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

July 29, 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: August 5, 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 First Quarter of the Year Ending March 31, 2020 （April 1, 2019 to June 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	%
Three months ended June 30, 2019	117,484	1.4	22,275	20.9	40,423	155.6	6,703	(56.0)	6,703	(56.0)	(1,154)	—
Three months ended June 30, 2018	115,911	(0.2)	18,425	(25.6)	15,814	(50.0)	15,247	(38.1)	15,247	(38.1)	22,293	(12.2)

Note: Profit before taxes Three months ended June 30, 2019: ¥36,908 million
Three months ended June 30, 2018: ¥20,631 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)
Three months ended June 30, 2019	¥16.87	—
Three months ended June 30, 2018	¥38.38	—

(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 June 30, 2019	808,062	489,434	489,434	60.6%	¥1,231.91
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	—				
Year ending March 31, 2020 (Forecasts)		¥14.00	—	¥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	%	
Six months ending September 30, 2019	228,500	1.0	39,500	6.3	56,000	89.1	22,000	(21.1)	22,000	(21.1)	¥55.37
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 Six months ending September 30, 2019 : ¥58,000 million
Year ending March 31, 2020 : ¥91,000 million

2: Revision of consolidated financial forecasts from the latest announcement: Yes

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

June 30, 2019: 397,900,154 shares

March 31, 2019: 397,900,154 shares

② Number of treasury stock at the end of period

June 30, 2019: 604,124 shares

March 31, 2019: 603,851 shares

③ Average number of shares during the period

June 30, 2019: 397,296,126 shares

June 30, 2018: 397,297,902 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 conference call for institutional investors and analysts on Monday, July 29, 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 Three Months Ended June 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 three-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 three months of the fiscal year ending March 31, 2020 are as follows:

(Billions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019	Change	Change %
Revenue	115.9	117.5	1.6	1.4
Core operating profit	18.4	22.3	3.9	20.9
Operating profit	15.8	40.4	24.6	155.6
Profit before taxes	20.6	36.9	16.3	78.9
Net profit attributable to owners of the parent	15.2	6.7	(8.5)	(56.0)

Revenue increased by 1.4% year-on-year to 117.5 billion yen.
Despite a decrease in revenue in the Japan segment, primarily owing to declines in sales of long-listed drugs, revenue for the Group showed an increase as sales of atypical antipsychotic agent LATUDA®, which is one of the primary sources of revenue for the Group, remained strong in the North America segment and the China segment registered an increase in revenue.

Core operating profit increased by 20.9% year-on-year to 22.3 billion yen.
Core operating profit increased as gross profit grew on the back of a revenue increase and R&D and other expenses decreased.

Operating profit increased by 155.6% year-on-year to 40.4 billion yen.
Following the decision to discontinue the Phase 3 study of investigational anti-cancer agent napabucasin in patients with pancreatic cancer, a drug being developed by the Company's U.S. subsidiary Boston Biomedical, Inc., the fair value of contingent consideration decreased. Due to the resultant reversal of expenses, core operating profit increased and operating profit showed a significant increase.

Profit before taxes increased by 78.9% year-on-year to 36.9 billion yen.
At the end of the first quarter of the fiscal year under review, finance costs showed an increase, as the Company reported 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 didn't increase as much as operating profit.

Net profit attributable to owners of the parent decreased by 56.0% year-on-year to 6.7 billion yen.
Due chiefly 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. As income tax expenses increased substantially as a result, net profit attributable to owners of the parent showed a significant decrease.
The ratio of net profit attributable to owners of the parent to revenue was 5.7%.

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 7.6% year-on-year to 32.6 billion yen.
Sales of Trulicity® (therapeutic agent for type 2 diabetes) and other products increased, but revenue decreased due to significant declines in sales of long-listed products, such as AIMIX® (therapeutic agent for hypertension).
Core segment profit decreased by 23.0% year-on-year to 7.3 billion yen.
This decrease is chiefly attributable to the decrease in gross profit due to the revenue decline.

[North America segment]
Revenue increased by 8.8% year-on-year to 66.0 billion yen.
This increase is attributable to the growth in sales of antiepileptic agent APTIOM® and other products, as well as LATUDA®.
Core segment profit increased by 18.0% year-on-year to 29.5 billion yen.
This increase is primarily attributable to the increase in gross profit due to the revenue growth.

[China segment]
Revenue increased by 25.8% year-on-year to 6.8 billion yen.
This increase is attributable to the growth in sales of carbapenem antibiotic MEROPEN® and other products.
Core segment profit increased by 68.3% year-on-year to 3.8 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 47.9% year-on-year to 2.5 billion yen.
This decrease is chiefly attributable to the decrease in exports of MEROPEN®.
Core segment profit decreased by 46.6% year-on-year to 0.9 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 9.6 billion yen (down by 2.2% year-on-year) and core segment profit of 0.8 billion yen (down by 1.5% year-on-year).

