

(English Translation)

**Consolidated Financial Results**  
**for the Third Quarter of the Fiscal Year Ending March 31, 2020 (IFRS)**

February 14, 2020

Company name: Nichi-Iko Pharmaceutical Co., Ltd.      Stock exchange listings:  
Tokyo Stock Exchange  
Securities code: 4541      (URL <https://www.nichiiko.co.jp/>)  
Representative: Yuichi Tamura  
President and CEO  
Contact: Shuji Ishida      Tel: 076-432-2121  
Senior Operating Officer, Head of  
Administrative Division  
Scheduled date of filing of quarterly report: February 14, 2020  
Scheduled date of commencement of dividend payment: -  
Presentation of supplementary materials on quarterly financial results: Yes  
Holding of quarterly financial presentation meeting: No

(Note that all amounts have been rounded down to the nearest one million yen.)

**1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to December 31, 2019)**

(1) Consolidated Results of Operations (cumulative)

(Percentage figures represent changes from the same period of the previous fiscal year)

	Revenue	Core operating profit	Operating profit	Profit before tax	Profit	Profit attributable to owners of parent
Third quarter of fiscal year ending March 31, 2020	¥142,162 million (11.7%)	¥7,046 million (-28.2%)	¥6,891 million (-13.9%)	¥7,832 million (-11.6%)	¥5,414 million (-21.6%)	¥5,523 million (-20.0%)
Third quarter of fiscal year ended March 31, 2019	¥127,224 million (1.0%)	¥9,808 million (-%)	¥8,001 million (6.5%)	¥8,855 million (22.9%)	¥6,905 million (3.4%)	¥6,905 million (3.4%)

	Total comprehensive income	Basic earnings per share	Diluted earnings per share
Third quarter of fiscal year ending March 31, 2020	¥4,039 million (-59.0%)	¥86.56	¥86.21
Third quarter of fiscal year ended March 31, 2019	¥9,863 million (8.6%)	¥118.21	¥116.77

(Note)

Core operating profit is calculated by deducting gains and losses caused by extraordinary factors (extraordinary items) from operating profit.

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of total equity attributable to owners of the parent to total assets	Equity attributable to owners of parent per share
Third quarter of fiscal year ending March 31, 2020	¥323,435 million	¥119,064 million	¥118,322 million	36.6%	¥1,852.41
Fiscal year ended March 31, 2019	¥306,838 million	¥116,323 million	¥116,323 million	37.9%	¥1,825.00

2. Dividends

	Annual dividends per share				
	First quarter	Second quarter	Third quarter	Year-end	Total
Fiscal year ended March 31, 2019	¥-	¥15.00	¥-	¥15.00	¥30.00
Fiscal year ending March 31, 2020	¥-	¥15.00	¥-		
Fiscal year ending March 31, 2020 (forecast)				¥15.00	¥30.00

(Note)

Revisions to recently announced dividends forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2020  
(From April 1, 2019 to March 31, 2020)

(Percentage figures represent changes from the same period of the previous fiscal year)

	Revenue	Core operating profit	Operating profit	Profit attributable to owners of parent	Basic earnings per share
Annual	¥194,000 million (16.5%)	¥8,500 million (-36.2%)	¥8,500 million (3.4%)	¥6,000 million (-12.6%)	¥94.00

(Note)

Revisions to recently announced forecast of financial results: None

**\*Notes**

- (1) Changes in significant subsidiaries during the consolidated cumulative quarter under review (changes in specified subsidiaries resulting in change in scope of consolidation): No
- (2) Changes in accounting policies and changes in accounting estimates
- |   |     |
|---|-----|
| (i) Changes in accounting policies required by IFRS:      | Yes |
| (ii) Changes in accounting policies due to other reasons: | No  |
| (iii) Changes in accounting estimates:                    | No  |
- (3) Total number of issued shares (common stock)
- |  |                   |
|--|-------------------|
| (i) Total number of issued shares as of the end of the period (including treasury shares): |                   |
| As of December 31, 2019  | 65,162,652 shares |
| As of March 31, 2019   | 65,162,652 shares |
| (ii) Number of treasury shares as of the end of the period:                                |                   |
| As of December 31, 2019  | 1,287,687 shares  |
| As of March 31, 2019   | 1,423,511 shares  |
| (iii) Average number of shares during the period (cumulative quarter):                     |                   |
| Third quarter of fiscal year ending March 31, 2020   | 63,809,580 shares |
| Third quarter of fiscal year ended March 31, 2019  | 58,417,851 shares |

*(Note)*

*Number of treasury shares as of the end of the period includes shares held by the Employee Shareholding Incentive Plan.*

**\* Quarterly financial results reports are exempt from quarterly reviews conducted by certified public accountants or an audit corporation.**

**\* Explanation on the appropriate usage of forecast of financial results, and other specific matters**

(Considerations on forward-looking statements)

The forward-looking statements including forecast of financial results contained in these materials are based on the information currently available to the Company and certain assumptions which are regarded as legitimate. As such, they do not constitute the Company's guarantee that such results would be achieved. Actual business and other results may differ substantially from the forecasts provided in these materials as a result of various factors.

