Summary of Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2020 [IFRS]

October 28, 2019

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Stock Exchange Listings: Tokyo
Security Code Number: 4506 (URL https://www.ds-pharma.com/)
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Starting Date of Dividend Payments: December 2, 2019
Preparation of Supplementary Financial Data for Quarterly Financial Results: Yes
Information Meeting for Quarterly Financial Results to be held: Yes (for institutional investors and analysts)

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

1. Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2020 （April 1, 2019 to September 30, 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	%
Six months ended September 30, 2019	230,603	2.0	44,756	20.5	66,835	125.7	30,330	8.8	30,330	8.8	21,078	(53.8)
Six months ended September 30, 2018	226,155	(2.2)	37,151	(33.4)	29,607	(50.2)	27,869	(38.5)	27,869	(38.5)	45,581	(7.0)

Note: Profit before taxes Six months ended September 30, 2019: ¥64,147 million
Six months ended September 30, 2018: ¥37,599 million
"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors that the Group designates (hereinafter, "non-recurring Items").

	Basic earnings per share	Earnings per share (diluted)
Six months ended September 30, 2019	¥76.34	—
Six months ended September 30, 2018	¥70.15	—

(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 September 30, 2019	805,037	511,665	511,665	63.6%	¥1,287.87
As of March 31, 2019	834,717	498,138	498,138	59.7%	¥1,253.82

2. Dividends

	Dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual
Year ended March 31, 2019	—	¥9.00	—	¥19.00	¥28.00
Year ending March 31, 2020	—	¥14.00			
Year ending March 31, 2020 (Forecasts)			—	¥14.00	¥28.00

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

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		Basic earnings per share
	Yen million	%	Yen million	%	Yen million	%	Yen million	%	Yen million	%	
Year ending March 31, 2020	475,000	3.4	77,000	(0.4)	88,000	52.0	36,000	(26.0)	36,000	(26.0)	¥90.61

Note1: Profit before taxes Year ending March 31, 2020 : ¥91,000 million

2: Revision of consolidated financial forecasts from the latest announcement: None

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

September 30, 2019: 397,900,154 shares

March 31, 2019: 397,900,154 shares

② Number of treasury stock at the end of period

September 30, 2019: 604,444 shares

March 31, 2019: 603,851 shares

③ Average number of shares during the period

September 30, 2019: 397,296,005 shares

September 30, 2018: 397,297,622 shares

This summary of financial results is exempt from review procedures.

Explanation for Appropriate Use of Forecasts and Other Notes:

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 4, (4) Qualitative Information on Consolidated Financial Forecasts.

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

The Company holds the earnings presentation for institutional investors and analysts on Friday, November 1, 2019. The video of the presentation will be posted on our website promptly after the presentation.

【Attachment Documents】

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1. Qualitative Information for the Six Months ended September 30, 2019

The Group discloses its consolidated financial statements that are prepared in accordance with International Financial Reporting Standards (IFRS).
Forward-looking statements contained herein are based on the Group's judgments in light of information available as of the last day of the six-month period under review.

(1) Qualitative Information on Business Results

About the performance indicator of "core operating profit"
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.

Highlights of the Group's consolidated financial results for the first six months of the fiscal year ending March 31, 2020 are as follows:

(Billions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019	Change	Change %
Revenue	226.2	230.6	4.4	2.0
Core operating profit	37.2	44.8	7.6	20.5
Operating profit	29.6	66.8	37.2	125.7
Profit before taxes	37.6	64.1	26.5	70.6
Net profit attributable to owners of the parent	27.9	30.3	2.5	8.8

Revenue increased by 2.0% year-on-year to 230.6 billion yen.
Despite a decrease in revenue in the Japan segment due to the major impact of declines in sales of long-listed drugs, revenue for the Group registered an increase overall as sales of atypical antipsychotic agent LATUDA®, one of the primary sources of revenue for the Group, continued to expand in the North America segment and the China segment experienced continued revenue growth.

Core operating profit increased by 20.5% year-on-year to 44.8 billion yen.
Core operating profit increased as gross profit grew on the back of a revenue increase and as selling, general and administrative expenses decreased.

Operating profit increased by 125.7% year-on-year to 66.8 billion yen.
Following the modifications of business plans, including a review of development plans, in the oncology area, we recorded impairment losses on in-process research and development, which is included in intangible assets pertaining to business in that area. The modifications of business plans resulted in a substantial decrease in the fair value of contingent consideration related to the acquisitions of Boston Biomedical, Inc. and Tolero Pharmaceuticals, Inc., which then led to a reversal of expenses that exceeded the impairment losses. As a result, operating profit showed a significant increase, on top of the increase in core operating profit.

