

(English Translation)

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

August 9, 2019

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: August 9, 2019
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 First Quarter of the Fiscal Year Ending March 31, 2020 (From April 1, 2019 to June 30, 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
First quarter of fiscal year ending March 31, 2020	¥46,523 million (10.0%)	¥1,871 million (-12.7%)	¥1,733 million (-14.9%)	¥2,868 million (-1.0%)	¥1,813 million (-26.3%)	¥1,813 million (-26.3%)
First quarter of fiscal year ended March 31, 2019	¥42,278 million (-1.5%)	¥2,144 million (-%)	¥2,036 million (-59.3%)	¥2,897 million (-42.1%)	¥2,461 million (-28.3%)	¥2,461 million (-28.3%)

	Total comprehensive income	Basic earnings per share	Diluted earnings per share
First quarter of fiscal year ending March 31, 2020	- ¥957 million (-%)	¥28.44	¥28.25
First quarter of fiscal year ended March 31, 2019	¥5,652 million (28.7%)	¥43.60	¥43.53

(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
First quarter of fiscal year ending March 31, 2020	¥312,848 million	¥114,243 million	¥114,243 million	36.5%	¥1,791.66
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	¥-				
Fiscal year ending March 31, 2020 (forecast)		¥15.00	¥-	¥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
Second quarter (cumulative total)	¥98,000 million (19.0%)	¥3,100 million (-%)	¥3,100 million (-34.3%)	¥3,200 million (-30.7%)	¥50.18
Annual	¥201,000 million (20.7%)	¥8,500 million (-36.2%)	¥8,500 million (3.4%)	¥7,000 million (2.0%)	¥109.70

(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 June 30, 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 June 30, 2019 | 1,398,609 shares |
| As of March 31, 2019 | 1,423,511 shares |
| (iii) Average number of shares during the period (cumulative quarter): | |
| First quarter of fiscal year ending March 31, 2020 | 63,753,467 shares |
| First quarter of fiscal year ended March 31, 2019 | 56,462,794 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, August 9, 2019.

Attachment – Contents

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

(1) Explanation on Operating Results

In the cumulative first quarter under review, although the Japanese economy continued on a trend of moderate recovery due to improvements in corporate earnings and the employment environment, the future remains uncertain due to trade friction between the United States and China and concerns about the impact of tensions between Japan and South Korea.

In the generic drug industry, the Cabinet decision in June 2017 clearly set forth a timeline by stating to aim at “an 80% usage rate of generic drugs by September 2020.” In February 2019, the usage rate of generic drugs was 77.5% (according to the survey on trends of medical prescription fees released by the Health Insurance Bureau of the Ministry of Health, Labour and Welfare), indicating a steady increase in the usage rate. Meanwhile, the revisions of drug prices that had generally been made once every two years in the past are scheduled to be implemented every year with revisions also being made in interim years from April 2021. Furthermore, the revision of drug prices is also scheduled to accompany the increase in the consumption tax rate in October 2019, and the earning environment is expected to become increasingly harsh in the generic drug industry.

Under such circumstances, the Company made Elmed Eisai Co., Ltd. (trade name changed to Elmed Co., Ltd.; hereinafter referred to as “Elmed”) a consolidated subsidiary in April 2019 by acquiring its shares, and is proceeding with efforts toward early realization and maximization of integration synergies.

Furthermore, 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 under the theme of “Going Beyond with Infinite Power to Connect,” the Company is 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” in order to maximize synergies in the three areas of therapeutic area/region, cost and people, and evolve into a global comprehensive generic pharmaceutical company.

(in millions of yen)	First quarter of fiscal year ended March 31, 2019	First quarter of fiscal year ending March 31, 2020	Change
Revenue	42,278	46,523	+4,245
Core operating profit	2,144	1,871	-273
Profit before tax	2,897	2,868	-28
Profit attributable to owners of parent	2,461	1,813	-648
Diluted earnings per share	¥43.53	¥28.25	- ¥15.28

** 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, revenue on a consolidated basis increased by 4,245 million yen year-on-year mainly due to an increase in sales volume resulting from making Elmed a consolidated subsidiary and the expansion of the generic drug market.

