



Summary of Consolidated Financial Results for the Second Quarter of the Year Ending March 31, 2021 [IFRS]

October 28, 2020

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: November 5, 2020

Starting Date of Dividend Payments: December 1, 2020

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, 2021 (April 1, 2020 to September 30, 2020)

(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	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended September 30, 2020	261,498	13.4	47,981	7.2	47,539	(28.9)	30,339	0.0	37,297	23.0	7,336	(65.2)
Six months ended September 30, 2019	230,603	2.0	44,756	20.5	66,835	125.7	30,330	8.8	30,330	8.8	21,078	(53.8)

Reference: Profit before taxes Six months ended September 30, 2020: ¥43,654 million

Six months ended September 30, 2019: ¥64,147 million

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

	Basic earnings per share	Earnings per share (diluted)
	Yen	Yen
Six months ended September 30, 2020	93.88	—
Six months ended September 30, 2019	76.34	—

(2) Financial Position

	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
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of September 30, 2020	1,238,488	635,997	543,473	43.9	1,367.93
As of March 31, 2020	1,252,878	632,105	529,485	42.3	1,332.72

2. Dividends

	Dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-End	Annual
	Yen	Yen	Yen	Yen	Yen
Year ended March 31, 2020	—	14.00	—	14.00	28.00
Year ending March 31, 2021	—	14.00			
Year ending March 31, 2021 (Forecasts)			—	14.00	28.00

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

3. Consolidated Financial Forecasts for the Year Ending March 31, 2021 (April 1, 2020 to March 31, 2021)

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

	Net sales		Core operating profit		Operating profit		Net profit		Net profit attributable to owners of parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Year ending March 31, 2021	506,000	4.8	47,000	(34.7)	58,000	(30.3)	21,000	(41.5)	42,000	3.1	105.71

Reference: Profit before taxes Year ending March 31, 2021: ¥57,000 million

Note: 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: None
- 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, 2020: 397,900,154 shares

March 31, 2020: 397,900,154 shares

② Number of treasury stock at the end of period

September 30, 2020: 605,437 shares

March 31, 2020: 605,038 shares

③ Average number of shares during the period

September 30, 2020: 397,294,922 shares

September 30, 2019: 397,296,005 shares

This summary of financial results is exempt from audit 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 5, "1. Qualitative Information for the Six Months Ended September 30, 2020 (4) Qualitative Information on Consolidated Financial Forecasts".

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

The Company holds the earnings presentation for institutional investors and analysts on Thursday October 29, 2020. The video of the presentation will be posted on our website promptly after the presentation.

【Attachment Documents】

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1. Qualitative Information for the Six Months Ended September 30, 2020

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 this period under review.

(1) Qualitative Information on Business Results

(About the performance indicator of "core operating profit")

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

"Core operating profit" is calculated by deducting from operating profit any gains and losses resulting from nonrecurring factors that the Group designates (hereinafter referred to as "Non-recurring Items"). 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, 2021 are as follows:

	(Billions of yen)			
	Six months ended September 30, 2019	Six months ended September 30, 2020	Change	Change %
Revenue	230.6	261.5	30.9	13.4
Core operating profit	44.8	48.0	3.2	7.2
Operating profit	66.8	47.5	(19.3)	(28.9)
Profit before taxes	64.1	43.7	(20.5)	(31.9)
Net profit	30.3	30.3	0	0.0
Net profit attributable to owners of the parent	30.3	37.3	7.0	23.0

■Revenue increased by 13.4% year-on-year to 261.5 billion yen.

Sales grew in the Japan segment owing primarily to contributions by Equa® and EquMet® (therapeutic agents for type 2 diabetes), which were launched in the previous fiscal year. The North America segment, too, registered an increase in revenue on the back of stronger sales of the Group's mainstay product LATUDA® (atypical antipsychotic) and other factors.

■Core operating profit increased by 7.2% year-on-year to 48.0 billion yen.

While sales-related and other expenses remained low due to the COVID-19 pandemic, core operating profit grew as an increase in gross profit brought about by revenue growth more than offset the increase in selling, general and administrative expenses and research and development expenses on the core basis, which resulted from the recognition of expenses incurred by Sumitovant Biopharma Ltd. (hereinafter, "Sumitovant") and its subsidiaries that joined the Group in the previous fiscal year.