Profit before taxes increased by 70.6% year-on-year to 64.1 billion yen.
At the end of the second quarter of the fiscal year under review, finance costs showed an increase, as the Company recorded foreign exchange losses on its financial assets denominated in foreign currencies, due to the appreciation of the yen against the U.S. dollar in the foreign exchange market since the end of the previous fiscal year. As a result, profit before taxes did not increase as much as operating profit.

Net profit attributable to owners of the parent increased by 8.8% year-on-year to 30.3 billion yen.
Due to the decision to discontinue the Phase 3 study of napabucasin in patients with pancreatic cancer, the Group reversed deferred tax assets recognized in North America. Primarily as a result of this, income tax expenses increased substantially. Nevertheless, an increase was registered in net profit attributable to owners of the parent, too.
The ratio of net profit attributable to owners of the parent to revenue was 13.2%.

About the new segment performance indicator of “core segment profit”
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.

Operating results by segment are as follows.

[Japan segment]
Revenue decreased by 3.3% year-on-year to 64.2 billion yen.
While sales of Trulicity® (therapeutic agent for type 2 diabetes) continued to increase, sales collaboration with Novartis Pharma K.K. began for Novartis’ Equa® 50mg tablets and EquMet® combination LD/HD tablets, both of which are indicated for the treatment of type 2 diabetes. Despite these positive factors, revenue decreased due to significant declines in sales of long-listed products, such as AIMIX® (therapeutic agent for hypertension) and LONASEN® oral medication (atypical antipsychotic), the latter for which generic drugs have been recently released.
Core segment profit decreased by 13.2% year-on-year to 13.3 billion yen.
This decrease is chiefly attributable to the decrease in gross profit due to the revenue decline.

[North America segment]
Revenue increased by 5.6% year-on-year to 129.3 billion yen.
This increase is attributable to the sales expansion of antiepileptic agent APTIOM® and other products, as well as a continued increase in LATUDA® sales.
Core segment profit increased by 13.3% year-on-year to 62.1 billion yen.
This increase is attributable to the increase in gross profit due to the revenue growth and the decline in selling, general and administrative expenses.

[China segment]
Revenue increased by 23.2% year-on-year to 14.0 billion yen.
This increase is attributable to the growth in sales of carbapenem antibiotic MEROPEN® and other products.
Core segment profit increased by 47.5% year-on-year to 7.5 billion yen.
This major increase is primarily attributable to the increase in gross profit due to the revenue growth.

[Other Regions segment]

Revenue decreased by 38.0% year-on-year to 4.3 billion yen.

This decrease is chiefly attributable to the decrease in exports of MEROPEN®.

Core segment profit decreased by 28.3% year-on-year to 1.2 billion yen.

This decrease is attributable to the decrease in gross profit due to the revenue decline.

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, and other product lines, which together generated revenue of 18.7 billion yen (down by 0.8% year-on-year) and core segment profit of 1.6 billion yen (up by 7.1% year-on-year).

(2) Qualitative Information on Financial Condition

Non-current assets decreased by 39.1 billion yen over the previous fiscal year-end as property, plant and equipment increased due to the adoption of IFRS 16 “Leases” from the beginning of the current fiscal year but intangible assets fell, primarily due to impairment losses on in-process research and development and deferred tax assets being reversed in North America.

Current assets increased by 9.4 billion yen from the previous fiscal year-end as cash and cash equivalents and other current assets increased, although other financial assets decreased due to a decline in short-term loans receivables.

As a result, total assets decreased by 29.7 billion yen from the previous fiscal year-end to 805.0 billion yen.

Total liabilities decreased by 43.2 billion yen from the previous fiscal year-end to reach 293.4 billion yen, as a result of the decline in other financial liabilities due to the decrease in the fair value of contingent consideration and decreases in provisions and other current liabilities.

Equity increased by 13.5 billion yen from the previous fiscal year-end to 511.7 billion yen, owing to an increase in retained earnings despite declines in other components of equity, including exchange differences in translation of foreign operations.

The ratio of equity attributable to owners of the parent to total assets as of the end of the six-month period under review was 63.6%.

(3) Qualitative Information on Cash Flows

Cash flows provided by operating activities increased by 24.8 billion yen year-on-year to 31.8 billion yen, owing primarily to an increase in profit before taxes, as well as other factors that contributed to an increase in cash, including an increase in trade and other payables.

Cash flows provided by investing activities increased by 11.5 billion yen year-on-year to 10.8 billion yen, owing primarily to a decrease in short-term loans receivables despite an increase in purchase of intangible assets and investments.