(How to obtain supplementary materials for financial results)

Supplementary materials for financial results will be provided on the website of the Company on Friday, February 14, 2020.

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## 1. Qualitative Information on Financial Results for the Quarter under Review

### (1) Explanation on Operating Results

In the cumulative third quarter under review, although the Japanese economy was seen to be on a trend of moderate recovery due to improvements in corporate earnings as well as the employment and income environment, concerns remain about the impact of trade friction between the United States and China despite a partial agreement being reached at the start of January.

In the generic drug industry, the usage rate of generic drugs from July to September 2019 was 76.9% (Japan Generic Medicines Association: results of analysis of generic share), is steadily increasing toward the government's target of "an 80% usage rate of generic drugs." Meanwhile, a revision of drug prices was implemented in October 2019 to coincide with the consumption tax hike. Furthermore, the revisions of drug prices that had generally been made once every two years in the past are scheduled to be implemented every year from April 2020 onward, and the environment will require further strengthening of earning capability in the generic drug industry.

Under such conditions, the Company formulated the 8th Medium-term Management Plan "Nexus ∞" (from the fiscal year ending March 31, 2020 until the fiscal year ending March 31, 2022) in May 2019, and has been pursuing the four core strategies of "Continue our deeper pursuit of business arenas (where to play)," "Relentless efforts for operational excellence," "Deliver a global standard of quality and competitive edge" and "Become the most trusted life science company driven by our ESG activities" in order to evolve into a global comprehensive generic pharmaceutical company.

(in millions of yen)	Third quarter of fiscal year ended March 31, 2019	Third quarter of fiscal year ending March 31, 2020	Change
Revenue	127,224	142,162	+14,937
Core operating profit	9,808	7,046	-2,762
Profit before tax	8,855	7,832	-1,022
Profit attributable to owners of parent	6,905	5,523	-1,382
Diluted earnings per share	¥116.77	¥86.21	- ¥30.56

*\* The Group has adopted "core operating profit" as an indicator representing ordinary profitability. "Core operating profit" is calculated by deducting gains and losses caused by extraordinary factors from operating profit.*

Although revenue decreased in the Sagent Group and the Nichi-Iko Group was affected by the revision of drug prices, revenue on a consolidated basis increased by 14,937 million yen year-on-year mainly due to an increase in sales resulting from making Elmed Co., Ltd. (hereinafter referred to as "Elmed") a consolidated subsidiary.

Although increased revenue in the Nichi-Iko Group was a factor increasing gross profit, this was outweighed by negative factors such as the decline of the gross margin rate during the third quarter of the current fiscal year resulting from the impact of the revision of drug prices in October 2019 and the decrease in gross profit caused by the decrease in revenue in the Sagent Group. As a result, core operating profit decreased by 2,762 million yen year-on-year.

The quarterly profit before tax decreased by 1,022 million yen year-on-year, due to the year-on-year decrease in core operating profit, as well as the absence of the impairment losses in the Sagent Group (1,699 million yen) and the investment gain on equity method (1,431 million yen) in the

same period of the previous fiscal year, despite gains on sale due to the partial sale of shares of Aprogen Inc., an equity method affiliate.

Profit attributable to owners of the parent decreased by 1,382 million yen year-on-year reflecting the above factors.

The Company has changed to the following reportable segments from the first quarter, and the figures of the same period of the previous fiscal year have been reclassified for year-on-year comparison to reflect that change. The two segments are the “Nichi-Iko Group” and the “Sagent Group,” with the “Sagent Group” being made up of Sagent Pharmaceuticals, Inc. (hereinafter referred to as “Sagent”) and its consolidated subsidiaries, and the “Nichi-Iko Group” being made up of companies excluding the “Sagent Group.”

The results by segment are as follows. Note that “core operating profit” is used for segment profit.