■Operating profit decreased by 28.9% year-on-year to 47.5 billion yen.

Operating profit showed a decrease while core operating profit grew. This is because, although a small number of expenses were reversed due to a decline in the fair value of contingent consideration during the period under review, there was a reversal of a large number of expenses due to a major decline in the fair value of contingent consideration in the corresponding period of the previous year, following the decision to discontinue the Phase 3 study of napabucasin in patients with pancreatic cancer.

■Profit before taxes decreased by 31.9% year-on-year to 43.7 billion yen.

Profit before taxes came in below operating profit as finance income was surpassed by finance expenses, including

interest expenses and forex losses on foreign-currency-denominated financial assets held by the Company.

■ **Net profit increased by 0.0% year-on-year to 30.3 billion yen.**

Although profit before taxes decreased, net profit was on par with that of the corresponding period of the previous year, as income tax expenses decreased substantially. This is because of an absence of a reversal of deferred tax assets recognized in the U.S., which was recorded in the corresponding period of the previous year following the decision to discontinue the Phase 3 study of napabucasin in patients with pancreatic cancer, among other factors.

■ **Net profit attributable to owners of the parent increased by 23.0% year-on-year to 37.3 billion yen.**

Net profit attributable to owners of the parent (less the amount of losses attributable to non-controlling shareholders from net profit) increased more than net profit as Sumitovant's subsidiaries with non-controlling interests registered losses. The ratio of net profit attributable to owners of the parent to revenue was 14.3%.

(About the 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 increased by 20.5% year-on-year to 77.3 billion yen.**

This revenue increase is chiefly attributable to the sales expansion of Trulicity® (therapeutic agent for type 2 diabetes) and the launch of LATUDA®, as well as increases in sales of Equa® and EquMet®.

■ **Core segment profit decreased by 0.1% year-on-year to 13.3 billion yen.**

This decrease is largely attributable to a decline in gross profit due to a change in product mix, despite the decrease in selling, general and administrative expenses, including sales-related expenses, due to the disturbances caused by the COVID-19 pandemic.

[North America segment]

■ **Revenue increased by 11.7% year-on-year to 144.5 billion yen.**

This increase is attributable to the sales expansion of LATUDA®, APTIOM® (antiepileptic agent), and other products, as well as the recognition of part of the lump sum that Myovant Sciences Ltd., one of the affiliated companies of Sumitovant, received as revenue pursuant to the license agreement.

■ **Core segment profit increased by 14.2% year-on-year to 70.8 billion yen.**

This increase is largely attributable to a rise in gross profit brought about by revenue growth, despite an increase in selling, general and administrative expenses as a result of expenses incurred by Sumitovant and its subsidiaries, among other factors.

[China segment]

■ **Revenue decreased by 12.4% year-on-year to 12.3 billion yen.**

This decrease is attributable to a sales decline of MEROPEN® (carbapenem antibiotic).

■ **Core segment profit decreased by 17.0% year-on-year to 6.3 billion yen.**

This decrease is attributable to a sharp drop in gross profit due to a revenue decline, while selling, general and administrative expenses decreased.

[Other Regions segment]

■ **Revenue increased by 114.8% year-on-year to 9.3 billion yen.**

This increase is chiefly attributable to a significant increase in exports and the sales expansion of MEROPEN® in

Southeast Asia.

■ **Core segment profit increased by 301.6% to 4.9 billion yen.**

This sharp increase is attributable to the rise in gross profit brought about by revenue growth.

In addition to the above reportable segments, the Group is also engaged in sales of food ingredients, food additives, materials for chemical products, veterinary drugs, and other product lines, which together generated revenue of 18.0 billion yen (down by 3.6% year-on-year) and core segment profit of 1.9 billion yen (up by 20.8% year-on-year).

(2) Qualitative Information on Financial Condition

Non-current assets decreased by 27.7 billion yen from the previous fiscal year-end, primarily because other financial assets decreased due to the fair value evaluation of the Company's investment securities, on top of a decrease in intangible assets due to depreciation and foreign currency translations.

