange gains on its financial assets denominated in foreign currencies at the end of the period under review as the yen depreciated against the U.S. dollar over the previous fiscal year-end. As a result, finance income increased substantially.

Net profit attributable to owners of the parent decreased by 9.0% year-on-year to 48.6 billion yen.
The ratio of net profit attributable to owners of the parent to revenue was 10.6%, which is down by 0.8 percentage points year-on-year.

(ii) Status of each business segment

Adoption of "core segment profit" as a performance indicator for each segment

To coincide with the adoption of the IFRS, for segment performance, the Group has set an original performance indicator for each segment’s recurring profitability in the form of "core segment profit."

"Core segment profit" is each segment profit calculated by deducting from "core operating profit" any items such as R&D expenses and gains and losses on business transfers, which are managed globally and thus cannot be allocated to individual segments.

[Japan segment]

Revenue decreased by 9.8% year-on-year to 129.3 billion yen.

Sales of Trulicity®, SUREPOST® (therapeutic agent for type 2 diabetes), REPLAGAL® (therapeutic agent for Anderson-Fabry disease), and other products increased, but revenue decreased due to difficulties in offsetting the impacts of NHI drug price revisions and declines in sales of long-listed products, including AIMIX® (therapeutic agent for hypertension) for which new generics have been released.

Core segment profit decreased by 37.6% year-on-year to 25.1 billion yen.

This major decrease is chiefly attributable to the decrease in gross profit due to NHI drug price revisions and declines in sales of long-listed products.

[North America segment]

Revenue increased by 4.9% year-on-year to reach 252.5 billion yen.

This increase in primarily attributable to the growth in sales of APTIOM®, on top of strong sales of LATUDA®.

Core segment profit increased by 4.6% year-on-year to reach 114.5 billion yen.

This increase is attributable to the increase in gross profit due to an increase in sales.

[China segment]

Revenue increased by 5.6% year-on-year to reach 24.7 billion yen.

This increase is attributable to an increase in sales of mainstay MEROPEN® and other products.

Core segment profit increased by 14.8% year-on-year to reach 12.3 billion yen.

This increase is owing to growth in gross profit due to an increase in sales.

[Other Regions segment]

Revenue decreased by 13.2% year-on-year to 14.3 billion yen.

This decrease is chiefly attributable to a decrease in overall exports with the exception of Southeast Asian countries, where sales of MEROPEN® increased.

Core segment profit decreased by 2.3% year-on-year to 5.0 billion yen.

This slight decrease is primarily owing to a decrease in sales.

In addition to the above reportable segments, the Group is also engaged in sales of food ingredients, food additives, materials for chemical products, veterinary drugs, diagnostics, and other product lines, which together generated revenue of 38.4 billion yen (down by 10.3% year-on-year) and core segment profit of 3.1 billion yen (up by 14.2% year-on-year).

(iii) Status of research and development activities

The Group remains committed to research and development by taking every available opportunity to assimilate cutting-edge technologies through combinations of a wide variety of avenues, including in-house research, technology in-licensing, and joint research with biotech companies and academia. The aim is to continually discover excellent pharmaceutical products in the focus research areas; Psychiatry & Neurology, Oncology, and Regenerative Medicine and Cell Therapy. In a bid to contribute to global health, the Group is also working on the Infectious Diseases area. Furthermore, with the aim of providing new solutions to social issues in healthcare areas other than pharmaceuticals, we are working toward launching frontier businesses. The progress statuses of key development projects during the fiscal year under review are as follows:

〔Psychiatry and Neurology〕

The Company is leveraging its core competencies to forge ahead with drug discovery research based on its proprietary drug discovery platforms established by constantly incorporating cutting-edge technologies. Every effort is being made to boost the success rate of R&D by applying a wealth of knowledge, gained from clinical study data of in-house products, to translational research and by selecting drug discovery targets and biomarkers through the use of big data, such as genome information and image pictures.

In the development stages, the Company is working closely with its U.S. subsidiaries under the global clinical development framework to expedite the receipt of approvals from regulatory authorities by efficiently promoting clinical development according to strategic development planning. During the fiscal year under review, the Company out-licensed the development, marketing, and other rights of a compound that it created (product code: DSP-2230) to AlphaNavi Pharma Co.,Ltd., a carve-out business venture from the Company.