(in millions of yen)	Nichi-Iko Group			Sagent Group		
	Third quarter of fiscal year ended March 31, 2019	Third quarter of fiscal year ending March 31, 2020	Change	Third quarter of fiscal year ended March 31, 2019	Third quarter of fiscal year ending March 31, 2020	Change
Revenue	99,229	117,929	+18,700	27,994	24,232	-3,762
Core operating profit	8,778	6,746	-2,032	1,030	300	-729

#### (i) Nichi-Iko Group

In the Nichi-Iko Group, we have continued to expand the product line-up. In addition to the added-value products of Elmed, which became a consolidated subsidiary in April 2019, we commenced the sale of Etanercept BS for S.C.Inj “Nichi-Iko” in November 2019 in the biosimilar area. We also introduced a Bevacizumab biosimilar from mAbxience Research, S.L. (Spain) and are preparing to file an application in September 2020 for the domestic approval.

Furthermore, we agreed to form a business alliance with MedPeer, Inc. (“MedPeer”) in November 2019, and are conducting joint business for (i) supporting family pharmacies utilizing MedPeer’s “kakari” service that facilitates the use of family pharmacies, (ii) operating generic marketing partnered with the MedPeer’s YakuMed community site for doctors and pharmacists, and (iii) creating a generic development scheme utilizing community sites.

In addition, the Company is promoting partnerships with local governments for the purpose of cooperating with the resolution of social and regional issues as a company involved in human health and life, and newly concluded comprehensive partnership agreements with Toyama-shi in November 2019, Imizu-shi in December 2019 and Takaoka-shi in January 2020 (all in Toyama Prefecture).

The results in the Nichi-Iko Group during the cumulative third quarter of the current fiscal year showed a segment profit of 6,746 million yen (a decrease of 2,032 million yen year-on-year) due to a decline in gross profit rate during the third quarter of the current fiscal year resulting from the impact of the revision of drug prices in October 2019, despite an increase in revenue and resulting increase in gross profit arising as a result of making Elmed a consolidated subsidiary.

#### (ii) Sagent Group

In the Sagent Group, efforts have been made to expand in-house production capacity of the FDA certified plants such as the Raleigh Plant of Sagent and the Montreal Plant of Omega Laboratories

Limited, become more cost competitive, strengthen stable supply capability, and maintain global-standard quality. Through these efforts, the Sagent Group is aiming to shift production of outsourced products to plants within the Group as part of the effort to secure -stable product supply routes.

Furthermore, Sagent's subsidiary SterRx is engaged in efforts to expand the compound business by improving the product line-up of compound drug formulations.

The results in the Sagent Group during the cumulative third quarter of the current fiscal year returned to profitability, showing a segment profit of 300 million yen (a decrease of 729 million yen year-on-year), with both net sales and income improving in the third quarter due to the strong performance of new products introduced in the latter half of the second quarter.

## (2) Explanation on Financial Position

### (i) Assets, Liabilities and Equity

Assets on a consolidated basis at the end of the third quarter of the current fiscal year increased by 16,596 million yen from the previous fiscal year-end to 323,435 million yen. This was mainly attributable to the following factors:

- Investments accounted for using equity method decreased by 5,863 million yen due to the additional acquisition of shares of Elmed, which used to be an equity method affiliate, to make it a consolidated subsidiary.
- Cash and cash equivalents decreased by 11,322 million yen as consideration paid for the additional acquisition of Elmed's shares.
- Cash and cash equivalents increased by 5,489 million yen, trade and other receivables increased by 11,339 million yen, inventories increased by 5,832 million yen, and intangible assets increased by 2,119 million yen as assets acquired by making Elmed a consolidated subsidiary.
- Cash and cash equivalents increased by 3,200 million yen due to the partial sale of shares of Aprogen Inc., which is an equity method affiliate.
- Intangible assets increased by 3,112 million yen due to investment in the development of Infiximab.

Liabilities on a consolidated basis increased by 13,855 million yen from the previous fiscal year-end to 204,370 million yen. This was mainly attributable to the following factors:

- Trade and other payables increased by 10,051 million yen due to liabilities assumed when making Elmed a consolidated subsidiary.

Equity on a consolidated basis increased by 2,740 million yen from the previous fiscal year-end to 119,064 million yen. This was mainly attributable to the following factors:

- Retained earnings increased by 5,523 million yen due to recording profit attributable to owners of parent.
- Retained earnings decreased by 1,913 million yen due to dividends paid.