Current assets increased by 13.3 billion yen from the previous fiscal year-end, as cash and cash equivalents and trade and other receivables increased despite a decrease in other financial assets due to a decrease in short-term loan receivables.

As a result, total assets decreased by 14.4 billion yen from the previous fiscal year-end to 1,238.5 billion yen.

For liabilities, provisions increased, but trade and other payables and income taxes payable declined. Bonds and borrowings under current liabilities decreased as bonds and borrowings under non-current liabilities increased as a result of financing by issuing subordinated bonds to repay part of the short-term borrowings.

As a result, total liabilities decreased by 18.3 billion yen from the previous fiscal year-end to 602.5 billion yen.

Equity attributable to owners of the parent increased by 14.0 billion yen from the previous fiscal year-end to 543.5 billion yen, as a result of an increase in retained earnings, while other components of equity, including exchange differences on translation of foreign operations, declined. Non-controlling interests decreased by 10.1 billion yen from the previous fiscal year-end, as Sumitovant's subsidiaries with non-controlling interests posted losses.

As a result, total equity increased by 3.9 billion yen from the previous fiscal year-end to 636.0 billion yen.

The ratio of equity attributable to owners of the parent to total assets as of the end of the period under review was 43.9%.

(3) Qualitative Information on Cash Flows

Cash flows provided by operating activities decreased by 5.7 billion yen year-on-year to 26.1 billion yen, owing to a decrease in profit before taxes and an increase in income taxes paid, despite factors that contributed to an increase in cash, such as an increase in provisions.

Cash flows provided by investing activities increased by 8.6 billion yen year-on-year to 19.4 billion yen, primarily owing to a decrease in short-term loan receivables

Cash flows used in financial activities decreased by 1.4 billion yen year-on-year to 9.8 billion yen. This is because of a decrease in dividends paid despite payments for acquisition of interests in a subsidiary from non-controlling interests, as well as financing by issuing subordinated bonds to repay part of the short-term borrowings.

As a result of the above, the balance of cash and cash equivalents as of September 30, 2020, was 134.7 billion yen, which represents an increase of 33.0 billion yen from the previous fiscal year-end.

(4) Qualitative Information on Consolidated Financial Forecasts

After taking its recent business performance trends into consideration, the Group has revised its consolidated financial forecasts for the full-year period ending March 31, 2021, which were announced on July 30, 2020, as follows:

Revisions to the Forecasts of Consolidated Financial Results for the Year Ending March 31, 2021 (April 1, 2020-March 31, 2021)

(Millions 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)	495,000	33,000	24,000	(12,000)	9,000	¥22.65
Revised Forecast (B)	506,000	47,000	58,000	21,000	42,000	¥105.71
Variance in amount (B-A)	11,000	14,000	34,000	33,000	33,000	—
Variance in percent (%)	2.2	42.4	141.7	—	366.7	—
[Reference] Year ended March 31, 2020	482,732	71,982	83,239	35,918	40,753	¥102.58

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.

Revenue is now expected to be 506.0 billion yen, an increase of 11.0 billion yen from the previous forecast, as sales of LATUDA® remained strong up to the end of the first six months of the fiscal year ending March 31, 2021, contrary to the expected decline in U.S. sales due to the disturbances caused by COVID-19.

Core operating profit is now expected to be 47.0 billion yen, an increase of 14.0 billion yen from the previous forecast, as we expect gross profit to increase due to revenue growth and selling, general and administrative expenses to decrease on the core basis. Operating profit is now expected to be 58.0 billion yen, an increase of 34.0 billion yen from the previous forecast, as expenses associated with a change in fair value of contingent consideration are expected to decrease from the previous forecast due to a review of the development schedule for napabucasin, which is currently under development as an anti-cancer drug.

Due to the increase in operating profit, the forecasts for net profit and net profit attributable to owners of the parent have been revised to 21.0 billion yen and 42.0 billion yen, respectively, both representing an increase of 33.0 billion yen from their previous forecasts.