Cash flows used in financial activities decreased by 11.9 billion yen year-on-year to 11.2 billion yen, due to the absence of redemption of bonds and a decrease in short-term borrowings payable and other factors, which were recorded in the corresponding period of the previous year.

After factoring in the impact of foreign currency translations applied to cash and cash equivalents, the balance of cash and cash equivalents as of September 30, 2019 amounted to 164.7 billion yen, which represents an increase of 27.4 billion yen from the previous fiscal year-end.

(4) Qualitative Information on Consolidated Financial Forecasts

The Company has not revised the consolidated financial forecasts that were announced on July 29, 2019.

2. 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)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Revenue	226,155	230,603
Cost of sales	55,593	56,286
Gross profit	170,562	174,317
Selling, general and administrative expenses	99,016	47,030
Research and development expenses	41,322	60,151
Other income	239	531
Other expenses	856	832
Operating profit	29,607	66,835
Finance income	8,121	2,338
Finance costs	129	5,026
Profit before taxes	37,599	64,147
Income tax expenses	9,730	33,817
Net profit	27,869	30,330
Net profit attributable to:		
Owners of the parent	27,869	30,330
Net profit total	27,869	30,330
Earnings per share (yen)		
Basic earnings per share	70.15	76.34

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Net profit	27,869	30,330
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	3,847	(3,292)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	13,809	(5,945)
Cash flow hedges	56	(15)
Total other comprehensive income	17,712	(9,252)
Total comprehensive income	45,581	21,078
Total comprehensive income attributable to:		
Owners of the parent	45,581	21,078
Total comprehensive income	45,581	21,078

(2) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Assets		
Non-current assets		
Property, plant and equipment	59,485	69,026
Goodwill	99,348	96,601
Intangible assets	171,390	147,675
Other financial assets	74,668	69,875
Income taxes receivable	2,562	1,246
Other non-current assets	3,277	4,012
Deferred tax assets	50,719	33,922
Total non-current assets	461,449	422,357
Current assets		
Inventories	66,889	66,615
Trade and other receivables	118,760	119,356
Other financial assets	43,750	23,714
Income taxes receivable	483	1,587
Other current assets	6,090	6,737
Cash and cash equivalents	137,296	164,671
Total current assets	373,268	382,680
Total assets	834,717	805,037

(Millions of yen)

	As of March 31, 2019	As of September 30, 2019
Liabilities and equity		
Liabilities		
Non-current liabilities		
Bonds and borrowings	27,980	26,500
Other financial liabilities	80,387	45,926
Retirement benefit liabilities	23,613	23,877
Other non-current liabilities	6,425	3,852
Deferred tax liabilities	—	1
Total non-current liabilities	138,405	100,156
Current liabilities		
Bonds and borrowings	2,960	2,960
Trade and other payables	49,238	48,938
Other financial liabilities	8,673	13,727
Income taxes payable	15,723	17,216
Provisions	92,176	86,244
Other current liabilities	29,404	24,131
Total current liabilities	198,174	193,216
Total liabilities	336,579	293,372
Equity		
Share capital	22,400	22,400
Capital surplus	15,861	15,861
Treasury shares	(674)	(676)
Retained earnings	431,799	451,606
Other components of equity	28,752	22,474
Equity attributable to owners of the parent	498,138	511,665
Total equity	498,138	511,665
Total liabilities and equity	834,717	805,037

(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, 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	–	–	–	27,869	–	–
Other comprehensive income	–	–	–	–	3,847	–
Total comprehensive income	–	–	–	27,869	3,847	–
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	(7,549)	–	–
Total transactions with owners	–	–	(2)	(7,549)	–	–
Balance as of September 30, 2018	22,400	15,860	(671)	416,705	35,582	–

Balance as of April 1, 2019	22,400	15,861	(674)	431,799	32,611	–
Net profit	–	–	–	30,330	–	–
Other comprehensive income	–	–	–	–	(3,292)	–
Total comprehensive income	–	–	–	30,330	(3,292)	–
Purchase of treasury shares	–	–	(2)	–	–	–
Dividends	–	–	–	(7,549)	–	–
Reclassification from other components of equity to retained earnings	–	–	–	(2,974)	2,974	–
Total transactions with owners	–	–	(2)	(10,523)	2,974	–
Balance as of September 30, 2019	22,400	15,861	(676)	451,606	32,293	–