(ii) Cash Flows

At the end of the third quarter of the current fiscal year, cash and cash equivalents on a consolidated basis decreased by 7,343 million yen from the previous fiscal year-end to 34,749 million yen.

Details of cash flows from each of the three activities for the cumulative third quarter of the current fiscal year are described below.

(Cash flows from operating activities)

Net cash provided by operating activities during the cumulative third quarter of the current fiscal year amounted to 14,763 million yen. The main outflows included inventories increasing by 3,441 million yen and a gain on sale of investments in associates of 1,762 million yen. In terms of inflows, depreciation and amortization was 8,623 million yen, and profit before tax was 7,832 million yen, and trade and other receivables decreased by 3,838 million yen.

(Cash flows from investing activities)

Net cash used in investing activities during the cumulative third quarter of the current fiscal year amounted to 16,589 million yen. The main inflows included 3,200 million yen in proceeds from sale of investments accounted for using equity method due to the partial sale of shares of Aprogen Inc., an equity method affiliate, while the main outflows were 8,901 million yen in purchase of intangible assets, 6,341 million yen for the payments for acquisition of subsidiaries as a result of the acquisition of 66.6% of the shares issued by Elmed and 4,558 million yen in expenditure due to the purchase of property, plant and equipment.

(Cash flows from financing activities)

Net cash used in financing activities during the cumulative third quarter of the current fiscal year amounted to 5,386 million yen. The main inflows included short-term borrowings increasing by 3,853 million yen, and the main outflows were 6,004 million yen in repayments of long-term borrowings, 1,906 million yen in dividends paid and 1,290 million yen in repayments of lease obligations.

(3) Explanation of Forecast of Consolidated Financial Results and Other Forward-looking Statements

There is no change to the forecast of consolidated financial results announced on November 12, 2019.



## 2. Condensed Quarterly Consolidated Financial Statements and Primary Notes

### (1) Condensed Quarterly Consolidated Statement of Financial Position

	(in millions of yen)	
	Fiscal year ended March 31, 2019 (as of March 31, 2019)	Third quarter of fiscal year ending March 31, 2020 (as of December 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	42,093	34,749
Trade and other receivables	30,035	37,565
Inventories	66,783	76,210
Income taxes receivable	72	72
Other financial assets	447	425
Other current assets	3,290	2,891
Subtotal	142,722	151,915
Assets held for sale	-	1,430
Total current assets	142,722	153,346
Non-current assets		
Property, plant and equipment	55,710	58,237
Goodwill	42,892	45,066
Intangible assets	46,721	58,647
Investments accounted for using equity method	12,993	3,234
Other financial assets	5,724	4,791
Deferred tax assets	9	22
Other non-current assets	64	88
Total non-current assets	164,115	170,088
Total assets	306,838	323,435

	(in millions of yen)	
	Fiscal year ended March 31, 2019 (as of March 31, 2019)	Third quarter of fiscal year ending March 31, 2020 (as of December 31, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	44,172	55,707
Borrowings	37,435	41,066
Other financial liabilities	956	1,729
Income taxes payable	74	220
Refund liabilities	2,196	2,902
Contract liabilities	116	116
Other current liabilities	6,884	7,360
Total current liabilities	91,837	109,102
Non-current liabilities		
Borrowings	90,739	85,085
Other financial liabilities	1,589	2,315
Retirement benefit liability	173	421
Provisions	57	81
Refund liabilities	75	125
Contract liabilities	865	777
Deferred tax liabilities	3,329	5,146
Other non-current liabilities	1,847	1,314
Total non-current liabilities	98,677	95,267
Total liabilities	190,514	204,370
Equity		
Share capital	23,360	23,360
Capital surplus	21,896	21,858
Other equity instruments	9,918	9,918
Treasury shares	(2,893)	(2,665)
Retained earnings	55,016	58,337
Other components of equity	9,025	7,513
Total equity attributable to owners of parent	116,323	118,322
Non-controlling interests	0	742
Total equity	116,323	119,064
Total liabilities and equity	306,838	323,435

(2) Condensed Quarterly Consolidated Statement of Income and Condensed Quarterly Consolidated Statement of Comprehensive Income

(Condensed Quarterly Consolidated Statement of Income)

