KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary (IFRS)
Fiscal 2018 Second Quarter

(January 1, 2018 – June 30, 2018)

This document is an English translation of parts of the Japanese-language original.

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS (IFRS) for Six Months Ended June 30, 2018

July 31, 2018

Company Name: Kyowa Hakko Kirin Co., Ltd.
Listed Exchanges: 1st Section of the Tokyo Stock Exchange
Stock Code: 4151
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Scheduled date of submission of Quarterly Securities Report: August 1, 2018
Scheduled start date of dividend payment: September 3, 2018
Appendix materials to accompany the quarterly financial report: Yes
Quarterly results presentation meeting: Yes (for institutional investors and securities analysts)

(Millions of yen rounded off)

1. Consolidated Financial Results for the Six Months Ended June 30, 2018

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Revenue		Core operating profit		Profit before tax		Profit	
Six months ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
June 30, 2018	172,120	(2.8)	32,129	6.8	45,695	57.2	34,271	68.4
June 30, 2017	177,020	–	30,096	–	29,063	–	20,348	–

Total comprehensive income: Six months ended June 30, 2018: ¥30,060 million; 41.8%
Six months ended June 30, 2017: ¥21,202 million; –%

Note: Core operating profit was calculated by deducting “selling, general and administrative expenses” and “research and development expenses” from “gross profit,” and adding “share of profit (loss) of investments accounted for using equity method” to the amount.

	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
Six months ended	Millions of yen	%	Yen	Yen
June 30, 2018	34,271	68.4	62.61	62.54
June 30, 2017	20,348	–	37.18	37.14

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
As of	Millions of yen	Millions of yen	Millions of yen	%
June 30, 2018	725,768	638,263	638,263	87.9
December 31, 2017	708,295	616,028	616,028	87.0

2. Dividends

	Dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended December 31, 2017	–	12.50	–	14.50	27.00
Fiscal year ending December 31, 2018	–	15.00			
Fiscal year ending December 31, 2018 (Forecast)			–	15.00	30.00

Note: Revisions to the dividend forecast most recently announced: None

3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2018 (from January 1, 2018 to December 31, 2018)

(Percentages indicate year-on-year changes.)

	Revenue		Core operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	335,000	(5.2)	51,000	(11.7)	61,000	9.2	44,000	2.6	44,000	2.6	80.39

Note: Changes to the earnings forecast most recently announced: None

* Notes

(1) Changes to significant subsidiaries during the period (Changes of specified subsidiaries resulting in changes in the scope of consolidation during the period under review): No

(2) Changes in accounting policies, and accounting estimates:

a. Changes in accounting policies required by IFRS: No

b. Changes in accounting policies other than a. above: No

c. Changes in accounting estimates: No

(3) Number of shares issued (ordinary shares)

a. Number of shares issued (including treasury shares)

As of June 30, 2018	576,483,555 shares
As of December 31, 2017	576,483,555 shares

b. Number of treasury shares

As of June 30, 2018	29,039,526 shares
As of December 31, 2017	29,176,451 shares

c. Average number of shares during the period

Six months ended June 30, 2018	547,385,477 shares
Six months ended June 30, 2017	547,273,428 shares

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

* Notice regarding the appropriate use of the earnings forecasts and other special comments

The forward-looking statements, including earnings forecasts, contained in these materials are based on the information currently available to the Company and on certain assumptions deemed to be reasonable by management. As such, they do not constitute guarantees by the Company of future performance. Actual results may differ materially from these projections for a wide variety of reasons.

Attachment Index

1. Operating Results and Financial Statements

(1) Summary of Consolidated Business Performance

For the six months ended June 30, 2018 (January 1, 2018 to June 30, 2018), revenue was ¥172.1 billion (down 2.8% compared to the same period of the previous fiscal year), and profit attributable to owners of parent was ¥34.3 billion (up 68.4%). Furthermore, core operating profit (gross profit - selling, general and administrative expenses - research and development expenses + share of profit (loss) of investments accounted for using equity method) listed as a management target in our FY2016 to 2020 Mid-term Business Plan totaled ¥32.1 billion (up 6.8%).