(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, 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	−	−	−	27,869	27,869
Other comprehensive income	13,809	56	17,712	17,712	17,712
Total comprehensive income	13,809	56	17,712	45,581	45,581
Purchase of treasury shares	−	−	−	(2)	(2)
Dividends	−	−	−	(7,549)	(7,549)
Total transactions with owners	−	−	−	(7,551)	(7,551)
Balance as of September 30, 2018	1,190	35	36,807	491,101	491,101

Balance as of April 1, 2019	(3,853)	(6)	28,752	498,138	498,138
Net profit	−	−	−	30,330	30,330
Other comprehensive income	(5,945)	(15)	(9,252)	(9,252)	(9,252)
Total comprehensive income	(5,945)	(15)	(9,252)	21,078	21,078
Purchase of treasury shares	−	−	−	(2)	(2)
Dividends	−	−	−	(7,549)	(7,549)
Reclassification from other components of equity to retained earnings	−	−	2,974	−	−
Total transactions with owners	−	−	2,974	(7,551)	(7,551)
Balance as of September 30, 2019	(9,798)	(21)	22,474	511,665	511,665

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended September 30, 2018	Six months ended September 30, 2019
Cash flows from operating activities		
Net profit	27,869	30,330
Depreciation and amortization	7,027	8,572
Impairment losses	−	19,116
Changes in fair value of contingent consideration	6,850	(41,757)
Interest and dividend income	(1,640)	(2,337)
Interest expenses	112	195
Income tax expenses	9,730	33,817
(Increase) decrease in trade and other receivables	(3,070)	(1,884)
(Increase) decrease in inventories	(2,918)	(2,431)
Increase (decrease) in trade and other payables	(12,007)	4,135
Increase (decrease) in retirement benefits liabilities	2	281
Increase (decrease) in provisions	1,791	(3,395)
Others, net	(15,311)	(2,071)
Subtotal	18,435	42,571
Interest received	1,074	1,552
Dividends received	493	754
Interest paid	(106)	(137)
Income taxes paid	(12,935)	(12,963)
Net cash provided by (used in) operating activities	6,961	31,777
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,733)	(5,446)
Proceeds from sales of property, plant and equipment	292	428
Purchase of intangible assets	(1,754)	(2,810)
Purchase of investments	(883)	(2,190)
Proceeds from sales and redemptions of investments	−	253
Net (increase) decrease in short-term loan receivables	7,432	20,550
Others, net	−	23
Net cash provided by (used in) investing activities	(646)	10,808
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings payable	(3,500)	−
Repayments of long-term borrowings	(1,480)	(1,480)
Redemption of bonds	(10,000)	−
Repayments of lease liabilities	(522)	(2,148)
Dividends paid	(7,546)	(7,545)
Others, net	(2)	(2)
Net cash provided by (used in) financing activities	(23,050)	(11,175)
Net increase (decrease) in cash and cash equivalents	(16,735)	31,410
Cash and cash equivalents at beginning of year	147,775	137,296
Effect of exchange rate changes on cash and cash equivalents	6,545	(4,035)
Cash and cash equivalents at end of period	137,585	164,671

(5) Notes to Consolidated Financial Statements

Notes on Premise of Going Concern

Not applicable.

Significant Accounting Policies

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

Income tax expenses for the six months ended September 30, 2019 are calculated based on the estimated average annual effective tax rate.

Introduction or Revision of Standards and Interpretations		Overview of introduction or Revision
IFRS 16	Leases	Revised accounting standards for recognition of leases

Starting from the six months ended September 30, 2019, the Group adopted IFRS 16 "Leases" (issued in January 2016, hereinafter "IFRS 16").

The Group assesses whether the contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

If it is determined that a contract is, or contains, a lease, the Group recognizes right-of-use assets and lease liabilities at the commencement date of the lease.

(1) Right-of-use asset

The right-of-use asset is measured at cost. The cost of the right-of-use asset is measured at the amount of the initial measurement of the lease liability at the commencement date of the lease adjusted for the initial direct costs, etc.

The Group applies a cost model for subsequent measurement of right-of-use asset. After initial recognition, the right-of-use asset is depreciated using the straight-line method over the shorter of lease term of underlying asset or its estimated useful life.

The right-of-use asset is stated at cost less accumulated depreciation and accumulated impairment losses and included in property, plant and equipment in the consolidated statement of financial position.

(2) Lease liability

The lease liability is initially recognized at the present value of the lease payments that are not paid at the commencement date. The Group normally uses the incremental borrowing rate as a discount rate. After the initial recognition, the lease liability is measured by increasing and reducing the carrying amount to reflect interest on the lease liability and the lease payments made by using the effective interest method. The lease liability is included in other financial liabilities in the consolidated statement of financial position.