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

(a) TRERIEF® (generic name: zonisamide)

In July 2018, additional indication of parkinsonism in dementia with Lewy bodies (DLB) was approved in Japan.

(b) LATUDA® (generic name: Lurasidone hydrochloride)

In January 2019, LATUDA® was approved for schizophrenia in China.

In Japan, a Phase 3 study in patients with schizophrenia met its primary endpoints and the agent was generally well tolerated.

(c) LONASEN® (generic name: blonanserin)

A New Drug Application (NDA) was submitted in Japan in July 2018 for a transdermal patch formulation, under joint development with Nitto Denko Corporation, for use in patients with schizophrenia.

(d) Dasotraline (product code: SEP-225289)

In August 2018, a Complete Response Letter (CRL) for the NDA for the treatment of adult and pediatric patiants with attention-deficit hyperactivity disorder (ADHD) was received from the U.S. Food and Drug Administration (FDA), which determined that they cannot approve the dasotraline NDA for the treatment of ADHD in its current form and indicated that additional clinical data are needed to further evaluate the efficacy and tolerability of the drug. The Group is considering its future development plans.

Also in the U.S., a Phase 3 study in patients with binge eating disorder (BED) met its primary endpoints and the agent was generally well tolerated.

(e) Apomorphine hydrochloride (product code: APL-130277)

In January 2019, a CRL for the NDA for APL-130277 to treat OFF episodes associated with Parkinson’s disease was received from the FDA. The Agency determined that it was unable to approve the NDA in its present form and requested additional information and analyses, but no new clinical studies were required. The Group is planning to re-submit the NDA by the end of FY2019.

(f) SEP-363856

In the U.S., a Phase 2 study in patients with schizophrenia met its primary endpoints and the agent was generally well tolerated.

〔Oncology〕

The Group aims to create innovative new drugs by conducting research projects that focus on cell-cell interaction in the tumor microenvironment as part of its efforts to work on unique seeds and themes. By accelerating collaborative R&D efforts, integrating its subsidiaries in North America and external parties, the Group aims to swiftly move the outcomes of the projects to clinical trials through seamless collaboration between research and development.

In the development stages, the Group is working proactively on early-stage clinical development, while steadily advancing development of late-stage products.

During the fiscal year under review, the Group continued with Phase 3 global clinical studies of napabucasin for colorectal cancer and pancreatic cancer (combination therapy). The progress statuses of key development projects

during the period under review are as follows:

RETHIO® (Therapeutic agent for conditioning treatment prior to autologous hematopoietic stem cell transplantation (HSCT), generic name: Thiotepa)

In 2013, the Company replied to an invitation from the Ministry of Health, Labour and Welfare of Japan (MHLW) to pharmaceutical companies to develop thiotepa, an unapproved drug with high medical needs. In March 2019, the Company received approval for a conditioning treatment prior to autologous hematopoietic stem cell transplantation (HSCT) for pediatric malignant solid tumors.

Also in Japan, an application for additional indication of a conditioning treatment prior to autologous HSCT for malignant lymphoma was submitted in March 2019.

〔Regenerative medicine & cell therapy〕

The Company is promoting multiple R&D projects with a view toward quickly commercializing regenerative medicine and cell therapy by developing a unique growth model where we pursue advanced industrialization/manufacturing technologies and cutting-edge science through the open innovation strategy. While steadily advancing projects, which are mostly in the neurology and ophthalmology areas, the Company is setting its eyes on the global opportunities that this therapeutic area offers with a view toward embarking on development of next-generation regenerative medicine that also targets regeneration of 3-dimensional organs.

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

(a) SB623

A Phase 2b study conducted in the U.S. evaluating SB623 for the treatment of patients with chronic ischemic stroke did not meet its primary endpoint. The Company is conducting additional analyses of the study results. Based on the results of the analyses, SanBio Co., Ltd. and the Group will consider future development plans.