(2) Qualitative Information on Financial Condition

Non-current assets decreased by 19.4 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 goodwill and intangible assets fell primarily due to foreign currency translations and deferred tax assets being reversed in North America.

Current assets decreased by 7.2 billion yen from the previous fiscal year-end as cash and cash equivalents and other current assets increased but Other financial assets decreased due to a decline in short-term loans receivables.

As a result, total assets decreased by 26.7 billion yen from the previous fiscal year-end to 808.1 billion yen.

Total liabilities decreased by 18.0 billion yen from the previous fiscal year-end to reach 318.6 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 income taxes payable, provisions, and other current liabilities.

Equity decreased by 8.7 billion yen from the previous fiscal year-end to 489.4 billion yen, owing to 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 three-month period under review was 60.6%.

(3) Qualitative Information on Cash Flows

Cash flows provided by operating activities increased by 16.7 billion yen year-on-year to 8.2 billion yen owing primarily to an increase in profit before taxes, as well as factors that contributed to an increase in cash, including an increase in trade and other payables.

Cash flows provided by investing activities increased by 12.4 billion yen year-on-year to 16.7 billion yen, owing primarily to a decrease in loans receivable despite an increase in purchase of investments.

Cash flows used in financial activities increased by 0.8 billion yen year-on-year to 9.3 billion yen, as repayments of lease liabilities increased.

After factoring in the impact of foreign currency translations applied to cash and cash equivalents, the balance of cash and cash equivalents as of June 30, 2019 amounted to 149.0 billion yen, which represents an increase of 11.7 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 May 10, 2019.

1. Revisions to the Forecasts of Consolidated Financial Results for the Half-year ending September 30, 2019 (April 1, 2019 to September 30, 2019)

(Billions of yen)

	Revenue	Core operating profit	Operating profit	Net profit	Net profit attributable to owners of the parent	Basic earnings per share
Previous Forecasts (A)	226.5	38.5	34.5	25.0	25.0	¥62.93
Revised Forecasts (B)	228.5	39.5	56.0	22.0	22.0	¥55.37
Variance in amount (B－A)	2.0	1.0	21.5	(3.0)	(3.0)	—
Variance in percent (%)	0.9	2.6	62.3	(12.0)	(12.0)	—
[Reference] Year-on-year (Half-Year ended September 30, 2018)	226.2	37.2	29.6	27.9	27.9	¥70.15

2. Revisions to the Forecasts of Consolidated Financial Results for the Year ending March 31, 2020 (April 1, 2019 to March 31, 2020)

(Billions of yen)

	Revenue	Core operating profit	Operating profit	Net profit	Net profit attributable to owners of the parent	Basic earnings per share
Previous Forecasts (A)	460.0	77.0	69.0	49.0	49.0	¥123.33
Revised Forecasts (B)	475.0	77.0	88.0	36.0	36.0	¥90.61
Variance in amount (B－A)	15.0	－	19.0	(13.0)	(13.0)	－
Variance in percent (%)	3.3	－	27.5	(26.5)	(26.5)	－
[Reference] Previous year (Year ended March 31, 2019)	459.3	77.3	57.9	48.6	48.6	¥122.39

Note: Core operating profit is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors, including changes in fair value of contingent consideration, impairment losses, and business structure improvement expenses.

3. Reasons for the revisions

Revenue is now forecasted to be 228.5 billion yen for the six-month period ending September 30, 2019, an increase of 2.0 billion yen from the previous forecast, and 475.0 billion yen for the full-year period ending March 31, 2020, an increase of 15.0 billion yen from the previous forecast. This is partly because we expect revenue to grow in the Japan segment due to the commencement of co-promotion and sales collaboration with Novartis Pharma K.K. (hereinafter, "NPKK") for Equa® 50 mg tablets and EquMet® combination LD/HD tablets, both type 2 diabetes treatments originally launched by NPKK, and also because the China segment is faring well. Meanwhile, core operating profit is now expected to exceed the previous forecast for the six-month period ending September 30, 2019 by 1.0 billion yen, but its full-year forecast remains unchanged as we expect cost of sales and sales-related expenses to increase going forward.

Operating profit is now expected to be 56.0 billion yen for the six-month period ending September 30, 2019, an increase of 21.5 billion yen from the previous forecast, and 88.0 billion yen for the full-year period ending March 31, 2020, an increase of 19.0 billion yen from the previous forecast, as reversal of expenses resulting from discontinuation of the Phase 3 study of napabucasin in patients with pancreatic cancer will be recorded under the change in fair value of contingent consideration.

