



Summary of Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2019 [IFRS]

October 30, 2018

Company Name: SUMITOMO DAINIPPON PHARMA CO., LTD.

Stock Exchange Listings: Tokyo

Security Code Number: 4506 (URL <https://www.ds-pharma.com/>)

Representative: Hiroshi Nomura, Representative Director, President and Chief Executive Officer

Contact: Atsuko Higuchi, Executive Communication Officer

Telephone: 03-5159-3300

Filing Date of Quarterly Financial Report: November 2, 2018

Starting Date of Dividend Payments: December 3, 2018

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, 2019 (April 1, 2018 to September 30, 2018)

(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, 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)
Six months ended September 30, 2017	231,351	—	55,772	—	59,475	—	45,335	—	45,335	—	49,023	—

Note: Profit before taxes

Six months ended September 30, 2018: ¥37,599 million

Six months ended September 30, 2017: ¥60,977 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, 2018	¥70.15	—
Six months ended September 30, 2017	¥114.11	—

(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, 2018	836,435	491,101	491,101	58.7%	¥1,236.10
As of March 31, 2018	809,684	452,723	452,723	55.9%	¥1,139.50

2. Dividends

	Dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual
Year ended March 31, 2018	—	¥9.00	—	¥19.00	¥28.00
Year ending March 31, 2019	—	¥9.00			
Year ending March 31, 2019 (Forecasts)			—	¥11.00	¥20.00

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

3. Consolidated Financial Forecasts for the Year Ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(% 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, 2019	467,000	0.0	77,000	(15.0)	53,000	(39.9)	35,000	(34.5)	35,000	(34.5)	¥88.10

Note1: Profit before taxes Year ending March 31, 2019 : ¥55,000 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, 2018: 397,900,154 shares

March 31, 2018: 397,900,154 shares

- ② Number of treasury stock at the end of period

September 30, 2018: 602,840 shares

March 31, 2018: 601,983 shares

- ③ Average number of shares during the period

September 30, 2018: 397,297,622 shares

September 30, 2017: 397,299,414 shares

This summary of financial results is exempt from review 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. Financial data for the first six months of the fiscal year are also represented under the IFRS.

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, (3) 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 Wednesday, October 31, 2018. The video of the presentation will be posted on our website promptly after the presentation.

【Attachment Documents】

1. Qualitative Information for the Six Months Ended September 30, 2018	2
(1) Qualitative Information on Business Results	2
(2) Qualitative Information on Financial Condition	4
(3) Qualitative Information on Consolidated Financial Forecasts	4
2. Consolidated Financial Statements	5
(1) Consolidated Statement of Profit or Loss and Consolidated Statement of Comprehensive Income	5
(2) Consolidated Statement of Financial Position	6
(3) Consolidated Statement of Changes in Equity	8
(4) Consolidated Statement of Cash Flows	10
(5) Notes to Consolidated Financial Statements	11

1. Qualitative Information for the Six Months Ended September 30, 2018

Starting from the previous fiscal year-end, the Group discloses its consolidated financial statements that are prepared in accordance with International Financial Reporting Standards (IFRS). Accordingly, for the purposes of comparative analysis, financial data for the first six months of the previous fiscal year presented below have been adjusted in line with 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 new 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, 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 first six months of the fiscal year ending March 31, 2019 are as follows:

	(Billions of yen)			
	Six months ended September 30, 2017	Six months ended September 30, 2018	Change	Change %
Revenue	231.4	226.2	(5.2)	(2.2)
Core operating profit	55.8	37.2	(18.6)	(33.4)
Operating profit	59.5	29.6	(29.9)	(50.2)
Profit before taxes	61.0	37.6	(23.4)	(38.3)
Net profit attributable to owners of the parent	45.3	27.9	(17.5)	(38.5)

Revenue decreased by 2.2% year-on-year to 226.2 billion yen.

Sales grew in the North America segment primarily owing to the growth in sales of antiepileptic agent APTIOM[®], while sales of atypical antipsychotic agent LATUDA[®], which is one of the primary sources of revenue for the Group, remained strong. Nevertheless, revenue for the Group decreased as sales in the Japan segment decreased owing primarily to NHI drug price revisions and declines in sales of long-listed drugs.