(b) Allogeneic iPS cell-derived dopaminergic neural progenitor cells

Kyoto University Hospital and the Center for iPS Cell Research and Application (CiRA) started an investigator-initiated clinical study for Parkinson’s disease using dopaminergic neural progenitor cells derived from iPS cells in Japan. The Company plans to submit an NDA based on the results of this clinical study.

〔Infectious Diseases area〕

Through joint research with academic institutions, the Company is conducting drug discovery research of malaria vaccines and universal influenza vaccines based on treatments for antimicrobial-resistant bacterial infections and its adjuvant technologies for vaccine development.

〔Frontier business〕

As part of the efforts to explore the Frontier business, the Company signed a joint research and development agreement with MELTIN MMI and Aikomi, Ltd. in October 2018 and February 2019, respectively. With these partners, the Company aims to deliver new value that benefits patients.

As a result of the activities mentioned above, R&D expenses for the fiscal year under review amounted to 102.4 billion yen (up by 17.8% year-on-year). Please note that, if the impairment loss of 19.5 billion yen reported during the fiscal year under review were excluded, R&D expenses were 82.9 billion yen (down by 4.6% year-on-year) on the core basis. The Group manages its R&D expenses globally, and, as such, does not allocate such expenses to individual segments.

(2) Analysis of Financial Condition

Non-current assets showed a slight increase from the previous fiscal year-end. This is because deferred tax assets increased and so did goodwill, owing to the impact of foreign currency translations, while intangible assets declined, owing primarily to the posting of impairment loss.

Current assets grew by 24.7 billion yen from the previous fiscal year-end, as cash and cash equivalents decreased while other financial assets increased significantly. Meanwhile, inventories and trade and other receivables showed an increase.

As a result, total assets increased by 25.0 billion yen from the previous fiscal year-end to 834.7 billion yen.

Total liabilities decreased by 20.4 billion yen from the previous fiscal year-end to 336.6 billion yen, as a result of a decrease in interest-bearing debts primarily attributable to redemption of bonds, decreases in trade and other payables and other financial liabilities, despite an increase in provisions.

Equity increased by 45.4 billion yen from the previous fiscal year-end to 498.1 billion yen, owing primarily to increases in retained earnings and exchange differences in translation of foreign operations under other components of equity.

Ratio of equity attributable to owners of the parent to total assets as of the end of the fiscal year under review was 59.7%.

(3) Analysis of Cash Flows

Cash flows provided by operating activities decreased by 44.7 billion yen year-on-year to 48.7 billion yen, primarily owing to an increase in income taxes paid as well as to factors that contributed to a decrease in cash, including decreases in profit before taxes and trade and other payables.

Cash flows used in investing activities increased by 18.5 billion yen year-on-year to 35.0 billion yen, owing primarily to an increase in short-term loan receivables and the absence of proceeds from business transfer during the fiscal year under review, despite a decrease in purchase of intangible assets and investments.

Cash flows used in financial activities edged down year-on-year to 28.6 billion yen, due primarily to a decrease in repayment of loans, while payment of dividends increased.

After factoring in the impact of foreign currency translations applied to cash and cash equivalents, the balance of cash and cash equivalents as of March 31, 2019 was 137.3 billion yen, which represents a decrease of 10.5 billion yen from the end of the previous fiscal year.

(4) Forecasts for the Year Ending March 31, 2019

(Billions of yen)

	Fiscal 2018 Results	Fiscal 2019 Forecasts	Change	Change %
Revenue	459.3	460.0	0.7	0.2
Core operating profit	77.3	77.0	(0.3)	(0.4)
Operating profit	57.9	69.0	11.1	19.2
Net profit attributable to owners of the parent	48.6	49.0	0.4	0.8

< Revenue >

In Japan, revenue is expected to decrease due to the difficulty of offsetting the impacts of the market entry of generic LONASEN® tablets and powder and declines in sales of long-listed products, in spite of the utmost efforts to expand sales of TRERIEF® and Trulicity®, as well as LONASEN® transdermal patch formulation. In North America, on the other hand, revenue is expected to grow due to sales expansion of LATUDA®, APTIOM®, and LONHALA® MAGNAIR® (therapeutic agent for COPD). Consolidated revenue is thus expected to increase slightly year-on-year to 460.0 billion yen.