Although gross profit increased due to increased revenue in the Nichi-Iko Group, this was outweighed by the decrease in gross profit caused by the decrease in revenue in the Sagent Group. As a result, core operating profit decreased by 273 million yen year-on-year.

Profit before tax decreased by 28 million yen year-on-year due to factors such as the investment gain on equity method decreasing from 932 million yen in the previous year to 46 million yen, despite gains on sale due to the partial sale of shares of Aprogen Inc., which is an equity method affiliate.

Profit attributable to owners of parent decreased by 648 million yen year-on-year due to an increase in the corporate income tax rate in relation to quarterly profit before tax as a result of the above decrease in investment gain on equity method.

The Company has changed to the following reportable segments from the cumulative first quarter under review, 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. 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.

(i) Nichi-Iko Group

In the Nichi-Iko Group, we have been expanding the product line-up by making Elmed a consolidated subsidiary and adding Elmed’s added-value products to the product line-up in April 2019, succeeding the marketing approval for Futhan® 10mg and 50mg for Injection in April 2019, and launching 5 products with 10 strengths including Silodosin Tablets “Nichi-Iko” in June 2019. In addition, in April 2019, we began co-promotion with Eisai Co., Ltd. (“Eisai”) for 4 products in 5 strengths including Capecitabine Tablets 300mg “Nichi-Iko” sold by the Company, and collaboration on the “integrated package strategies” being implemented by Eisai, engaging in efforts aimed at contributing to patients, their families and regional medicine.

The results in the Nichi-Iko Group during the cumulative first quarter of the current fiscal year showed revenue of 39,761 million yen (an increase of 7,243 million yen year-on-year) and segment profit of 2,496 million yen (an increase of 465 million yen year-on-year) due to the contribution to sales made by the above efforts and the increased sales volume brought about by the expansion of the generic drug market.

(ii) Sagent Group

In the Sagent Group, we continued to work toward application for approval of Infliximab BS in the United States. Furthermore, we are also working to enhance the in-house production structure by proceeding with technical transfer as well as readiness for manufacturing of Infliximab BS at the Raleigh Plant, which was acquired in February 2019.

The results in the Sagent Group during the cumulative first quarter of the current fiscal year showed revenue of 6,761 million yen (a decrease of 2,997 million yen year-on-year) and segment loss of 625 million yen (a decrease of 738 million yen year-on-year in segment profit), mainly due to the impact of delays in the supply from contract manufacturers for certain products.

(2) Explanation on Financial Position

(i) Assets, Liabilities and Equity

Assets on a consolidated basis at the end of the first quarter of the current fiscal year increased by 6,009 million yen from the previous fiscal year-end to 312,848 million yen. This was mainly attributable to investments accounted for using equity method decreasing by 8,784 million yen mainly due to decreased share of equity as a result of making Elmed a consolidated subsidiary, which used to be a company accounted for by the equity method, and the partial sale of shares of Aprogen Inc., which is a company accounted for by the equity method; cash and cash equivalents decreasing by 4,828 million yen mainly due to the acquisition of shares of Elmed; inventories increasing by 6,539 million yen; trade and other receivables increasing by 4,744 million yen; intangible assets increasing by 3,843 million yen; property, plant and equipment increasing by 2,331 million yen; goodwill increasing by 1,608 million yen mainly due to making Elmed a consolidated subsidiary, and assets held for sale increasing by 1,430 million yen.

Liabilities on a consolidated basis increased by 8,089 million yen from the previous fiscal year-end to 198,604 million yen. This was mainly attributable to trade and other payables increasing by 8,586 million yen.

Equity on a consolidated basis decreased by 2,080 million yen from the previous fiscal year-end to 114,243 million yen. This was mainly attributable to other components of equity decreasing by 2,885 million yen due to a decrease in foreign currency translation adjustment.