Core operating profit decreased by 33.4% year-on-year to 37.2 billion yen.

During the period under review, gross profit decreased chiefly attributable to NHI drug price revisions in the Japan segment, SG&A expenses increased in the North America segment, and R&D expenses showed an increase. Also, in the corresponding period of the previous year, the Company reported other income as a result of divestiture of marketing rights. Due to the absence of such factors, core operating profit showed a decrease.

Operating profit decreased by 50.2% year-on-year to 29.6 billion yen.

In the corresponding period of the previous year, the Company reported a reversal of expenses resulting from a decline in the fair value of contingent consideration following the decision to unblind Phase 3 global study of napabucasin (product code: BBI608), which is under development by Boston Biomedical, Inc., for gastric and gastro-esophageal junction cancer patients. Due to the absence of such factors in the period under review, as well as to a decrease in core operating profit, operating profit dropped significantly.

Profit before taxes decreased by 38.3% year-on-year to 37.6 billion yen.

In addition to an increase in interest income, the Company reported foreign exchange gains on its financial assets denominated in foreign currencies as the yen depreciated against the U.S. dollar at the end of the period under review. As a result, finance income showed a substantial increase.

Net profit attributable to owners of the parent decreased by 38.5% year-on-year to 27.9 billion yen.

The ratio of net profit attributable to owners of the parent to revenue was 12.3%.

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 8.9% year-on-year to 66.4 billion yen.

Sales of Trulicity® (therapeutic agent for type 2 diabetes), REPLAGAL® (Anderson-Fabry disease drug), 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 28.7% year-on-year to 15.4 billion yen.

This decrease is chiefly attributable to the decrease in gross profit due to NHI drug price revisions.

[North America segment]

Revenue increased by 3.7% year-on-year to reach 122.5 billion yen.

This increase is primarily attributable to strong sales of LATUDA® and APTIOM®.

Core segment profit decreased by 3.6% year-on-year to 54.8 billion yen.

This decrease is primarily attributable to the increase in cost of sales and selling expenses related to new launches.

[China segment]

Revenue decreased by 0.9% year-on-year to 11.4 billion yen.

Owing to the reaction to a large shipment in the previous fiscal year, sales of mainstay MEROPEN® (carbapenem antibiotic) showed a slight decrease.

Core segment profit decreased by 6.3% year-on-year to 5.1 billion yen.

Core segment profit decreased owing primarily to an increase in selling expenses.

[Other Regions segment]

Revenue increased by 3.7% year-on-year to reach 7.0 billion yen.

This increase is attributable to the brisk sales of MEROPEN® in Southeast Asian countries.

Core segment profit decreased by 6.7% year-on-year to 1.7 billion yen.

Core segment profit decreased owing to the rise in the ratio of cost of 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 18.8 billion yen (down by 14.5% year-on-year) and core segment profit of 1.4 billion yen (up by 5.7% year-on-year).

(2) Qualitative Information on Financial Condition

(i) Assets, Liabilities, and Equity

Non-current assets increased by 26.3 billion yen over the previous fiscal year-end. This was due to an increase in other financial assets, in addition to a rise in goodwill and intangible assets arising primarily from foreign currency translations.

Current assets edged up from the previous fiscal year-end as inventories and trade and other receivables increased, although cash and cash equivalents and other financial assets decreased.

As a result, total assets increased by 26.8 billion yen from the previous fiscal year-end to 836.4 billion yen.

Total liabilities decreased by 11.6 billion yen from the previous fiscal year-end to 345.3 billion yen, as a result of a decrease in interest-bearing debts primarily attributable to redemption of bonds and a decrease in trade and other payables, despite an increase in provisions and other financial liabilities.

Equity increased by 38.4 billion yen from the previous fiscal year-end to 491.1 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 six-month period under review was 58.7%.

(ii) Cash Flows

Cash flows provided by operating activities decreased by 28.7 billion yen year-on-year to 7.0 billion yen, primarily owing to an increase in income taxes paid, as well as factors that contributed to a decrease in cash, including a decrease in net profit and trade and other payables.