< Profit >

Core operating profit is expected to decrease slightly year-on-year to 77.0 billion yen, after taking into account a decrease in selling, general, and administrative expenses in Japan and North America and an increase in R&D expenses. Meanwhile, operating profit is expected to reach 69.0 billion yen (up by 11.1 billion yen year-on-year) due to the reporting of impairment loss during fiscal 2018, and net profit attributable to owners of the parent to increase slightly year-on-year to 49.0 billion yen, as income tax expenses are likely to increase.

< Prior condition >

Foreign currency exchange rates used for the forecasts are: 1 USD = 110 JPY (110.9 JPY in the fiscal year under review), 1 RMB =16.5 JPY (16.5 JPY in the fiscal year under review).

(5) 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 dividend payments from retained earnings twice each year, which includes an interim dividend determined by the Company's Board of Directors and a year-end dividend determined by the general meeting of shareholders.

The Company believes it important to distribute surplus in an appropriate manner reflecting any improvement in its performance. Accordingly, a performance-linked dividend hike will be considered in addition to consistent dividend payments. In a constant effort to further increase its corporate value, the Company remains committed to establishing a solid management base and a strong financial position, while making proactive investments for sustainable business growth. In the Mid-term Business Plan covering the period from fiscal 2018 through 2022, the Company aims for a five-year average dividend payout ratio of 20% or higher during the period.

During the period under review, the Company reported core operating profit of 77.3 billion yen and net profit attributable to owners of the parent of 48.6 billion yen.

Given the dividend policy and earnings results of the fiscal year under review, the Company plans to pay a year-end dividend of 19 yen per share, resulting in an annual dividend of 28 yen per share for fiscal 2018.

As business performance for fiscal 2019 is expected to be on par with that of fiscal 2018, the Company plans to pay an annual dividend of 28 yen per share, which comprises an interim dividend of 14 yen per share and a year-end dividend of 14 yen per share.

2. Basic policy for application of accounting standard

Starting from the fiscal year ended March 31, 2018 (FY2017), the Group has adopted IFRS for preparing its consolidated financial statements with a view toward improving the international comparability of its financial statements in the capital markets and improving business management within the Group by standardizing accounting treatment.

3. Consolidated Financial Statements

(1) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income

Consolidated Statement of Profit or Loss

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Revenue	466,838	459,267
Cost of sales	112,345	113,553
Gross profit	354,493	345,714
Selling, general and administrative expenses	183,651	180,439
Research and development expenses	86,928	102,364
Other income	9,417	885
Other expenses	5,158	5,912
Operating profit	88,173	57,884
Finance income	2,430	7,369
Finance costs	5,737	207
Profit before taxes	84,866	65,046
Income tax expenses	31,418	16,419
Net profit	53,448	48,627
Net profit attributable to:		
Owners of the parent	53,448	48,627
Net profit total	53,448	48,627
Earnings per share (yen)		
Basic earnings per share	134.53	122.39

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Net profit	53,448	48,627
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	8,527	876
Remeasurements of defined benefit liability (asset)	(2,824)	(2,089)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(10,748)	8,766
Cash flow hedges	(1)	15
Total other comprehensive income	(5,046)	7,568
Total comprehensive income	48,402	56,195
Total comprehensive income attributable to:		
Owners of the parent	48,402	56,195
Total comprehensive income	48,402	56,195

(2) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Assets		
Non-current assets		
Property, plant and equipment	58,204	59,485
Goodwill	95,097	99,348
Intangible assets	189,681	171,390
Other financial assets	70,993	74,668
Income taxes receivable	2,453	2,562
Other non-current assets	3,067	3,277
Deferred tax assets	41,608	50,719
Total non-current assets	461,103	461,449
Current assets		
Inventories	60,169	66,889
Trade and other receivables	112,982	118,760
Other financial assets	22,066	43,750
Income taxes receivable	419	483
Other current assets	5,170	6,090
Cash and cash equivalents	147,775	137,296
Total current assets	348,581	373,268
Total assets	809,684	834,717