(ii) Cash Flows

At the end of the first quarter of the current fiscal year, cash and cash equivalents on a consolidated basis decreased by 4,828 million yen from the previous fiscal year-end to 37,265 million yen.

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

(Cash flows from operating activities)

Net cash provided by operating activities during the cumulative first quarter of the current fiscal year amounted to income over expenditure by 7,659 million yen. This was attributable to the recording of 1,762 million yen in gain on sale of investments in associates and other factors. The main outflows included trade and other payables decreasing by 1,031 million yen. In terms of inflows, there were trade and other receivables decreasing by 6,455 million yen, profit before tax of 2,868 million yen, and depreciation and amortization of 2,844 million yen.

(Cash flows from investing activities)

Net cash used in investing activities during the cumulative first quarter of the current fiscal year amounted to expenditure over income by 8,573 million yen. This was due to an inflow of 3,200 million yen due to the proceeds from sale of investments accounted for using equity method, and outflows including 5,832 million yen for the payments for acquisition of subsidiaries as a result of the acquisition of 66.6% of the shares issued by Elmed, 2,411 million yen in expenditure due to the purchase of property, plant and equipment and 3,549 million yen in purchase of intangible assets.

(Cash flows from financing activities)

Net cash used in financing activities during the cumulative first quarter of the current fiscal year amounted to expenditure over income by 3,741 million yen. The main outflows were 1,571 million

yen in repayments of long-term borrowings, 880 million yen in dividends paid and short-term borrowings decreasing by 699 million yen.

(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 May 13, 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)	First quarter of fiscal year ending March 31, 2020 (as of June 30, 2019)
Assets		
Current assets		
Cash and cash equivalents	42,093	37,265
Trade and other receivables	30,035	34,779
Inventories	66,783	73,323
Income taxes receivable	72	52
Other financial assets	447	1,091
Other current assets	3,290	2,819
Subtotal	142,722	149,330
Assets held for sale	-	1,430
Total current assets	142,722	150,761
Non-current assets		
Property, plant and equipment	55,710	58,041
Goodwill	42,892	44,501
Intangible assets	46,721	50,565
Investments accounted for using equity method	12,993	4,208
Other financial assets	5,724	4,708
Deferred tax assets	9	6
Other non-current assets	64	54
Total non-current assets	164,115	162,086
Total assets	306,838	312,848

	(in millions of yen)	
	Fiscal year ended March 31, 2019 (as of March 31, 2019)	First quarter of fiscal year ending March 31, 2020 (as of June 30, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	44,172	52,759
Borrowings	37,435	36,231
Other financial liabilities	956	1,754
Income taxes payable	74	59
Refund liabilities	2,196	2,374
Contract liabilities	116	116
Other current liabilities	6,884	6,869
Total current liabilities	91,837	100,164
Non-current liabilities		
Borrowings	90,739	89,446
Other financial liabilities	1,589	2,324
Retirement benefit liability	173	372
Provisions	57	80
Refund liabilities	75	30
Contract liabilities	865	835
Deferred tax liabilities	3,329	3,905
Other non-current liabilities	1,847	1,443
Total non-current liabilities	98,677	98,439
Total liabilities	190,514	198,604
Equity		
Share capital	23,360	23,360
Capital surplus	21,896	21,890
Other equity instruments	9,918	9,918
Treasury shares	(2,893)	(2,854)
Retained earnings	55,016	55,787
Other components of equity	9,025	6,140
Total equity attributable to owners of parent	116,323	114,243
Non-controlling interests	0	0
Total equity	116,323	114,243
Total liabilities and equity	306,838	312,848