In the corresponding period of the previous year, cash flows provided by investing activities amounted to 3.0 billion yen, owing primarily to proceeds from business transfer. During the period under review, however, cash flows used in investing activities amounted to 0.6 billion yen as the expenditures for purchases of property, plant and equipment, and intangible assets exceeded the net reduction of short-term loans.

Cash flows used in financial activities increased by 10.2 billion yen year-on-year to 23.1 billion yen, owing primarily to redemption of bonds and an increase in payment of dividends.

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, 2018 amounted to 137.6 billion yen, which represents a decrease of 10.2 billion yen from the previous fiscal year-end.

(3) Qualitative Information on Consolidated Financial Forecasts

The Company has not revised the consolidated financial forecasts that were announced on May 11, 2018.

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, 2017	Six months ended September 30, 2018
Revenue	231,351	226,155
Cost of sales	57,009	55,593
Gross profit	174,342	170,562
Selling, general and administrative expenses	83,299	99,016
Research and development expenses	40,285	41,322
Other income	9,175	239
Other expenses	458	856
Operating profit	59,475	29,607
Finance income	1,750	8,121
Finance costs	248	129
Profit before taxes	60,977	37,599
Income tax expenses	15,642	9,730
Net profit	45,335	27,869
Net profit attributable to:		
Owners of the parent	45,335	27,869
Net profit total	45,335	27,869
Earnings per share (yen)		
Basic earnings per share	114.11	70.15

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Net profit	45,335	27,869
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	1,416	3,847
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	2,233	13,809
Cash flow hedges	39	56
Total other comprehensive income	3,688	17,712
Total comprehensive income	49,023	45,581
Total comprehensive income attributable to:		
Owners of the parent	49,023	45,581
Total comprehensive income	49,023	45,581

(2) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Assets		
Non-current assets		
Property, plant and equipment	58,204	60,636
Goodwill	95,097	101,658
Intangible assets	189,681	199,774
Other financial assets	70,993	78,349
Income taxes receivable	2,453	2,449
Other non-current assets	3,067	2,887
Deferred tax assets	41,608	41,692
Total non-current assets	461,103	487,445
Current assets		
Inventories	60,169	68,508
Trade and other receivables	112,982	119,604
Other financial assets	22,066	16,714
Income taxes receivable	419	467
Other current assets	5,170	6,112
Cash and cash equivalents	147,775	137,585
Total current assets	348,581	348,990
Total assets	809,684	836,435

(Millions of yen)

	As of March 31, 2018	As of September 30, 2018
Liabilities and equity		
Liabilities		
Non-current liabilities		
Bonds and borrowings	30,940	29,460
Other financial liabilities	88,427	99,131
Retirement benefit liabilities	20,700	20,735
Other non-current liabilities	6,551	4,550
Deferred tax liabilities	95	165
Total non-current liabilities	146,713	154,041
Current liabilities		
Bonds and borrowings	16,460	2,960
Trade and other payables	58,708	49,250
Other financial liabilities	6,278	8,541
Income taxes payable	14,368	12,372
Provisions	84,433	92,061
Other current liabilities	30,001	26,109
Total current liabilities	210,248	191,293
Total liabilities	356,961	345,334
Equity		
Share capital	22,400	22,400
Capital surplus	15,860	15,860
Treasury shares	(669)	(671)
Retained earnings	396,037	416,705
Other components of equity	19,095	36,807
Equity attributable to owners of the parent	452,723	491,101
Total equity	452,723	491,101
Total liabilities and equity	809,684	836,435

(3) Consolidated Statement of Changes in Equity

(Millions of yen)

	Equity attributable to owners of the parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					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	—	—	—	45,335	—	—
Other comprehensive income	—	—	—	—	1,416	—
Total comprehensive income	—	—	—	45,335	1,416	—
Purchase of treasury shares	—	—	(1)	—	—	—
Dividends	—	—	—	(4,370)	—	—
Total transactions with owners	—	—	(1)	(4,370)	—	—
Balance as of September 30, 2017	22,400	15,860	(668)	398,734	20,213	—

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	—

Sumitomo Dainippon Pharma Co., Ltd. (4506)
Summary of Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2019