	(in millions of yen)	
	Third quarter of previous fiscal year (from April 1, 2018 to December 31, 2018)	Third quarter of current fiscal year (from April 1, 2019 to December 31, 2019)
Revenue	127,224	142,162
Cost of sales	99,749	113,334
Gross profit	27,475	28,827
Selling, general and administrative expenses	17,104	18,773
Research and development expenses	2,598	2,954
Other operating income	463	232
Other operating expenses	234	440
Operating profit	8,001	6,891
Finance income	115	355
Finance costs	693	962
Share of profit (loss) of investments accounted for using equity method	1,431	5
Other income	-	2,166
Other expenses	-	624
Profit before tax	8,855	7,832
Income tax expense	1,950	2,418
Profit	6,905	5,414
Profit attributable to:		
Owners of parent	6,905	5,523
Non-controlling interests	(0)	(108)
Profit	6,905	5,414
Earnings per share		
Basic earnings per share (Yen)	118.21	86.56
Diluted earnings per share (Yen)	116.77	86.21

(Condensed Quarterly Consolidated Statement of Comprehensive Income)

(in millions of yen)

	Third quarter of previous fiscal year (from April 1, 2018 to December 31, 2018)	Third quarter of current fiscal year (from April 1, 2019 to December 31, 2019)
Profit	6,905	5,414
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	482	(638)
Share of other comprehensive income of investments accounted for using equity method	(316)	(9)
Total of items that will not be reclassified to profit or loss	165	(647)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,811	(673)
Share of other comprehensive income of investments accounted for using equity method	(19)	(53)
Total of items that may be reclassified to profit or loss	2,792	(726)
Other comprehensive income (net of tax)	2,957	(1,374)
Comprehensive income	9,863	4,039
Comprehensive income attributable to:		
Owners of parent	9,863	4,136
Non-controlling interests	(0)	(96)
Comprehensive income	9,863	4,039

## (3) Condensed Quarterly Consolidated Statement of Changes in Equity

Third Quarter of Previous Fiscal Year (from April 1, 2018 to December 31, 2018)

(in millions of yen)

	Equity attributable to owners of parent					Other components of equity	
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2018	19,976	18,827	-	(9,046)	51,912	3,448	2,165
Changes in accounting policies					(480)		
Restated balance	19,976	18,827	-	(9,046)	51,431	3,448	2,165
Profit (loss)					6,905		
Other comprehensive income						2,792	175
Total comprehensive income	-	-	-	-	6,905	2,792	175
Issuance of new shares	2,309	2,309					
Direct issuance expenses due to issuance of new shares		(16)					
Purchase of treasury shares				(0)			
Disposal of treasury shares		(1,995)		6,076			
Transfer of loss on disposal of treasury shares		1,679			(1,679)		
Forfeiture of share acquisition rights					13		
Dividends					(1,734)		
Share-based payment transactions							
Transfer to capital surplus from retained earnings		16			(16)		
Transfer from other components of equity					(9)		
Total transactions with owners	2,309	1,993	-	6,076	(3,426)	-	-
Balance as of December 31, 2018	22,285	20,821	-	(2,970)	54,910	6,240	2,340

	Equity attributable to owners of parent					
	Other components of equity			Total	Non-controlling interests	Total
	Remeasurements of defined benefit plans	Other	Total			
Balance as of April 1, 2018	-	258	5,872	87,542	0	87,542
Changes in accounting policies				(480)		(480)
Restated balance	-	258	5,872	87,062	0	87,062
Profit (loss)				6,905	(0)	6,905
Other comprehensive income	(9)		2,957	2,957	0	2,957
Total comprehensive income	(9)	-	2,957	9,863	(0)	9,863
Issuance of new shares				4,618		4,618
Direct issuance expenses due to issuance of new shares				(16)		(16)
Purchase of treasury shares				(0)		(0)
Disposal of treasury shares		(3)	(3)	4,077		4,077
Transfer of loss on disposal of treasury shares				-		-
Forfeiture of share acquisition rights		(13)	(13)	-		-
Dividends				(1,734)		(1,734)
Share-based payment transactions		44	44	44		44
Transfer to capital surplus from retained earnings				-		-
Transfer from other components of equity	9		9	-		-
Total transactions with owners	9	27	36	6,988	-	6,988
Balance as of December 31, 2018	-	285	8,867	103,914	0	103,914

(Note)

*The amount of dividends does not include the amount of dividends to the Employee Shareholding Incentive Plan.*

Third Quarter of Current Fiscal Year (from April 1, 2019 to December 31, 2019)

(in millions of yen)