We have revised our earlier forecasts of net profit and net profit attributable to owners of the parent to 22.0 billion yen for the six-month period ending September 30, 2019, a decrease of 3.0 billion yen, and 36.0 billion yen for the full-year period ending March 31, 2020, a decrease of 13.0 billion yen, as income tax expenses are expected to increase primarily owing to the reversal of deferred tax assets that had been reported in the U.S. following the discontinuation of the aforementioned study of napabucasin.

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)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Revenue	115,911	117,484
Cost of sales	28,912	28,953
Gross profit	86,999	88,531
Selling, general and administrative expenses	50,250	27,887
Research and development expenses	20,864	20,056
Other income	103	393
Other expenses	174	558
Operating profit	15,814	40,423
Finance income	4,885	1,430
Finance costs	68	4,945
Profit before taxes	20,631	36,908
Income tax expenses	5,384	30,205
Net profit	15,247	6,703
Net profit attributable to:		
Owners of the parent	15,247	6,703
Net profit total	15,247	6,703
Earnings per share (yen)		
Basic earnings per share	38.38	16.87

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Net profit	15,247	6,703
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	(811)	(2,203)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	7,821	(5,624)
Cash flow hedges	36	(30)
Total other comprehensive income	7,046	(7,857)
Total comprehensive income	22,293	(1,154)
Total comprehensive income attributable to:		
Owners of the parent	22,293	(1,154)
Total comprehensive income	22,293	(1,154)

(2) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Assets		
Non-current assets		
Property, plant and equipment	59,485	70,059
Goodwill	99,348	96,440
Intangible assets	171,390	167,706
Other financial assets	74,668	70,655
Income taxes receivable	2,562	2,487
Other non-current assets	3,277	4,100
Deferred tax assets	50,719	30,557
Total non-current assets	461,449	442,004
Current assets		
Inventories	66,889	65,365
Trade and other receivables	118,760	120,509
Other financial assets	43,750	23,995
Income taxes receivable	483	302
Other current assets	6,090	6,921
Cash and cash equivalents	137,296	148,966
Total current assets	373,268	366,058
Total assets	834,717	808,062

(Millions of yen)

	As of March 31, 2019	As of June 30, 2019
Liabilities and equity		
Liabilities		
Non-current liabilities		
Bonds and borrowings	27,980	27,240
Other financial liabilities	80,387	69,981
Retirement benefit liabilities	23,613	23,763
Other non-current liabilities	6,425	4,415
Deferred tax liabilities	—	2
Total non-current liabilities	138,405	125,401
Current liabilities		
Bonds and borrowings	2,960	2,960
Trade and other payables	49,238	50,242
Other financial liabilities	8,673	13,309
Income taxes payable	15,723	11,045
Provisions	92,176	86,752
Other current liabilities	29,404	28,919
Total current liabilities	198,174	193,227
Total liabilities	336,579	318,628
Equity		
Share capital	22,400	22,400
Capital surplus	15,861	15,861
Treasury shares	(674)	(675)
Retained earnings	431,799	431,048
Other components of equity	28,752	20,800
Equity attributable to owners of the parent	498,138	489,434
Total equity	498,138	489,434
Total liabilities and equity	834,717	808,062

(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	–	–	–	15,247	–	–
Other comprehensive income	–	–	–	–	(811)	–
Total comprehensive income	–	–	–	15,247	(811)	–
Purchase of treasury shares	–	–	(1)	–	–	–
Dividends	–	–	–	(7,549)	–	–
Total transactions with owners	–	–	(1)	(7,549)	–	–
Balance as of June 30, 2018	22,400	15,860	(670)	404,083	30,924	–

Balance as of April 1, 2019	22,400	15,861	(674)	431,799	32,611	–
Net profit	–	–	–	6,703	–	–
Other comprehensive income	–	–	–	–	(2,203)	–
Total comprehensive income	–	–	–	6,703	(2,203)	–
Purchase of treasury shares	–	–	(1)	–	–	–
Dividends	–	–	–	(7,549)	–	–
Reclassification from other components of equity to retained earnings	–	–	–	95	(95)	–
Total transactions with owners	–	–	(1)	(7,454)	(95)	–
Balance as of June 30, 2019	22,400	15,861	(675)	431,048	30,313	–

