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

January 31, 2019

Company Name: SUMITOMO DAINIPPON PHARMA CO., LTD.
Stock Exchange Listings: Tokyo
Security Code Number: 4506 (URL https://www.ds-pharma.com/)
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Filing Date of Quarterly Financial Report: February 1, 2019
Starting Date of Dividend Payments: －
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 December 31, 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	%
Nine months ended December 31, 2018	346,871	(2.3)	55,863	(28.4)	46,831	(33.9)	39,969	(8.9)	39,969	(8.9)	56,061	0.3
Nine months ended December 31, 2017	355,155	—	78,008	—	70,901	—	43,892	—	43,892	—	55,874	—

Note: Profit before taxes Nine months ended December 31, 2018: ¥53,162 million
Nine months ended December 31, 2017: ¥73,768 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)
Nine months ended December 31, 2018	¥100.60	—
Nine months ended December 31, 2017	¥110.48	—

(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 December 31, 2018	830,065	498,003	498,003	60.0%	¥1,253.48
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

December 31, 2018: 397,900,154 shares

March 31, 2018: 397,900,154 shares

② Number of treasury stock at the end of period

December 31, 2018: 603,601 shares

March 31, 2018: 601,983 shares

③ Average number of shares during the period

December 31, 2018: 397,297,342 shares

December 31, 2017: 397,299,259 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 Nine 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 conference call for institutional investors and analysts on Thursday, January 31, 2019. The audio of the conference call will be posted on our website promptly after the conference call.

【Attachment Documents】

1. Qualitative Information for the Nine Months Ended December 31, 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 Nine 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 nine-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, 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 nine months of the fiscal year ending March 31, 2019 are as follows:

(Billions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018	Change	Change %
Revenue	355.2	346.9	(8.3)	(2.3)
Core operating profit	78.0	55.9	(22.1)	(28.4)
Operating profit	70.9	46.8	(24.1)	(33.9)
Profit before taxes	73.8	53.2	(20.6)	(27.9)
Net profit attributable to owners of the parent	43.9	40.0	(3.9)	(8.9)

Revenue decreased by 2.3% year-on-year to 346.9 billion yen.
Sales grew in the North America segment primarily owing to increases in sales of atypical antipsychotic agent LATUDA®, one of the primary sources of revenue for the Group, as well as antiepileptic agent APTIOM®. 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 28.4% year-on-year to 55.9 billion yen.
Gross profit decreased in the Japan segment chiefly attributable to NHI drug price revisions, and also SG&A expenses increased in the North America segment. Also, in the corresponding period of the previous year, the Company reported other income as a result of divesture of marketing rights. Due to the absence of such factors during the period under review, core operating profit showed a decrease.

Operating profit decreased by 33.9% year-on-year to 46.8 billion yen.
Operating profit decreased even further primarily owing to an increase in restructuring costs, in addition to a decrease in core operating profit.

Profit before taxes decreased by 27.9% year-on-year to 53.2 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 showed a substantial increase.

Net profit attributable to owners of the parent decreased by 8.9% year-on-year to 40.0 billion yen.
The ratio of net profit attributable to owners of the parent to revenue was 11.5%.

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 10.9% year-on-year to 100.6 billion yen.
Sales of Trulicity® and SUREPOST® (both therapeutic agent for type 2 diabetes) and other products increased, but the 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 33.9% year-on-year to 23.2 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 4.5% year-on-year to reach 190.6 billion yen.
This increase is primarily attributable to the growth in sales of APTIOM®, on top of strong sales of LATUDA®.
Core segment profit decreased by 3.9% year-on-year to 82.5 billion yen.
This decrease is attributable to a major increase in SG&A expenses despite an increase in gross profit.

[China segment]
Revenue increased by 5.8% year-on-year to reach 16.3 billion yen.
This increase is attributable to increases in sales of mainstay MEROPEN® (carbapenem antibiotic) and other products.
Core segment profit increased by 15.0% year-on-year to reach 6.7 billion yen.
This increase is owing to an increase in gross profit.

[Other Regions segment]
Revenue decreased by 3.8% year-on-year to 10.2 billion yen.
This slight 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 increased by 3.2% year-on-year to reach 3.0 billion yen.
This increase is owing to the improvement 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 29.1 billion yen (down by 13.9% year-on-year) and core segment profit of 2.3 billion yen (up by 3.9% year-on-year).

(2) Qualitative Information on Financial Condition

(i) Assets, Liabilities, and Equity

Non-current assets increased by 20.8 billion yen over the previous fiscal year-end. This was due to an increase in other financial assets, in addition to rises in goodwill and intangible assets arising primarily from foreign currency transactions.

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

As a result, total assets increased by 20.4 billion yen from the previous fiscal year-end to 830.1 billion yen.

Total liabilities decreased by 24.9 billion yen from the previous fiscal year-end to 332.1 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 income taxes payable, despite increases in provisions and other financial liabilities.

Equity increased by 45.3 billion yen from the previous fiscal year-end to 498.0 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 nine-month period under review was 60.0%.