(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	—	—	—	45,335	45,335
Other comprehensive income	2,233	39	3,688	3,688	3,688
Total comprehensive income	2,233	39	3,688	49,023	49,023
Purchase of treasury shares	—	—	—	(1)	(1)
Dividends	—	—	—	(4,370)	(4,370)
Total transactions with owners	—	—	—	(4,371)	(4,371)
Balance as of September 30, 2017	362	19	20,594	456,920	456,920

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

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended September 30, 2017	Six months ended September 30, 2018
Cash flows from operating activities		
Net profit	45,335	27,869
Depreciation and amortization	6,071	7,027
Changes in fair value of contingent consideration	(4,067)	6,850
Interest and dividend income	(934)	(1,640)
Interest expenses	228	112
Income tax expenses	15,642	9,730
(Increase) decrease in trade and other receivables	(8,829)	(3,070)
(Increase) decrease in inventories	(1,248)	(2,918)
Increase (decrease) in trade and other payables	(1,251)	(12,007)
Increase (decrease) in retirement benefits liabilities	319	2
Increase (decrease) in provisions	7,147	1,791
Others, net	(16,544)	(15,311)
Subtotal	41,869	18,435
Interest received	345	1,074
Dividends received	508	493
Interest paid	(204)	(106)
Income taxes paid	(6,852)	(12,935)
Net cash provided by (used in) operating activities	35,666	6,961
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,056)	(5,733)
Proceeds from sales of property, plant and equipment	242	292
Purchase of intangible assets	(593)	(1,754)
Purchase of investments	(6,182)	(883)
Net (increase) decrease in short-term loan receivables	2,147	7,432
Proceeds from transfer of business	9,440	—
Net cash provided by (used in) investing activities	2,998	(646)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings payable	—	(3,500)
Repayments of long-term borrowings	(8,000)	(1,480)
Redemption of bonds	—	(10,000)
Repayments of finance lease obligations	(460)	(522)
Dividends paid	(4,368)	(7,546)
Others, net	(1)	(2)
Net cash provided by (used in) financing activities	(12,829)	(23,050)
Net increase (decrease) in cash and cash equivalents	25,835	(16,735)
Cash and cash equivalents at beginning of year	105,603	147,775
Effect of exchange rate changes on cash and cash equivalents	727	6,545
Cash and cash equivalents at end of period	132,165	137,585

(5) Notes to Consolidated Financial Statements

1. Notes on Premise of Going Concern

Not applicable.

2. Significant Accounting Policies

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

Income tax expenses for the six months ended September 30, 2018 are calculated based on the estimated average annual effective tax rate.

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

Starting from the six months ended September 30, 2018, 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 distribution 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 Quarterly Consolidated Statement of Income for the six months ended September 30, 2018 and the Quarterly Consolidated Statement of Financial Position as of September 30, 2018, is immaterial.

3. 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, business structure improvement expenses 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, 2017

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	72,843	118,207	11,503	6,764	209,317	22,034	231,351
Inter-segment revenues and transfers	43	—	—	—	43	38	81
Total	72,886	118,207	11,503	6,764	209,360	22,072	231,432
Segment profit (Core segment profit)	21,539	56,777	5,459	1,821	85,596	1,365	86,961

(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, 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.

(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, 2017	Six months ended September 30, 2018
Total of reportable segments	209,360	207,349
Revenue of Other Business	22,072	18,866
Elimination of inter-segment revenue	(81)	(60)
Revenue on the consolidated financial statements	231,351	226,155

(Millions of yen)

Profit	Six months ended September 30, 2017	Six months ended September 30, 2018
Total of reportable segments	85,596	76,941
Segment profit of Other Business	1,365	1,443
Elimination of inter-segment profit	15	12
Research and development expenses (Note)	(40,285)	(41,322)
Gains on business transfers	9,097	77
Others	(16)	–
Core operating profit	55,772	37,151
Change in fair value of contingent consideration	4,067	(6,850)
Other income	94	157
Other expenses	(458)	(851)
Operating profit in the consolidated financial statements	59,475	29,607

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

4. Significant subsequent event

Not applicable.