	Equity attributable to owners of parent					Other components of equity	
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Exchange differences on translation of foreign operations	Financial assets measured at fair value through other comprehensive income
Balance as of April 1, 2019	23,360	21,896	9,918	(2,893)	55,016	6,367	2,371
Changes in accounting policies					(49)		
Restated balance	23,360	21,896	9,918	(2,893)	54,966	6,367	2,371
Profit (loss)					5,523		
Other comprehensive income						(738)	(649)
Total comprehensive income	-	-	-	-	5,523	(738)	(649)
Direct issuance expenses due to issuance of new shares		(5)					
Distributions to owners of other equity instruments					(353)		
Disposal of treasury shares		(47)		228			
Transfer of loss on disposal of treasury shares		8			(8)		
Forfeiture of share acquisition rights					14		
Dividends					(1,913)		
Share-based payment transactions							
Equity transactions with non-controlling interests and other							
Transfer to capital surplus from retained earnings		5			(5)		
Transfer from other components of equity					115		(114)
Total transactions with owners	-	(38)	-	228	(2,151)	-	(114)
Balance as of December 31, 2019	23,360	21,858	9,918	(2,665)	58,337	5,628	1,608

	Equity attributable to owners of parent					
	Other components of equity			Total	Non-controlling interests	Total
	Remeasurements of defined benefit plans	Other	Total			
Balance as of April 1, 2019	-	285	9,025	116,323	0	116,323
Changes in accounting policies				(49)		(49)
Restated balance	-	285	9,025	116,273	0	116,273
Profit (loss)				5,523	(108)	5,414
Other comprehensive income	1		(1,386)	(1,386)	12	(1,374)
Total comprehensive income	1	-	(1,386)	4,136	(96)	4,039
Direct issuance expenses due to issuance of new shares				(5)		(5)
Distributions to owners of other equity instruments				(353)		(353)
Disposal of treasury shares		(37)	(37)	143		143
Transfer of loss on disposal of treasury shares				-		-
Forfeiture of share acquisition rights		(14)	(14)	-		-
Dividends				(1,913)		(1,913)
Share-based payment transactions		41	41	41		41
Equity transactions with non-controlling interests and other				-	838	838
Transfer to capital surplus from retained earnings				-		-
Transfer from other components of equity	(1)		(115)	-		-
Total transactions with owners	(1)	(10)	(125)	(2,087)	838	(1,248)
Balance as of December 31, 2019	-	275	7,513	118,322	742	119,064

(Note)

*The amount of dividends does not include the amount of dividends to the Employee Shareholding Incentive Plan.*



## (4) Condensed Quarterly Consolidated Statement of Cash Flows

(in millions of yen)

	Third quarter of previous fiscal year (from April 1, 2018 to December 31, 2018)	Third quarter of current fiscal year (from April 1, 2019 to December 31, 2019)
Cash flows from operating activities		
Profit before tax	8,855	7,832
Depreciation and amortization	7,050	8,623
Impairment losses (reversal of impairment losses)	1,699	14
Interest and dividend income	(56)	(100)
Interest expenses	503	498
Share of loss (profit) of investments accounted for using equity method	(1,431)	(5)
Loss (gain) on sale of investments in associates	-	(1,762)
Decrease (increase) in trade and other receivables	1,690	3,838
Decrease (increase) in inventories	7,250	(3,441)
Increase (decrease) in trade and other payables	(4,993)	787
Increase (decrease) in provisions	(727)	682
Other	(17)	(1,343)
Subtotal	19,823	15,624
Dividends received	72	101
Interest received	19	44
Interest paid	(512)	(491)
Income taxes paid	(2,430)	(745)
Income taxes refund	7	229
Net cash provided by (used in) operating activities	16,979	14,763
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,278)	(4,558)
Purchase of intangible assets	(5,365)	(8,901)
Purchase of investments	(996)	(6)
Purchase of investments accounted for using equity method	(5,678)	-
Proceeds from sale of investments accounted for using equity method	-	3,200
Collection of loans receivable	598	71
Proceeds from reversal of international interests	999	-
Payments for acquisition of subsidiaries	-	(6,341)
Other	(147)	(53)
Net cash provided by (used in) investing activities	(16,868)	(16,589)

(in millions of yen)

	Third quarter of previous fiscal year (from April 1, 2018 to December 31, 2018)	Third quarter of current fiscal year (from April 1, 2019 to December 31, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	101	3,853
Proceeds from long-term borrowings	6,200	200
Repayments of long-term borrowings	(5,853)	(6,004)
Proceeds from issuance of new shares	4,587	-
Proceeds from sale of treasury shares	4,065	138
Repayments of finance lease obligations	(706)	-
Repayments of lease obligations	-	(1,290)
Dividends paid	(1,717)	(1,906)
Distributions to owners of other equity instruments	-	(353)
Other	40	(23)
Net cash provided by (used in) financing activities	6,716	(5,386)
Effect of exchange rate changes on cash and cash equivalents	(116)	(131)
Net increase (decrease) in cash and cash equivalents	6,710	(7,343)
Cash and cash equivalents at beginning of period	18,529	42,093
Cash and cash equivalents at end of period	25,239	34,749

(5) Notes to Condensed Quarterly Consolidated Financial Statements

(Notes on premise of going concern)

Not applicable.