Note: Consolidated Financial Forecasts above are based on the certain assumptions considered reasonable and on information available at the time of preparation of such statements. Accordingly, actual financial results may differ from those presented herein.

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, 2019	Six months ended September 30, 2020
Revenue	230,603	261,498
Cost of sales	56,286	70,694
Gross profit	174,317	190,804
Selling, general and administrative expenses	47,030	94,173
Research and development expenses	60,151	49,206
Other income	531	537
Other expenses	832	423
Operating profit	66,835	47,539
Finance income	2,338	731
Finance costs	5,026	4,616
Profit before taxes	64,147	43,654
Income tax expenses	33,817	13,315
Net profit	30,330	30,339
Net profit attributable to:		
Owners of the parent	30,330	37,297
Non-controlling interests	—	(6,958)
Net profit total	30,330	30,339
Earnings per share (yen)		
Basic earnings per share	76.34	93.88

Consolidated Statement of Comprehensive Income

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Net profit	30,330	30,339
Other comprehensive income		
Items that will not be reclassified to profit or loss:		
Net gain (loss) on revaluation of financial assets measured at fair value through other comprehensive income	(3,292)	(9,099)
Remeasurements of defined benefit plans	—	(260)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	(5,945)	(13,652)
Cash flow hedges	(15)	8
Total other comprehensive income	(9,252)	(23,003)
Total comprehensive income	21,078	7,336
Total comprehensive income attributable to:		
Owners of the parent	21,078	17,564
Non-controlling interests	—	(10,228)
Total comprehensive income	21,078	7,336

(2) Consolidated Statement of Financial Position

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Assets		
Non-current assets		
Property, plant and equipment	65,748	63,733
Goodwill	169,046	164,339
Intangible assets	421,791	408,059
Other financial assets	200,923	189,000
Other non-current assets	4,173	3,951
Deferred tax assets	27,107	31,984
Total non-current assets	888,788	861,066
Current assets		
Inventories	79,368	81,823
Trade and other receivables	134,491	139,395
Other financial assets	28,717	3,841
Income taxes receivable	5,877	5,761
Other current assets	9,624	7,587
Cash and cash equivalents	101,708	134,710
Subtotal	359,785	373,117
Assets held for sale	4,305	4,305
Total current assets	364,090	377,422
Total assets	1,252,878	1,238,488

(Millions of yen)

	As of March 31, 2020	As of September 30, 2020
Liabilities and equity		
Liabilities		
Non-current liabilities		
Bonds and borrowings	25,020	140,473
Other financial liabilities	41,306	39,154
Retirement benefit liabilities	23,870	24,372
Other non-current liabilities	7,212	5,062
Deferred tax liabilities	26,867	27,953
Total non-current liabilities	124,275	237,014
Current liabilities		
Bonds and borrowings	272,960	156,960
Trade and other payables	62,251	53,045
Other financial liabilities	13,906	13,670
Income taxes payable	22,637	13,367
Provisions	84,644	93,771
Other current liabilities	40,100	34,664
Total current liabilities	496,498	365,477
Total liabilities	620,773	602,491
Equity		
Share capital	22,400	22,400
Capital surplus	14,655	16,641
Treasury shares	(677)	(677)
Retained earnings	457,330	488,845
Other components of equity	35,777	16,264
Equity attributable to owners of the parent	529,485	543,473
Non-controlling interests	102,620	92,524
Total equity	632,105	635,997
Total liabilities and equity	1,252,878	1,238,488

(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, 2019	22,400	15,861	(674)	431,799	32,611	—
Net profit	—	—	—	30,330	—	—
Other comprehensive income	—	—	—	—	(3,292)	—
Total comprehensive income	—	—	—	30,330	(3,292)	—
Purchase of treasury shares	—	—	(2)	—	—	—
Dividends	—	—	—	(7,549)	—	—
Reclassification from other components of equity to retained earnings	—	—	—	(2,974)	2,974	—
Total transactions with owners	—	—	(2)	(10,523)	2,974	—
Balance as of September 30, 2019	22,400	15,861	(676)	451,606	32,293	—
Balance as of April 1, 2020	22,400	14,655	(677)	457,330	46,118	—
Net profit	—	—	—	37,297	—	—
Other comprehensive income	—	—	—	—	(9,099)	(260)
Total comprehensive income	—	—	—	37,297	(9,099)	(260)
Purchase of treasury shares	—	—	(0)	—	—	—
Dividends	—	—	—	(5,562)	—	—
Transaction with non-controlling interests	—	1,986	—	—	—	—
Reclassification from other components of equity to retained earnings	—	—	—	(220)	(40)	260
Other increase / decrease	—	—	—	—	—	—
Total transactions with owners	—	1,986	(0)	(5,782)	(40)	260
Balance as of September 30, 2020	22,400	16,641	(677)	488,845	36,979	—