- The decline in revenue was partly the result of the impact of reductions in drug price standards in Japan and the exclusion of Kyowa Medex Co., Ltd. from the scope of consolidation, notwithstanding the launch of new products and the increase in licensing revenue in Europe, the U.S. and Japan. The increase in core operating profit was partly the result of the improved share of profit (loss) of investments accounted for using equity method despite an increase in selling expenses accompanying the launch in the U.S. and European markets of global strategic products.
- The increase in profit attributable to owners of parent was partly the result of the recording of a gain on sale of investments in subsidiaries in association with the partial transfer of shares of Kyowa Medex Co., Ltd.

Performance by segment is as follows.

Pharmaceuticals business

1) Results

In the Pharmaceuticals business, revenue was ¥134.3 billion (down 2.6%) and core operating profit was ¥28.4 billion (up 5.9%).

- Revenue in Japan decreased from the same period of the previous year due to the impact of excluding Kyowa Medex Co., Ltd. from the scope of consolidation, the impact of the reductions in drug price standards implemented in April, and the impacts of generics and rival products.
  - Revenue of core product NESP®, a renal anemia treatment drug, decreased compared to the same period of the previous fiscal year, due to the impact of reductions in drug price standards and other factors.
  - Revenue from long term NHI products such as ALLELOCK®, an anti-allergy agent, CONIEL®, a hypertension and angina pectoris drug, ASACOL®, an ulcerative colitis treatment drug, and Depakene®, an anti-epileptic drug, decreased compared to the same period of the previous fiscal year due to the impacts of the market penetration of generics, etc.
  - Revenue from REGPARA®, a treatment for secondary hyperparathyroidism, decreased due to the impact of rival products, while sales of new product ORKEDIA®, also a treatment for secondary hyperparathyroidism, commenced in May.
  - Revenue from Patanol®, anti-allergy eye drops increased year on year due to the effects of airborne pollen, while firm growth in revenue was also realized for G-Lasta®, an agent for decreasing the incidence of febrile neutropenia, and LUMICEF®, a treatment for psoriasis, among others.
  - Rituximab BS [KHK], an anticancer agent has achieved steady market penetration since its sales commenced in January.
- Revenue from international business increased year on year due mainly to the global launch of new products and the increase in licensing revenue.
  - In Europe and the Americas, the market penetration of Crysvita®, a treatment for X-linked Hypophosphatemia whose sales commenced in the U.S. and Germany in April, began progressing steadily. In addition, revenue from products such as Abstral®, a treatment for cancer pain, also grew robustly.

- Licensing revenue was higher compared to the same period of the previous fiscal year mainly as a result of recording the gain on sale of the Priority Review Voucher issued by the U.S. Food and Drug Administration (FDA) for marketing approval of Crysvita® (fifty-fifty allocation between the Group and U.S. collaboration partner Ultragenyx Pharmaceutical Inc.).
- In Asia, revenue was higher compared to the same period of the previous fiscal year with steady growth in revenue being achieved for REGPARA®, a treatment for secondary hyperparathyroidism, and GRAN®, a neutropenia treatment drug, among others, particularly in China and South Korea.

2) Research and development

Using cutting-edge biotechnology centered on antibody technology, we have made nephrology, oncology, immunology/allergy and CNS the focus of research and development, and by investing resources efficiently, we aim to further speed up the creation of new medical value and drug creation.

The development statuses of our main late-stage development products in the six months ended June 30, 2018 are as follows.