(Changes in significant subsidiaries during the consolidated cumulative quarter under review)

Not applicable.

There were no changes in specified subsidiaries, but the Company acquired additional shares of Elmed Eisai Co., Ltd. and made it a consolidated subsidiary of the Company in the first quarter of the current fiscal year. The trade name of Elmed Eisai Co., Ltd. was also changed to Elmed Co., Ltd. on the same day.

(Changes in accounting policies)

The significant accounting policies applied to the Condensed Quarterly Consolidated Financial Statements are the same as the accounting policies applied to the consolidated financial statements for the previous fiscal year with the exception of the changes in the accounting policies listed below. Income tax expense for the cumulative third quarter of the current fiscal year is calculated based on the estimated annual effective tax rate.

The following standards are applied from the first quarter of the current fiscal year.

The Group has applied IFRS 16 “Leases” (issued in January 2016) from the first quarter of the current fiscal year. The new standard replaces IAS 17 “Leases.” The new accounting policies by the application of IFRS 16 are as follows.

The Group determines whether a contract contains a lease at the inception of the contract. Lease liabilities are measured at the present value of the total accrued lease payments at the commencement date of the lease by discounting them at the lessee’s incremental borrowing rate. The right-of-use asset is initially measured at the initial measurement amount of lease liabilities adjusted by the initial direct cost and other costs such as prepaid lease payments, and adding the cost of restoration obligations required by the lease contract.

A right-of-use asset is depreciated by using the straight-line method over the shorter period of either from the commencement date to the end of the lease term or the end of the useful life of the right-of-use asset. When measuring lease liabilities, these are measured at the present value of accrued lease payments.

The Group has included right-of-use assets under “property, plant and equipment” and lease liabilities under “other financial liabilities” on the consolidated statement of financial position.

In the application of IFRS 16, the Group has adopted the method where the cumulative effect of applying this standard is recognized as an adjustment of retained earnings at the date of initial application, which is allowed as the transition approach. Due to the adoption of this method, there are no restatements of comparative information.

In transitioning to IFRS 16, the Group has elected the practical expedient provided in paragraph C3 of IFRS 16 and followed the assessment of whether a contract contains a lease in accordance with IAS 17 “Leases” (“IAS 17”) and IFRIC 4 “Determining whether an Arrangement Contains a Lease.”

The Group recognized lease liabilities on the date of initial application of IFRS 16 for leases previously classified as operating leases under IAS 17. The lease liabilities are initially measured at the present value of the total accrued lease payments at the commencement date by discounting them at the lessee’s incremental borrowing rate. The weighted average lessee’s incremental borrowing rate applied to lease liabilities recognized in the consolidated statement of financial position at the date of initial application is 0.40%.

Furthermore, right-of-use assets are measured using one of the following methods.

- The carrying amount calculated by assuming that IFRS 16 was applied from the commencement date of the lease. However, lessee’s incremental borrowing rate on the date of initial application is used as the discount rate.
- Same amount as the lease liabilities. However, this is the amount adjusted by any prepaid or accrued lease payments.

The following is the reconciliation of operating lease contracts disclosed under IAS 17 as of the previous fiscal year-end and lease liabilities at the date of initial application recognized in the consolidated statement of financial position.

	(in millions of yen)
Operating lease contracts disclosed as of March 31, 2019	295
Lease contracts discounted at the incremental borrowing rate as of April 1, 2019	295
Finance lease contracts disclosed as of March 31, 2019	2,524
Cancelable operating lease contracts	1,451
Lease liabilities as of April 1, 2019	4,271

As a result of application of IFRS 16, compared to if the previous accounting standards are applied, right-of-use assets increased by 1,617 million yen, lease liabilities increased by 1,746 million yen and retained earnings decreased by 49 million yen at the beginning of the first quarter of the current fiscal year.