(Millions of yen)

	Equity attributable to owners of the parent				Non-controlling interests	Total equity
	Other components of equity			Total		
	Exchange differences on translation of foreign operations	Cash flow hedges	Total			
Balance as of April 1, 2019	(3,853)	(6)	28,752	498,138	—	498,138
Net profit	—	—	—	30,330	—	30,330
Other comprehensive income	(5,945)	(15)	(9,252)	(9,252)	—	(9,252)
Total comprehensive income	(5,945)	(15)	(9,252)	21,078	—	21,078
Purchase of treasury shares	—	—	—	(2)	—	(2)
Dividends	—	—	—	(7,549)	—	(7,549)
Reclassification from other components of equity to retained earnings	—	—	2,974	—	—	—
Total transactions with owners	—	—	2,974	(7,551)	—	(7,551)
Balance as of September 30, 2019	(9,798)	(21)	22,474	511,665	—	511,665
Balance as of April 1, 2020	(10,312)	(29)	35,777	529,485	102,620	632,105
Net profit	—	—	—	37,297	(6,958)	30,339
Other comprehensive income	(10,382)	8	(19,733)	(19,733)	(3,270)	(23,003)
Total comprehensive income	(10,382)	8	(19,733)	17,564	(10,228)	7,336
Purchase of treasury shares	—	—	—	(0)	—	(0)
Dividends	—	—	—	(5,562)	—	(5,562)
Transaction with non-controlling interests	—	—	—	1,986	83	2,069
Reclassification from other components of equity to retained earnings	—	—	220	—	—	—
Other increase / decrease	—	—	—	—	49	49
Total transactions with owners	—	—	220	(3,576)	132	(3,444)
Balance as of September 30, 2020	(20,694)	(21)	16,264	543,473	92,524	635,997

(4) Consolidated Statement of Cash Flows

(Millions of yen)

	Six months ended September 30, 2019	Six months ended September 30, 2020
Cash flows from operating activities		
Net profit	30,330	30,339
Depreciation and amortization	8,572	9,507
Impairment losses	19,116	—
Changes in fair value of contingent consideration	(41,757)	(53)
Interest and dividend income	(2,337)	(713)
Interest expenses	195	950
Income tax expenses	33,817	13,315
(Increase) decrease in trade and other receivables	(1,884)	(6,594)
(Increase) decrease in inventories	(2,431)	(5,152)
Increase (decrease) in trade and other payables	4,135	(7,642)
Increase (decrease) in retirement benefits liabilities	281	524
Increase (decrease) in provisions	(3,395)	11,593
Others, net	(2,071)	1,635
Subtotal	42,571	47,709
Interest received	1,552	160
Dividends received	754	563
Interest paid	(137)	(820)
Income taxes paid	(12,963)	(21,543)
Net cash provided by operating activities	31,777	26,069
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,446)	(2,965)
Proceeds from sales of property, plant and equipment	428	238
Purchase of intangible assets	(2,810)	(1,921)
Purchase of investments	(2,190)	(5,167)
Proceeds from sales and redemption of investments	253	3,285
Net decrease (increase) in short-term loan receivables	20,550	25,724
Others, net	23	178
Net cash used in investing activities	10,808	19,372
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	—	(118,000)
Repayments of long-term borrowings	(1,480)	(1,480)
Proceeds from issuance of corporate bonds	—	118,938
Repayments of finance lease obligations	(2,148)	(2,345)
Dividends paid	(7,545)	(5,560)
Payments for acquisition of interest in a subsidiary from non-controlling interests	—	(2,254)
Others, net	(2)	908
Net cash provided by (used in) financing activities	(11,175)	(9,793)
Net increase (decrease) in cash and cash equivalents	31,410	35,648
Cash and cash equivalents at beginning of year	137,296	101,708
Effect of exchange rate changes on cash and cash equivalents	(4,035)	(2,646)
Cash and cash equivalents at end of period	164,671	134,710

(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.