Lease payments are allocated between finance costs which are the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability, and the payment portion of lease liabilities. Finance costs are separated from depreciation expenses of the right-of-use asset in the consolidated statement of profit or loss.

As for short-term leases and leases of low-value assets, the Group basically does not recognize right-of-use assets and lease liabilities, but charges the lease payments associated with short-term leases and leases of low-value assets to the net profit or loss on a straight-line basis over the lease term.

(3) Impact on the Consolidated Financial Statements

The Group adopted IFRS 16 by using the following transition method (modified retrospective approach) of IFRS 16.

(i) To recognize the cumulative effect of adopting IFRS 16 at the date of initial application

(ii) For leases previously classified as operating leases

(a) To measure the lease liability at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate at the date of initial application.

(b) To measure and recognize the right-of-use asset by using either of the followings.
- To recognize the carrying amount as if IFRS 16 had been applied since the commencement date, but discounted using the lessee's incremental borrowing rate at the date of initial application
- To recognize the measurement amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments

In transitioning to IFRS 16, the Group chose the adoption of practical expedient which succeeded the previous judgement related to whether an arrangement is a lease.

As a result, the impact on the financial position at the date of initial application of the Group is that Total assets and Total liabilities in the consolidated statement of financial position increased by ¥14,626 million and ¥14,626 million, respectively. However, such impact on the performance is immaterial

The weighted average incremental borrowing rate applied to lease liabilities at the date of initial application is 1.5%.

The following is a difference between the total future minimum lease payments of non-cancellable operating lease at the end of the annual reporting period immediately preceding the date of initial application and lease liabilities recognized in the consolidated statement of financial position at the date of initial application.

(Millions of yen)

Total future minimum lease payments of non-cancellable operating lease as of March 31, 2019	9,543
Discounted using the incremental borrowing rate as of April 1, 2019	8,790
Finance lease obligations recognized as of March 31, 2019	2,043
Additional recognition of lease liabilities by revising the lease term	6,525
Lease liabilities as of April 1, 2019	17,358

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 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 Six months ended September 30, 2018

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	66,353	122,537	11,400	7,016	207,306	18,849	226,155
Inter-segment revenues and transfers	43	—	—	—	43	17	60
Total	66,396	122,537	11,400	7,016	207,349	18,866	226,215
Segment profit (Core segment profit)	15,368	54,759	5,115	1,699	76,941	1,443	78,384

(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 Six months ended September 30, 2019

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	64,176	129,344	14,042	4,347	211,909	18,694	230,603
Inter-segment revenues and transfers	51	—	—	—	51	25	76
Total	64,227	129,344	14,042	4,347	211,960	18,719	230,679
Segment profit (Core segment profit)	13,344	62,052	7,547	1,219	84,162	1,550	85,712

(Note) The “Other Business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs, 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	Six months ended September 30, 2018	Six months ended September 30, 2019
Total of reportable segments	207,349	211,960
Revenue of Other Business	18,866	18,719
Elimination of inter-segment revenue	(60)	(76)
Revenue on the consolidated financial statements	226,155	230,603

(Millions of yen)

Profit	Six months ended September 30, 2018	Six months ended September 30, 2019
Total of reportable segments	76,941	84,162
Segment profit of Other Business	1,443	1,550
Elimination of inter-segment profit	12	9
Research and development expenses (Note)	(41,322)	(41,016)
Gains on business transfers	77	69
Others	−	(18)
Core operating profit	37,151	44,756
Change in fair value of contingent consideration	(6,850)	41,757
Impairment losses	−	(19,116)
Other income	157	480
Other expenses	(851)	(832)
Others	−	(210)
Operating profit in the consolidated financial statements	29,607	66,835

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

Impairment loss

Impairment losses on intangible assets amounting to 19,116 million yen recognized for six months ended September 30, 2019 were recorded in Research and development expenses in the Consolidated Statement of Profit or Loss.

Impairment losses on intangible assets were impairment loss on in-process research and development of alvocidib (product code: DSP-2033) amounting to 17,378 million yen, which is being developed as a small molecule inhibitor of cyclin-dependent kinase 9 (CDK9), and anti-cancer drug amcasertib (product code: BBI503) amounting to 1,738 million yen in North America segment of pharmaceutical business.

As for in-process research and development of alvocidib, the carrying amount was reduced to the extent of the recoverable amount of 8,634 million yen as the expected profitability would not be achieved. As for amcasertib, the total carrying amount is reduced due to the discontinuation of its clinical development.

The recoverable amount is measured based on value in use, using the pre-tax discount rate of 17.0%.

Significant subsequent event

Not applicable.