(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)	
	First quarter of previous fiscal year (from April 1, 2018 to June 30, 2018)	First quarter of current fiscal year (from April 1, 2019 to June 30, 2019)
Revenue	42,278	46,523
Cost of sales	33,359	36,830
Gross profit	8,918	9,693
Selling, general and administrative expenses	5,869	6,698
Research and development expenses	1,220	1,288
Other operating income	224	223
Other operating expenses	16	195
Operating profit	2,036	1,733
Finance income	113	35
Finance costs	186	524
Share of profit (loss) of investments accounted for using equity method	932	46
Other income	-	1,762
Other expenses	-	185
Profit before tax	2,897	2,868
Income tax expense	435	1,055
Profit	2,461	1,813
Profit attributable to:		
Owners of parent	2,461	1,813
Non-controlling interests	(0)	(0)
Profit	2,461	1,813
Earnings per share		
Basic earnings per share (Yen)	43.60	28.44
Diluted earnings per share (Yen)	43.53	28.25

(Condensed Quarterly Consolidated Statement of Comprehensive Income)

	(in millions of yen)	
	First quarter of previous fiscal year (from April 1, 2018 to June 30, 2018)	First quarter of current fiscal year (from April 1, 2019 to June 30, 2019)
Profit	2,461	1,813
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	584	(711)
Share of other comprehensive income of investments accounted for using equity method	(117)	(49)
Total of items that will not be reclassified to profit or loss	466	(761)
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,755	(1,943)
Share of other comprehensive income of investments accounted for using equity method	(31)	(66)
Total of items that may be reclassified to profit or loss	2,723	(2,009)
Other comprehensive income (net of tax)	3,190	(2,770)
Comprehensive income	5,652	(957)
Comprehensive income attributable to:		
Owners of parent	5,652	(957)
Non-controlling interests	(0)	0
Comprehensive income	5,652	(957)

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

First Quarter of Previous Fiscal Year (from April 1, 2018 to June 30, 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)					2,461		
Other comprehensive income						2,723	472
Total comprehensive income	-	-	-	-	2,461	2,723	472
Purchase of treasury shares				(0)			
Disposal of treasury shares		1		25			
Dividends					(846)		
Share-based payment transactions							
Transfer from other components of equity					(6)		
Total transactions with owners	-	1	-	25	(852)	-	-
Balance as of June 30, 2018	19,976	18,828	-	(9,020)	53,040	6,172	2,637

	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)				2,461	(0)	2,461
Other comprehensive income	(6)		3,190	3,190	(0)	3,190
Total comprehensive income	(6)	-	3,190	5,652	(0)	5,652
Purchase of treasury shares				(0)		(0)
Disposal of treasury shares		(3)	(3)	23		23
Dividends				(846)		(846)
Share-based payment transactions		4	4	4		4
Transfer from other components of equity	6		6	-		-
Total transactions with owners	6	1	7	(818)	-	(818)
Balance as of June 30, 2018	-	260	9,070	91,895	0	91,895

(Note)

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

First Quarter of Current Fiscal Year (from April 1, 2019 to June 30, 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					(66)		
Restated balance	23,360	21,896	9,918	(2,893)	54,950	6,367	2,371
Profit (loss)					1,813		
Other comprehensive income						(2,009)	(761)
Total comprehensive income	-	-	-	-	1,813	(2,009)	(761)
Direct issuance expenses due to issuance of new shares		(5)					
Distributions to owners of other equity instruments					(130)		
Disposal of treasury shares		(5)		39			
Dividends					(956)		
Transfer to capital surplus from retained earnings		4			(4)		
Transfer from other components of equity					114		(114)
Total transactions with owners	-	(5)	-	39	(977)	-	(114)
Balance as of June 30, 2019	23,360	21,890	9,918	(2,854)	55,787	4,358	1,496

	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				(66)		(66)
Restated balance	-	285	9,025	116,257	0	116,257
Profit (loss)				1,813	(0)	1,813
Other comprehensive income	0		(2,770)	(2,770)	0	(2,770)
Total comprehensive income	0	-	(2,770)	(957)	0	(957)
Direct issuance expenses due to issuance of new shares				(5)		(5)
Distributions to owners of other equity instruments				(130)		(130)
Disposal of treasury shares				33		33
Dividends				(956)		(956)
Transfer to capital surplus from retained earnings				-		-
Transfer from other components of equity	(0)		(114)	-		-
Total transactions with owners	(0)	-	(114)	(1,057)	-	(1,057)
Balance as of June 30, 2019	-	285	6,140	114,243	0	114,243