(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	–	–	–	15,247	15,247
Other comprehensive income	7,821	36	7,046	7,046	7,046
Total comprehensive income	7,821	36	7,046	22,293	22,293
Purchase of treasury shares	–	–	–	(1)	(1)
Dividends	–	–	–	(7,549)	(7,549)
Total transactions with owners	–	–	–	(7,550)	(7,550)
Balance as of June 30, 2018	(4,798)	15	26,141	467,814	467,814

Balance as of April 1, 2019	(3,853)	(6)	28,752	498,138	498,138
Net profit	–	–	–	6,703	6,703
Other comprehensive income	(5,624)	(30)	(7,857)	(7,857)	(7,857)
Total comprehensive income	(5,624)	(30)	(7,857)	(1,154)	(1,154)
Purchase of treasury shares	–	–	–	(1)	(1)
Dividends	–	–	–	(7,549)	(7,549)
Reclassification from other components of equity to retained earnings	–	–	(95)	–	–
Total transactions with owners	–	–	(95)	(7,550)	(7,550)
Balance as of June 30, 2019	(9,477)	(36)	20,800	489,434	489,434

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Three months ended June 30, 2018	Three months ended June 30, 2019
Cash flows from operating activities		
Net profit	15,247	6,703
Depreciation and amortization	3,494	4,255
Changes in fair value of contingent consideration	2,493	(18,461)
Interest and dividend income	(1,008)	(1,429)
Interest expenses	58	75
Income tax expenses	5,384	30,205
(Increase) decrease in trade and other receivables	(5,950)	(2,938)
(Increase) decrease in inventories	(2,104)	(1,165)
Increase (decrease) in trade and other payables	(7,806)	1,799
Increase (decrease) in retirement benefits liabilities	118	169
Increase (decrease) in provisions	180	(2,781)
Others, net	(6,836)	4,277
Subtotal	3,270	20,709
Interest received	461	638
Dividends received	479	596
Interest paid	(33)	(54)
Income taxes paid	(12,669)	(13,642)
Net cash provided by (used in) operating activities	(8,492)	8,247
Cash flows from investing activities		
Purchase of property, plant and equipment	(2,190)	(2,495)
Proceeds from sales of property, plant and equipment	221	307
Purchase of intangible assets	(994)	(641)
Purchase of investments	(150)	(1,322)
Proceeds from sales and redemptions of investments	−	253
Net (increase) decrease in short-term loan receivables	7,423	20,550
Others, net	−	23
Net cash provided by (used in) investing activities	4,310	16,675
Cash flows from financing activities		
Repayments of long-term borrowings	(740)	(740)
Repayments of lease liabilities	(286)	(1,114)
Dividends paid	(7,451)	(7,465)
Others, net	(1)	(1)
Net cash provided by (used in) financing activities	(8,478)	(9,320)
Net increase (decrease) in cash and cash equivalents	(12,660)	15,602
Cash and cash equivalents at beginning of year	147,775	137,296
Effect of exchange rate changes on cash and cash equivalents	3,829	(3,932)
Cash and cash equivalents at end of period	138,944	148,966

(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 three months ended June 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 three months ended June 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 Three months ended June 30, 2018

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	35,313	60,647	5,436	4,740	106,136	9,775	115,911
Inter-segment revenues and transfers	15	—	—	—	15	9	24
Total	35,328	60,647	5,436	4,740	106,151	9,784	115,935
Segment profit (Core segment profit)	9,419	25,003	2,261	1,733	38,416	818	39,234

(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 Three months ended June 30, 2019

(Millions of yen)

	Reportable Segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	32,629	65,984	6,838	2,470	107,921	9,563	117,484
Inter-segment revenues and transfers	18	—	—	—	18	10	28
Total	32,647	65,984	6,838	2,470	107,939	9,573	117,512
Segment profit (Core segment profit)	7,256	29,493	3,806	925	41,480	810	42,290

(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	Three months ended June 30, 2018	Three months ended June 30, 2019
Total of reportable segments	106,151	107,939
Revenue of Other Business	9,784	9,573
Elimination of inter-segment revenue	(24)	(28)
Revenue on the consolidated financial statements	115,911	117,484

(Millions of yen)

Profit	Three months ended June 30, 2018	Three months ended June 30, 2019
Total of reportable segments	38,416	41,480
Segment profit of Other Business	818	810
Elimination of inter-segment profit	9	5
Research and development expenses (Note)	(20,864)	(20,046)
Gains on business transfers	36	35
Others	10	(9)
Core operating profit	18,425	22,275
Change in fair value of contingent consideration	(2,494)	18,461
Other income	57	367
Other expenses	(174)	(558)
Others	−	(122)
Operating profit in the consolidated financial statements	15,814	40,423

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

Significant subsequent event

Not applicable.