When applying IFRS 16, the Group used the following practical expedients:

- Initial direct costs are excluded from the measurement of right-of-use assets at the date of initial application.
- Ex-post assessment is used, such as in determining the lease term, if the contract contains options to extend or terminate the lease.
- This is dependent on the assessment of whether a lease is disadvantageous by applying IAS 37 “Provisions, Contingent Liabilities and Contingent Assets” immediately prior to the initial application as a substitute for implementing an impairment review.

(Segment information)

(1) Reportable segments

The Group's reportable segments are components of the business units of the Group for which discrete financial statements are available and evaluated regularly by the Board of Directors in determining the allocation of management resources and assessing the segment's performance.

The Group has established the 8th Medium-term Management Plan "Nexus ∞" starting this fiscal year and with the fiscal year ending March 31, 2022 as the final year. It aims to maximize synergies in three areas (therapeutic area/region, cost and people) under the theme of "Going Beyond with Infinite Power to Connect," seeking to further evolve into a global comprehensive generic pharmaceutical company by pursuing the four core strategies of "Continue our deeper pursuit of business arenas (where to play)," "Relentless efforts for operational excellence," "Drive for global standard of quality and competitive edge" and "Be the most trusted life science company driven by our ESG activities," and one of the targets is to achieve 60.0 billion yen in overseas sales in the fiscal year ending March 31, 2022. In order to clearly indicate progress in these efforts, the Group's reportable segments have been changed from the single segment of the pharmaceutical business to the "Nichi-Iko Group" and the "Sagent Group" making up the pharmaceutical business. The "Sagent Group" is made up of Sagent Pharmaceuticals, Inc. and its consolidated subsidiaries. The "Nichi-Iko Group" is made up of companies excluding the "Sagent Group."

Revenue, profit and loss of the reportable segments are as follows.

Third Quarter of Previous Fiscal Year (from April 1, 2018 to December 31, 2018)

(in millions of yen)

	Reportable segment			Adjustment	Consolidated
	Nichi-Iko Group	Sagent Group	Total		
Revenue					
External revenue	99,229	27,994	127,224	-	127,224
Inter-segment revenue	-	-	-	-	-
Total	99,229	27,994	127,224	-	127,224
Segment profit (Core operating profit) (Note)	8,778	1,030	9,808	-	9,808

(Note)

Core operating profit is calculated by deducting gains and losses caused by extraordinary factors from operating profit.

Third Quarter of Current Fiscal Year (from April 1, 2019 to December 31, 2019)

(in millions of yen)

	Reportable segment			Adjustment	Consolidated
	Nichi-Iko Group	Sagent Group	Total		
Revenue					
External revenue	117,929	24,232	142,162	-	142,162
Inter-segment revenue	-	-	-	-	-
Total	117,929	24,232	142,162	-	142,162
Segment profit (Core operating profit) (Note)	6,746	300	7,046	-	7,046

(Note)

Core operating profit is calculated by deducting gains and losses caused by extraordinary factors from operating profit.

Adjustments from segment profit to profit before tax are as follows.

(in millions of yen)

	Third quarter of previous fiscal year (from April 1, 2018 to December 31, 2018)	Third quarter of current fiscal year (from April 1, 2019 to December 31, 2019)
Segment profit	9,808	7,046
Integration-related expenses	107	140
Impairment losses	1,699	14
Operating profit	8,001	6,891
Finance income	115	355
Finance costs	693	962
Share of profit (loss) of investments accounted for using equity method	1,431	5
Other income	-	2,166
Other expenses	-	624
Profit before tax	8,855	7,832

(2) Information about products and services

Revenue from each product and service is as follows.

(in millions of yen)

	Third quarter of previous fiscal year (from April 1, 2018 to December 31, 2018)	Third quarter of current fiscal year (from April 1, 2019 to December 31, 2019)
Treatments for circulatory system	19,834	26,203
Treatments for blood and body fluid	20,993	21,690
Antibiotics	18,798	15,756
Treatments for nervous system	9,860	13,231
Treatments for digestive system	11,274	12,778
Chemotherapeutics	10,342	10,776
Treatments for allergies	7,330	10,537
Others	28,789	31,189
Total	127,224	142,162

(3) Information by geographical area

Revenue by geographical area is shown below.

(in millions of yen)

	Third quarter of previous fiscal year (from April 1, 2018 to December 31, 2018)	Third quarter of current fiscal year (from April 1, 2019 to December 31, 2019)
Japan	99,124	117,724
United States	25,073	21,344
Others	3,026	3,092
Total	127,224	142,162

(Note)

Revenue is based on the location of the destination of sales.