Income tax expenses for the six months ended September 30, 2020 are calculated based on the estimated average annual effective tax rate.

(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.

As for the amount of core segment profit and its change from the same period of the previous fiscal year related to "Other Business" category which are not included in the reportable segments in the "1. Qualitative Information for the Six Months Ended September 30, 2020 (1) Qualitative Information on Business Results", are included in profit eliminated for inter-segment transactions.

① Six months ended September 30, 2019

(Millions of yen)

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

Note: The “Other Business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs and other products.

② Six months ended September 30, 2020

(Millions of yen)

	Reportable segments					Other Business (Note)	Total
	Pharmaceuticals						
	Japan	North America	China	Other Regions	Subtotal		
Revenues from external customers	77,342	144,504	12,296	9,336	243,478	18,020	261,498
Inter-segment revenues and transfers	25	—	—	—	25	27	52
Total	77,367	144,504	12,296	9,336	243,503	18,047	261,550
Segment profit (Core segment profit)	13,325	70,846	6,267	4,895	95,333	1,880	97,213

Note: The “Other Business” category incorporates operations not included in reportable segments, including food ingredients, food additives, chemical product materials, veterinary drugs and other products.

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

The details of reconciliation are as follows:

(Millions of yen)

Revenue	Six months ended September 30, 2019	Six months ended September 30, 2020
Total of reportable segments	211,960	243,503
Revenue of Other Business	18,719	18,047
Elimination of inter-segment revenue	(76)	(52)
Revenue on the consolidated financial statements	230,603	261,498

(Millions of yen)

Profit	Six months ended September 30, 2019	Six months ended September 30, 2020
Total of reportable segments	84,162	95,333
Segment profit of Other Business	1,550	1,880
Elimination of inter-segment profit	9	3
Research and development expenses (Note)	(41,016)	(49,206)
Gains on business transfers	69	—
Others	(18)	(29)
Core operating profit	44,756	47,981
Change in fair value of contingent consideration	41,757	53
Impairment losses	(19,116)	—
Other income	480	566
Other expenses	(832)	(1,061)
Others	(210)	—
Operating profit in the consolidated financial statements	66,835	47,539

Note: The Group does not allocate research and development expenses to the operating segments because such expenses are managed on a global basis. Differences from Research and development expenses on Consolidated Statement of Profit or Loss consist of impairment losses and expenses related to R&D excluded from calculation of core operating profit.

(Significant subsequent event)

Transfer of a significant fixed asset

The company resolved to transfer the fixed asset at the board of directors meeting held on June 26, 2020 concluded a contract on July 9, 2020, and transferred it on October 8, 2020.

(1) The Reason for the Transfer

To effectively utilize its management resources and improve its financial structure, the company has decided to transfer part of its fixed assets held for sale.

(2) The asset to be transferred

Name and location of the asset	Current situation
Ibaraki Plant (1-53 Kurakakiuchi, Ibaraki, Osaka) Land area 64,509.91m ² (19,514.25 tsubo)	Assets held for sale

The transfer price of the asset will not be disclosed at the request of the transferee. However, the asset will be transferred at a fair price that reflects market prices, based on a competitive bidding process.

(3) Profile of the transferee

Details of the transferee will not be disclosed at their request.

However, there is no capital, personal, or transactional relationship between the transferee and the company, and it is not considered a related party.

(4) Transfer Schedule

Board of directors resolution: June 26, 2020

Contract conclusion: July 9, 2020

Asset transfer: October 8, 2020

(5) Impact on consolidated profit and loss

The gain from sale of the fixed asset for the amount of 16,700 million yen is expected to be recorded as other operating income for the third quarter of the fiscal year ending March 2021.