(ii) Cash Flows

Cash flows provided by operating activities decreased by 35.6 billion yen year-on-year to 19.2 billion yen, primarily owing to an increase in income taxes paid, as well as factors that contributed to a decrease in cash, including decreases in net profit and trade and other payables.

Cash flows used in investing activities decreased by 2.9 billion yen year-on-year to 4.2 billion yen, owing primarily to a decrease in purchases of intangible assets and investments despite an increase in purchase of property, plant, and equipment.

Cash flows used in financial activities increased by 10.2 billion yen year-on-year to 27.6 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 December 31, 2018, amounted to 139.6 billion yen, which represents a decrease of 8.2 billion yen from the previous 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.

In February 2018, the Company had filed the consolidated patent infringement lawsuit (the “Lawsuit”) jointly with its U.S. subsidiary before the U.S. District Court for the District of New Jersey against a total of 16 generic companies seeking approval from the U.S. Food and Drug Administration (FDA) to market a generic version of the Company’s proprietary atypical antipsychotic agent LATUDA®, one of its mainstays, based on its method of use and other patents in the U.S. While pursuing the Lawsuit, the Company and its subsidiary engaged in negotiation with defendants for settlements, following the Court’s order, and all of the Lawsuit were resolved with respect to all the defendants thereof as of December 3, 2018. Meanwhile, two of three patent infringement lawsuits filed additionally between August and October 2018 (the “Additional Lawsuits”) were concluded through settlements (as of the date of this release, one remains pending). Pursuant to the settlement agreements thus reached the number of generic companies that were parties to the Lawsuit, and the Additional Lawsuits will be permitted to distribute their generic versions of LATUDA® starting on February 20, 2023.

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)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Revenue	355,155	346,871
Cost of sales	88,426	85,181
Gross profit	266,729	261,690
Selling, general and administrative expenses	139,120	149,457
Research and development expenses	63,062	61,969
Other income	9,290	644
Other expenses	2,936	4,077
Operating profit	70,901	46,831
Finance income	3,230	6,497
Finance costs	363	166
Profit before taxes	73,768	53,162
Income tax expenses	29,876	13,193
Net profit	43,892	39,969
Net profit attributable to:		
Owners of the parent	43,892	39,969
Net profit total	43,892	39,969
Earnings per share (yen)		
Basic earnings per share	110.48	100.60

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Net profit	43,892	39,969
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	9,241	7,537
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	2,710	8,532
Cash flow hedges	31	23
Total other comprehensive income	11,982	16,092
Total comprehensive income	55,874	56,061
Total comprehensive income attributable to:		
Owners of the parent	55,874	56,061
Total comprehensive income	55,874	56,061

(2) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Assets		
Non-current assets		
Property, plant and equipment	58,204	59,868
Goodwill	95,097	99,367
Intangible assets	189,681	194,773
Other financial assets	70,993	84,102
Income taxes receivable	2,453	2,394
Other non-current assets	3,067	3,216
Deferred tax assets	41,608	38,188
Total non-current assets	461,103	481,908
Current assets		
Inventories	60,169	64,987
Trade and other receivables	112,982	121,479
Other financial assets	22,066	16,308
Income taxes receivable	419	520
Other current assets	5,170	5,304
Cash and cash equivalents	147,775	139,559
Total current assets	348,581	348,157
Total assets	809,684	830,065

(Millions of yen)

	As of March 31, 2018	As of December 31, 2018
Liabilities and equity		
Liabilities		
Non-current liabilities		
Bonds and borrowings	30,940	28,720
Other financial liabilities	88,427	94,491
Retirement benefit liabilities	20,700	20,752
Other non-current liabilities	6,551	5,210
Deferred tax liabilities	95	84
Total non-current liabilities	146,713	149,257
Current liabilities		
Bonds and borrowings	16,460	2,960
Trade and other payables	58,708	52,013
Other financial liabilities	6,278	9,169
Income taxes payable	14,368	3,592
Provisions	84,433	90,157
Other current liabilities	30,001	24,914
Total current liabilities	210,248	182,805
Total liabilities	356,961	332,062
Equity		
Share capital	22,400	22,400
Capital surplus	15,860	15,860
Treasury shares	(669)	(674)
Retained earnings	396,037	425,230
Other components of equity	19,095	35,187
Equity attributable to owners of the parent	452,723	498,003
Total equity	452,723	498,003
Total liabilities and equity	809,684	830,065

(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	–	–	–	43,892	–	–
Other comprehensive income	–	–	–	–	9,241	–
Total comprehensive income	–	–	–	43,892	9,241	–
Purchase of treasury shares	–	–	(1)	–	–	–
Dividends	–	–	–	(7,946)	–	–
Reclassification from other components of equity to retained earnings	–	–	–	14	(14)	–
Total transactions with owners	–	–	(1)	(7,932)	(14)	–
Balance as of December 31, 2017	22,400	15,860	(668)	393,729	28,024	–
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	–	–	–	39,969	–	–
Other comprehensive income	–	–	–	–	7,537	–
Total comprehensive income	–	–	–	39,969	7,537	–
Purchase of treasury shares	–	–	(5)	–	–	–
Dividends	–	–	–	(11,124)	–	–
Total transactions with owners	–	–	(5)	(11,124)	–	–
Balance as of December 31, 2018	22,400	15,860	(674)	425,230	39,272	–