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Liabilities and equity		
Liabilities		
Non-current liabilities		
Bonds and borrowings	30,940	27,980
Other financial liabilities	88,427	80,387
Retirement benefit liabilities	20,700	23,613
Other non-current liabilities	6,551	6,425
Deferred tax liabilities	95	-
Total non-current liabilities	146,713	138,405
Current liabilities		
Bonds and borrowings	16,460	2,960
Trade and other payables	58,708	49,238
Other financial liabilities	6,278	8,673
Income taxes payable	14,368	15,723
Provisions	84,433	92,176
Other current liabilities	30,001	29,404
Total current liabilities	210,248	198,174
Total liabilities	356,961	336,579
Equity		
Share capital	22,400	22,400
Capital surplus	15,860	15,861
Treasury shares	(669)	(674)
Retained earnings	396,037	431,799
Other components of equity	19,095	28,752
Equity attributable to owners of the parent	452,723	498,138
Total equity	452,723	498,138
Total liabilities and equity	809,684	834,717

(3) Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit liability (asset)
Balance as of April 1, 2017	22,400	15,860	(667)	357,769	18,797	—
Net profit	—	—	—	53,448	—	—
Other comprehensive income	—	—	—	—	8,527	(2,824)
Total comprehensive income	—	—	—	53,448	8,527	(2,824)
Purchase of treasury shares	—	—	(2)	—	—	—
Dividends	—	—	—	(7,945)	—	—
Reclassification from other components of equity to retained earnings	—	—	—	(7,235)	4,411	2,824
Total transactions with owners	—	—	(2)	(15,180)	4,411	2,824
Balance as of March 31, 2018	22,400	15,860	(669)	396,037	31,735	—
Cumulative effects of changes in accounting policies	—	—	—	348	—	—
Restated balance	22,400	15,860	(669)	396,385	31,735	—
Net profit	—	—	—	48,627	—	—
Other comprehensive income	—	—	—	—	876	(2,089)
Total comprehensive income	—	—	—	48,627	876	(2,089)
Purchase of treasury shares	—	—	(6)	—	—	—
Disposal of treasury shares	—	1	1	—	—	—
Dividends	—	—	—	(11,124)	—	—
Reclassification from other components of equity to retained earnings	—	—	—	(2,089)	—	2,089
Total transactions with owners	—	1	(5)	(13,213)	—	2,089
Balance as of March 31, 2019	22,400	15,861	(674)	431,799	32,611	—

(Millions of yen)

	Equity attributable to owners of the parent				Total equity
	Other components of equity			Total	
	Exchange differences on translation of foreign operations	Cash flow hedges	Total		
Balance as of April 1, 2017	(1,871)	(20)	16,906	412,268	412,268
Net profit	—	—	—	53,448	53,448
Other comprehensive income	(10,748)	(1)	(5,046)	(5,046)	(5,046)
Total comprehensive income	(10,748)	(1)	(5,046)	48,402	48,402
Purchase of treasury shares	—	—	—	(2)	(2)
Dividends	—	—	—	(7,945)	(7,945)
Reclassification from other components of equity to retained earnings	—	—	7,235	—	—
Total transactions with owners	—	—	7,235	(7,947)	(7,947)
Balance as of March 31, 2018	(12,619)	(21)	19,095	452,723	452,723
Cumulative effects of changes in accounting policies	—	—	—	348	348
Restated balance	(12,619)	(21)	19,095	453,071	453,071
Net profit	—	—	—	48,627	48,627
Other comprehensive income	8,766	15	7,568	7,568	7,568
Total comprehensive income	8,766	15	7,568	56,195	56,195
Purchase of treasury shares	—	—	—	(6)	(6)
Disposal of treasury shares	—	—	—	2	2
Dividends	—	—	—	(11,124)	(11,124)
Reclassification from other components of equity to retained earnings	—	—	2,089	—	—
Total transactions with owners	—	—	2,089	(11,128)	(11,128)
Balance as of March 31, 2019	(3,853)	(6)	28,752	498,138	498,138