Nephrology

- In Japan, in March we obtained approval of indication of calcium receptor agonist KHK7580 (product name in Japan: ORKEDIA®) for the treatment of secondary hyperparathyroidism in maintenance dialysis patients. Also, we are implementing a phase III clinical study, targeting hypercalcemia in patients with parathyroid carcinoma and patients with primary hyperparathyroidism who are unable to undergo parathyroidectomy or relapse after parathyroidectomy.
- In Japan, in May we started a phase III clinical study for RTA 402 (generic name: bardoxolone methyl) targeting diabetic kidney disease.
- In China, we are currently preparing to reapply for approval of indication for KRN321 (product name in Japan: NESP®), a long-acting erythropoiesis stimulating agent for the treatment of renal anemia in patients receiving dialysis.

Oncology

- Regarding anti-CCR4 humanized monoclonal antibody KW-0761 (product name in Japan: POTELIGEO®), we have applied for approval of indication for treatment of adult cutaneous T-cell lymphoma in patients with history of systemic therapy in Europe (application accepted in October 2017). We have also applied for approval of indication for treatment of cutaneous T-cell lymphoma in patients with history of systemic therapy in the U.S. (application accepted in November 2017). In addition, in Japan, we are applying for a partial change approval regarding treatment, dosage and administration targeting relapsed or refractory cutaneous T-cell lymphoma (application filed in November 2017).

Immunology and allergy

- AstraZeneca, our licensing partner for the anti-IL-5 receptor humanized monoclonal antibody KHK4563 (generic name: benralizumab), obtained approval of indication for treatment of bronchial asthma for KHK4563 in Japan, in January. Also, as part of the multi-regional clinical study being conducted by said company, we are currently conducting a phase III clinical study in Japan, targeting patients with chronic obstructive pulmonary disease.
- We are currently conducting a phase III clinical study targeting axial spondyloarthritis in Japan, South Korea, etc. for the anti-IL-17 receptor A fully human antibody KHK4827 (product name in Japan: LUMICEF®). We are also currently conducting a phase III clinical study for psoriasis in South Korea.

CNS

- We are currently preparing to submit a reapplication of adenosine A_{2A} receptor antagonist KW-6002 (product name in Japan: NOURIAST®) targeting Parkinson's disease in the U.S.
- In Japan, we are currently conducting a phase III clinical study targeting HTLV-1 associated myelopathy for the anti-CCR4 humanized monoclonal antibody KW-0761 (product name in Japan: POTELIGEO®).

Other

- For the human monoclonal anti-Fibroblast Growth Factor 23 antibody KRN23 (product name in U.S. and Europe: Crysvita®), we obtained approval of indication with conditions on sale for treatment of X-linked hypophosphatemia in pediatric patients in Europe, in February. Also, in the U.S., we obtained marketing approval of indication for treatment of X-linked hypophosphatemia in both adult and pediatric patients in April. Furthermore, we are currently conducting a multi-regional phase III clinical study in the U.S., Canada, Europe, Japan and South Korea, targeting X-linked hypophosphatemia in adult patients, and a multi-regional phase III clinical study in the U.S., Canada, Europe, Australia, Japan and South Korea, targeting X-linked hypophosphatemia in pediatric patients. In addition, we are currently conducting a phase II clinical study in the U.S., Japan and South Korea, targeting tumor induced osteomalacia and epidermal nevus syndrome.
- In China, we are currently conducting a phase III clinical study of thrombopoietin receptor agonist AMG531 (product name in Japan: ROMIPLATE®) targeting chronic idiopathic (immune) thrombocytopenic purpura. Also, we are currently conducting a phase II/III clinical study in aplastic anemia in Japan and South Korea.

Bio-Chemicals business

In the Bio-Chemicals business, revenue was ¥39.3 billion (down 3.8%) and core operating profit was ¥3.4 billion (up 6.0%).

- Revenue in Japan decreased compared to the same period of the previous fiscal year due mainly to the effect of the sale of the plant growth regulators business.
  - Revenue from active pharmaceutical and health food ingredients decreased compared to the same period of the previous fiscal year due to the effect of the adjustment to part of the merchandise lineup.
  - In the mail-order business, revenue from Arginine EX and others increased.
- Revenue from international business decreased compared to the same period of the previous fiscal year.
  - In the Americas, excluding currency effects, revenue was broadly unchanged from the same period of the previous fiscal year.
  - In Europe and Asia, excluding currency effects, revenue decreased compared to the same period of the previous fiscal year due to the effect of intensified competition regarding some products.