(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)

	First quarter of previous fiscal year (from April 1, 2018 to June 30, 2018)	First quarter of current fiscal year (from April 1, 2019 to June 30, 2019)
Cash flows from operating activities		
Profit before tax	2,897	2,868
Depreciation and amortization	2,266	2,844
Interest and dividend income	(37)	(35)
Interest expenses	173	147
Share of loss (profit) of investments accounted for using equity method	(932)	(46)
Loss (gain) on sale of investments in associates	-	(1,762)
Decrease (increase) in trade and other receivables	4,517	6,455
Decrease (increase) in inventories	3,629	(957)
Increase (decrease) in trade and other payables	(7,542)	(1,031)
Other	1,039	(442)
Subtotal	6,011	8,038
Dividends received	55	83
Interest received	18	0
Interest paid	(172)	(141)
Income taxes paid	(1,295)	(331)
Income taxes refund	7	10
Net cash provided by (used in) operating activities	4,625	7,659
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,791)	(2,411)
Purchase of intangible assets	(1,693)	(3,549)
Proceeds from sale of investments accounted for using equity method	-	3,200
Purchase of investments accounted for using equity method	(3,400)	-
Collection of loans receivable	549	17
Proceeds from reversal of international interests	999	-
Payments for acquisition of subsidiaries	-	(5,832)
Other	(7)	2
Net cash provided by (used in) investing activities	(7,344)	(8,573)

(in millions of yen)

	First quarter of previous fiscal year (from April 1, 2018 to June 30, 2018)	First quarter of current fiscal year (from April 1, 2019 to June 30, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(2,350)	(699)
Proceeds from long-term borrowings	5,000	-
Repayments of long-term borrowings	(2,062)	(1,571)
Repayments of finance lease obligations	(233)	-
Repayments of lease obligations	-	(488)
Dividends paid	(794)	(880)
Other	76	(102)
Net cash provided by (used in) financing activities	(364)	(3,741)
Effect of exchange rate changes on cash and cash equivalents	(87)	(172)
Net increase (decrease) in cash and cash equivalents	(3,170)	(4,828)
Cash and cash equivalents at beginning of period	18,529	42,093
Cash and cash equivalents at end of period	15,358	37,265

(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 first 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 66 million yen at the beginning of the first quarter of the current consolidated 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)

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.

First Quarter of Previous Fiscal Year (from April 1, 2018 to June 30, 2018)

(in millions of yen)

	Reportable segment			Adjustment	Consolidated
	Nichi-Iko Group	Sagent Group	Total		
Revenue					
External revenue	32,518	9,759	42,278	-	42,278
Inter-segment revenue	-	-	-	-	-
Total	32,518	9,759	42,278	-	42,278
Segment profit (loss) (Core operating profit) (Note)	2,031	113	2,144	-	2,144

(Note)

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

First Quarter of Current Fiscal Year (from April 1, 2019 to June 30, 2019)

(in millions of yen)

	Reportable segment			Adjustment	Consolidated
	Nichi-Iko Group	Sagent Group	Total		
Revenue					
External revenue	39,761	6,761	46,523	-	46,523
Inter-segment revenue	-	-	-	-	-
Total	39,761	6,761	46,523	-	46,523
Segment profit (loss) (Core operating profit) (Note)	2,496	(625)	1,871	-	1,871

(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)

	First quarter of previous fiscal year (from April 1, 2018 to June 30, 2018)	First quarter of current fiscal year (from April 1, 2019 to June 30, 2019)
Segment profit	2,144	1,871
Integration-related expenses	107	137
Other	-	0
Operating profit	2,036	1,733
Finance income	113	35
Finance costs	186	524
Share of profit (loss) of investments accounted for using equity method	932	46
Other income	-	1,762
Other expenses	-	185
Profit before tax	2,897	2,868