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Cash flows from operating activities		
Net profit	53,448	48,627
Depreciation and amortization	12,887	13,976
Impairment losses	2,147	22,996
Changes in fair value of contingent consideration	(8,608)	(9,128)
Interest and dividend income	(2,430)	(3,702)
Interest expenses	394	178
Income tax expenses	31,418	16,419
(Increase) decrease in trade and other receivables	(2,934)	(3,630)
(Increase) decrease in inventories	(4,382)	(3,207)
Increase (decrease) in trade and other payables	10,493	(10,869)
Increase (decrease) in retirement benefits liabilities	276	(114)
Increase (decrease) in provisions	12,067	3,997
Others, net	442	(6,805)
Subtotal	105,218	68,738
Interest received	1,058	2,424
Dividends received	1,246	1,156
Interest paid	(338)	(144)
Income taxes paid	(13,764)	(23,463)
Net cash provided by operating activities	93,420	48,711
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,129)	(9,265)
Proceeds from sales of property, plant and equipment	960	1,693
Purchase of intangible assets	(7,225)	(3,649)
Purchase of investments	(6,226)	(2,778)
Proceeds from sales and redemption of investments	31	—
Net decrease (increase) in short-term loan receivables	(5,468)	(21,050)
Proceeds from business transfer	9,423	—
Others, net	(2,889)	—
Net cash used in investing activities	(16,523)	(35,049)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(36,500)	(3,500)
Proceeds from long-term borrowings	35,300	—
Repayments of long-term borrowings	(9,400)	(2,960)
Redemption of bonds	(10,000)	(10,000)
Repayments of finance lease obligations	(1,064)	(1,059)
Dividends paid	(7,944)	(11,122)
Others, net	(2)	(4)
Net cash provided by (used in) financing activities	(29,610)	(28,645)
Net increase (decrease) in cash and cash equivalents	47,287	(14,983)
Cash and cash equivalents at beginning of year	105,603	147,775
Effect of exchange rate changes on cash and cash equivalents	(5,115)	4,504
Cash and cash equivalents at end of year	147,775	137,296

(5) Notes to Consolidated Financial Statements

(Notes on Premise of Going Concern)

Not applicable.

(Significant Accounting Policies)

The significant accounting policies applied to the Consolidated Financial Statements are same as those of prior fiscal year's consolidated financial statements, except for the accounting standards provided below.

(Adoption of IFRS 15 "Revenue from Contracts with Customers")

Starting from the year ended March 31, 2019, the Group adopted IFRS 15 "Revenue from Contracts with Customers" (issued in May 2014) and "Clarifications to IFRS 15" (issued in April 2016) (together, hereinafter "IFRS 15"). For the adoption of IFRS 15, the Group applied this Standard using the method, which is retrospectively with the cumulative effect of applying this Standard recognized at the date of initial application.

The Group recognizes revenue based on the following five-step model.

Step 1: Identify the contract with a customer

Step 2: identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

The Group's revenue mainly consists of revenue from sales of products such as pharmaceuticals for medical treatments (sales of products), revenue from lump sum payments received arising from technology licensing-out agreements, milestone income and royalty income (revenue arising from intellectual property rights). The revenue recognition policies for each type of revenue are as follows.

(1) Sales of products

For sales of products, the performance obligation is judged to have been satisfied and revenue is recognized upon delivery of the products, because the customer obtains control over the products upon delivery. Revenue is measured at the consideration promised in a contract with a customer, less product returns, discounts and rebates, to the extent that it is highly probable that a significant reversal will not occur.

(2) Revenue arising from intellectual property rights

Lump sum payments received arising from agreements are recognized as revenue, after signing the technology licensing-out agreements and at a point in time that the development and marketing rights are granted to the third party.

Milestone income is recognized as revenue at a point in time of the achievement of a milestone defined in an agreement.

Royalty income is a consideration on the technology licensing-out agreement that is calculated based on the revenue of counterparty. It is recognized as revenue at the later of either when the revenue of counterparty is recognized or when the performance obligation is satisfied.

Compared with the application of the former accounting standards, the effect on the Consolidated Statement of Income for the year ended March 31, 2019 and the Consolidated Statement of Financial Position as of March 31, 2019, is immaterial.

(Operating Segments)

The Group has set an original performance indicator for the Company's recurring profitability in the form of "core operating profit."

"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors designated by the Group. Among the main non-recurring items are impairment losses, restructuring costs and changes in fair value of contingent consideration related to company acquisitions.