(2) Summary of Consolidated Financial Position

- Assets as of June 30, 2018 were ¥725.8 billion, an increase of ¥17.5 billion compared to the end of the previous fiscal year.
  - Non-current assets increased by ¥2.2 billion to ¥362.3 billion, due mainly to an increase in investments accounted for using equity method.
  - Current assets increased by ¥15.3 billion to ¥363.4 billion, due mainly to an increase in loans receivable from parent as fund management, despite a decrease in assets held for sale.
- Liabilities as of June 30, 2018 were ¥87.5 billion, a decrease of ¥4.8 billion compared to the end of the previous fiscal year, due mainly to a decrease in the liabilities directly associated with assets held for sale.

- Equity as of June 30, 2018 was ¥638.3 billion, an increase of ¥22.2 billion compared to the end of the previous fiscal year, due to the booking of profit attributable to owners of parent and others, despite a decline because of payment of dividends.
  As a result, the ratio of equity attributable to owners of parent to total assets as of the end of the second quarter was 87.9%, an increase of 0.9 percentage points compared to the end of the previous fiscal year.

(3) Summary of Consolidated Cash Flows

Cash and cash equivalents as of June 30, 2018 were ¥13.6 billion, a decrease of ¥1.1 billion compared to the balance of ¥14.7 billion as of December 31, 2017.
The main contributing factors affecting cash flow during the six months ended June 30, 2018 were as follows:

- Net cash provided by operating activities was ¥29.8 billion, a 7.1% decrease compared to the same period of the previous fiscal year. The main factors included profit before tax of ¥45.7 billion, despite income taxes paid of ¥8.4 billion, etc.

- Net cash used in investing activities was ¥23.0 billion, a 0.6% decrease compared to the same period of the previous fiscal year. Major outflows included a net increase of ¥29.2 billion in loans receivable from parent and ¥6.2 billion for purchase of property, plant and equipment. Major inflows included ¥9.1 billion in proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation and ¥5.8 billion in collection of loans receivable.

- Net cash used in financing activities was ¥8.4 billion, a 21.3% increase compared to the same period of the previous fiscal year. The main outflows included dividends paid of ¥7.9 billion.

(4) Summary of Consolidated Earnings Forecasts and Other Forward-looking Statements

No revisions have been made to the consolidated earnings forecasts announced on February 8, 2018.

2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto

(1) Condensed Quarterly Consolidated Statement of Financial Position

(Millions of yen)

	As of June 30, 2018	As of December 31, 2017
Assets		
Non-current assets		
Property, plant and equipment	106,832	109,578
Goodwill	141,060	142,837
Intangible assets	59,824	57,599
Investments accounted for using equity method	8,835	1,857
Other financial assets	15,185	14,890
Retirement benefit asset	7,572	8,582
Deferred tax assets	21,154	22,856
Other non-current assets	1,870	1,945
Total non-current assets	362,331	360,145
Current assets		
Inventories	74,191	71,222
Trade and other receivables	97,317	100,925
Loans receivable from parent	172,400	143,200
Other financial assets	901	517
Other current assets	5,048	3,346
Cash and cash equivalents	13,580	14,685
Subtotal	363,437	333,895
Assets held for sale	–	14,255
Total current assets	363,437	348,150
Total assets	725,768	708,295

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

(Millions of yen)