(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	−	−	−	43,892	43,892
Other comprehensive income	2,710	31	11,982	11,982	11,982
Total comprehensive income	2,710	31	11,982	55,874	55,874
Purchase of treasury shares	−	−	−	(1)	(1)
Dividends	−	−	−	(7,946)	(7,946)
Reclassification from other components of equity to retained earnings	−	−	(14)		−
Total transactions with owners	−	−	(14)	(7,947)	(7,947)
Balance as of December 31, 2017	839	11	28,874	460,195	460,195

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	−	−	−	39,969	39,969
Other comprehensive income	8,532	23	16,092	16,092	16,092
Total comprehensive income	8,532	23	16,092	56,061	56,061
Purchase of treasury shares	−	−	−	(5)	(5)
Dividends	−	−	−	(11,124)	(11,124)
Total transactions with owners	−	−	−	(11,129)	(11,129)
Balance as of December 31, 2018	(4,087)	2	35,187	498,003	498,003

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Cash flows from operating activities		
Net profit	43,892	39,969
Depreciation and amortization	9,399	10,473
Changes in fair value of contingent consideration	2,026	5,458
Interest and dividend income	(2,009)	(2,634)
Interest expenses	311	142
Income tax expenses	29,876	13,193
(Increase) decrease in trade and other receivables	(14,472)	(6,352)
(Increase) decrease in inventories	(520)	(1,523)
Increase (decrease) in trade and other payables	1,932	(7,531)
Increase (decrease) in retirement benefits liabilities	468	31
Increase (decrease) in provisions	10,527	1,972
Others, net	(13,020)	(12,854)
Subtotal	68,410	40,344
Interest received	640	1,727
Dividends received	1,239	828
Interest paid	(223)	(119)
Income taxes paid	(15,330)	(23,629)
Net cash provided by (used in) operating activities	54,736	19,151
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,590)	(7,745)
Proceeds from sales of property, plant and equipment	379	1,450
Purchase of intangible assets	(6,000)	(2,763)
Purchase of investments	(6,205)	(2,234)
Net (increase) decrease in short-term loan receivables	2,152	7,430
Proceeds from transfer of business	9,495	―
Others, net	(3,300)	(352)
Net cash provided by (used in) investing activities	(7,069)	(4,214)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings payable	(34,500)	(3,500)
Proceeds from long-term borrowings	34,500	−
Repayments of long-term borrowings	(8,700)	(2,220)
Redemption of bonds	−	(10,000)
Repayments of finance lease obligations	(777)	(774)
Dividends paid	(7,936)	(11,114)
Others, net	(1)	(5)
Net cash provided by (used in) financing activities	(17,414)	(27,613)
Net increase (decrease) in cash and cash equivalents	30,253	(12,676)
Cash and cash equivalents at beginning of year	105,603	147,775
Effect of exchange rate changes on cash and cash equivalents	919	4,460
Cash and cash equivalents at end of period	136,775	139,559

(5) Notes to Consolidated Financial Statements

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 Nine months ended December 31, 2018 are calculated based on the estimated average annual effective tax rate.

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

Starting from the Nine months ended December 31, 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 Nine months ended December 31, 2018 and the Quarterly Consolidated Statement of Financial Position as of December 31, 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, 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 Nine months ended December 31, 2017

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	112,957	182,366	15,441	10,585	321,349	33,806	355,155
Inter-segment revenues and transfers	55	—	—	—	55	57	112
Total	113,012	182,366	15,441	10,585	321,404	33,863	355,267
Segment profit (Core segment profit)	35,099	85,839	5,794	2,908	129,640	2,229	131,869

(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 Nine months ended December 31, 2018

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	100,646	190,612	16,331	10,180	317,769	29,102	346,871
Inter-segment revenues and transfers	55	—	—	—	55	25	80
Total	100,701	190,612	16,331	10,180	317,824	29,127	346,951
Segment profit (Core segment profit)	23,188	82,502	6,661	3,002	115,353	2,316	117,669

(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	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Total of reportable segments	321,404	317,824
Revenue of Other Business	33,863	29,127
Elimination of inter-segment revenue	(112)	(80)
Revenue on the consolidated financial statements	355,155	346,871

(Millions of yen)

Profit	Nine months ended December 31, 2017	Nine months ended December 31, 2018
Total of reportable segments	129,640	115,353
Segment profit of Other Business	2,229	2,316
Elimination of inter-segment profit	20	22
Research and development expenses (Note)	(63,062)	(61,969)
Gains on business transfers	9,194	124
Others	(13)	17
Core operating profit	78,008	55,863
Change in fair value of contingent consideration	(4,280)	(5,458)
Other income	109	503
Other expenses	(2,936)	(4,077)
Operating profit in the consolidated financial statements	70,901	46,831

(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.