(1) Reportable segments

The Group is mainly engaged in manufacture, purchase and sales of pharmaceuticals for medical treatment and manages the performance of pharmaceutical business by market in Japan, North America, China and etc. Therefore, the Group has four reportable segments: Japan, North America, China, and Other Regions.

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

(2) Revenues and operating results of the reportable segments

Revenues, profit or loss and other items by each of the Group's reportable segments are shown below.

The accounting policies of reportable segments are identical to those set forth in Significant Accounting Policies.

The Group sets core segment profit, which is an indicator showing each segment's recurring profitability , as its own indicator of segment business performance management.

Core segment profit is each segment profit calculated by deducting from core operating profit R&D expenses, gains and losses on sales of operations and etc. which are not allocated to each segment because such expenses are managed on a global basis.

① Year ended March 31, 2018

(Millions of yen)

	Reportable segments					Other Business (Note)	Total
	Pharmaceutical						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	143,325	240,791	23,444	16,468	424,028	42,810	466,838
Inter-segment revenues and transfers	75	—	—	—	75	68	143
Total	143,400	240,791	23,444	16,468	424,103	42,878	466,981
Segment profit (Core segment profit)	40,271	109,527	10,715	5,127	165,640	2,650	168,290
Other items							
Depreciation and amortization	3,068	4,944	583	909	9,504	93	9,597
Impairment losses	2,147	—	—	—	2,147	—	2,147

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

② Year ended March 31, 2019

(Millions of yen)

	Reportable segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	129,287	252,542	24,749	14,287	420,865	38,402	459,267
Inter-segment revenues and transfers	71	—	—	—	71	35	106
Total	129,358	252,542	24,749	14,287	420,936	38,437	459,373
Segment profit (Core segment profit)	25,120	114,535	12,297	5,007	156,959	3,014	159,973
Other items							
Depreciation and amortization	2,509	7,086	527	685	10,807	88	10,895
Impairment losses	117	22,879	—	—	22,996	—	22,996

(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.

(3) Reconciliations between the total amounts of reportable segments and the amounts in the consolidated financial statements (reconciliation items)

The details of reconciliation are as follows:

(Millions of yen)

Revenue	Year ended March 31, 2018	Year ended March 31, 2019
Total of reportable segments	424,103	420,936
Revenue of Other Business	42,878	38,437
Elimination of inter-segment revenue	(143)	(106)
Revenue on the consolidated financial statements	466,838	459,267

(Millions of yen)

Profit	Year ended March 31, 2018	Year ended March 31, 2019
Total of reportable segments	165,640	156,959
Segment profit of Other Business	2,650	3,014
Elimination of inter-segment profit	27	42
Research and development expenses (Note)	(86,881)	(82,891)
Gains on business transfers	9,178	148
Others	(10)	27
Core operating profit	90,604	77,299
Change in fair value of contingent consideration	6,371	9,128
Impairment losses	(2,147)	(22,996)
Litigation related expenses	(1,746)	—
Other income	249	710
Other expenses	(5,158)	(5,912)
Others	—	(345)
Operating profit in the consolidated financial statements	88,173	57,884

(Note) The Group does not allocate research and development expenses to the operating segments because such expenses are managed on a global basis.

(Millions of yen)

Other items	Total of reportable segments		Other Business		Adjustments		Amount in the consolidated financial statements	
	FY2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018	FY 2017	FY 2018
Depreciation and amortization	9,504	10,807	93	88	3,290	3,081	12,887	13,976

(4) Revenues

The details of revenues from external customers are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Sale of goods	462,117	454,088
Revenue arising from intellectual property rights	3,548	3,290
Other	1,173	1,889
Total	466,838	459,267

(5) Information by product and service

The details of sales from external customer by product and service are as follows:

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Pharmaceuticals	424,028	420,865
Others	42,810	38,402
Total	466,838	459,267

(6) Geographic information

The Group's geographic revenues are classified by country and region, based on the location of customers.

(Millions of yen)

	Year ended March 31, 2018	Year ended March 31, 2019
Japan	188,806	170,916
North America	239,615	252,066
U.S.A.in North America	235,207	247,191
Others	38,417	36,285
Total	466,838	459,267

The details of the breakdown of carrying amounts of the Group's non-current assets (except for financial assets, deferred tax assets and retirement benefit assets) by location are as follows:

(Millions of yen)

	As of March 31, 2018	As of March 31, 2019
Japan	74,221	75,973
North America	272,882	258,662
U.S.A.in North America	271,575	257,120
Others	1,399	1,427
Total	348,502	336,062

(7) Information of major customers

Revenue from major customer which individually accounts for greater than 10% of the total Group's revenue are as follows:

(Millions of yen)

	Reportable segment	Year ended March 31, 2018	Year ended March 31, 2019
McKesson Corporation	North America	82,506	84,453
Cardinal Health Inc.	North America	64,301	69,025
AmerisourceBergen Corporation	North America	59,783	66,692

(Impairment loss)

Impairment losses amounting to 2,147 million yen were recognized for the year ended March 31, 2018, which is mainly led by the assessment result of recoverable amounts of certain closed welfare benefit facilities of Japan segment in pharmaceutical business. The recoverable amounts were measured at fair value, less the cost of disposal. The fair value was measured by the real estate appraisal value which was assessed using the market approach by a third party. It is classified as level 3 of the fair value hierarchy.

Impairment losses amounting to 22,996 million yen recognized for the year ended March 31, 2019 were recorded in Cost of sales, Selling, general and administrative expenses, and Research and development expenses in the Consolidated Statement of Profit or Loss amounting to 99 million yen, 3,424 million yen, and 19,473 million yen, respectively.

The details of impairment losses were 492 million yen of impairment losses on property, plant and equipment, and 22,504 million yen of impairment losses on intangible assets.

Impairment losses on property, plant and equipment amounting to 492 million yen mainly represented a reduction of carrying amount of buildings and structures, machinery and vehicles, and tools, furniture and fixtures to the recoverable amount, which is value in use, due to a decrease in the profitability, in Japan segment and North America segment of pharmaceutical business.

Impairment losses on intangible assets amounting to 22,504 million yen were impairment loss on product marketing rights acquired from other companies in North America segment of pharmaceutical business amounting to 3,424 million yen, and impairment loss on in-progress research and development of “Apomorphine hydrochloride (product code: APL-130277), which is being developed as therapeutic agent for OFF episodes associated with Parkinson’s disease, amounting to 19,080 million yen.

As for product marketing rights acquired from other companies, the total carrying amount is reduced, due to a decrease in the profitability.

As for in-progress research and development of “Apomorphine hydrochloride (product code: APL-130277), the carrying amount was reduced to the extent of the recoverable amount of 55,156 million yen as the expected profitability would not be achieved. The recoverable amount is measured based on value in use, using the pre-tax discount rate of 10.0% to 15.0%.

(Per-share information)

The basis for calculating basic earnings per share and earnings per share were as follows:

	Year ended March 31, 2018	Year ended March 31, 2019
The basis for calculating basic earnings per share		
Net profit attributable to owners of the Parent (millions of yen)	53,448	48,627
Amounts not attributable to ordinary shareholders of the parent (millions of yen)	—	—
Net profit used to calculate basic earnings per share (millions of yen)	53,448	48,627
Weighted average number of ordinary shares (1,000 shares)	397,299	397,297
Earnings per share (Yen)		
Basic earnings per share (Yen)	134.53	122.39

(Note) Dilutive earnings per share were not disclosed as there was no dilution.

(Significant subsequent event)

Not applicable.

4. Others

Changes in the Members, Board of Directors (as of June 20, 2019)

(1) Changes in the Members, Board of Directors (as of June 20, 2019)

(i) New Members of the Board of Directors

Nobuhiko Tamura (currently Senior Executive Officer)
Nobuhiro Endo (currently Chairman of the Board (Representative Director), NEC Corporation)

Note: The new members of the Board of Directors who will take office as of June 20, 2019 subject to the approval at the general shareholders' meeting scheduled for the same date.
Nobuhiro Endo is a candidate for Outside Director.

(ii) Retiring Members of the Board of Directors

Nobuyuki Hara (currently Member, Board of Directors)
Hidehiko Sato (currently Outside Member, Board of Directors)