	As of June 30, 2018	As of December 31, 2017
Equity		
Share capital	26,745	26,745
Capital surplus	509,162	509,145
Treasury shares	(26,698)	(26,820)
Retained earnings	139,289	113,504
Other components of equity	(10,234)	(6,546)
Total equity attributable to owners of parent	638,263	616,028
Total equity	638,263	616,028
Liabilities		
Non-current liabilities		
Retirement benefit liability	611	668
Provisions	3,567	3,558
Deferred tax liabilities	273	192
Other financial liabilities	2,164	2,121
Other non-current liabilities	6,364	7,320
Total non-current liabilities	12,978	13,858
Current liabilities		
Trade and other payables	46,266	44,907
Other financial liabilities	1,985	2,963
Income taxes payable	7,521	6,425
Other current liabilities	18,754	20,004
Subtotal	74,527	74,298
Liabilities directly associated with assets held for sale	–	4,111
Total current liabilities	74,527	78,409
Total liabilities	87,505	92,267
Total equity and liabilities	725,768	708,295

(2) Condensed Quarterly Consolidated Statement of Profit or Loss and Condensed Quarterly Consolidated Statement of Comprehensive Income

Condensed Quarterly Consolidated Statement of Profit or Loss

(Millions of yen)

	January 1, 2018 to June 30, 2018	January 1, 2017 to June 30, 2017
Revenue	172,120	177,020
Cost of sales	(60,168)	(66,024)
Gross profit	111,952	110,995
Selling, general and administrative expenses	(57,681)	(54,188)
Research and development expenses	(23,075)	(24,348)
Share of profit (loss) of investments accounted for using equity method	934	(2,363)
Other income	14,735	1,018
Other expenses	(725)	(2,072)
Finance income	406	319
Finance costs	(850)	(298)
Profit before tax	45,695	29,063
Income tax expense	(11,424)	(8,715)
Profit	34,271	20,348
Profit attributable to		
Owners of parent	34,271	20,348
Earnings per share		
Basic earnings per share (Yen)	62.61	37.18
Diluted earnings per share (Yen)	62.54	37.14

Condensed Quarterly Consolidated Statement of Comprehensive Income

(Millions of yen)

	January 1, 2018 to June 30, 2018	January 1, 2017 to June 30, 2017
Profit	34,271	20,348
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	202	779
Remeasurements of defined benefit plans	(561)	–
Share of other comprehensive income of investments accounted for using equity method	(5)	–
Total of items that will not be reclassified to profit or loss	(364)	779
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(3,810)	139
Share of other comprehensive income of investments accounted for using equity method	(38)	(64)
Total of items that may be reclassified to profit or loss	(3,848)	75
Other comprehensive income	(4,211)	854
Comprehensive income	30,060	21,202
Comprehensive income attributable to		
Owners of parent	30,060	21,202

(3) Condensed Quarterly Consolidated Statement of Changes in Equity
January 1, 2018 to June 30, 2018

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Share acquisition rights	Exchange differences on translation of foreign operations
Balance at January 1, 2018	26,745	509,145	(26,820)	113,504	698	(10,985)
Profit	–	–	–	34,271	–	–
Other comprehensive income	–	–	–	–	–	(3,848)
Total comprehensive income	–	–	–	34,271	–	(3,848)
Dividends of surplus	–	–	–	(7,936)	–	–
Purchase of treasury shares	–	–	(7)	–	–	–
Disposal of treasury shares	–	17	129	–	–	–
Share-based payment transactions	–	–	–	–	(27)	–
Transfer from other components of equity to retained earnings	–	–	–	(551)	–	–
Total transactions with owners	–	17	122	(8,487)	(27)	–
Balance at June 30, 2018	26,745	509,162	(26,698)	139,289	671	(14,833)

	Equity attributable to owners of parent				Total equity
	Other components of equity				
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total	Total	
Balance at January 1, 2018	3,741	–	(6,546)	616,028	616,028
Profit	–	–	–	34,271	34,271
Other comprehensive income	203	(566)	(4,211)	(4,211)	(4,211)
Total comprehensive income	203	(566)	(4,211)	30,060	30,060
Dividends of surplus	–	–	–	(7,936)	(7,936)
Purchase of treasury shares	–	–	–	(7)	(7)
Disposal of treasury shares	–	–	–	145	145
Share-based payment transactions	–	–	(27)	(27)	(27)
Transfer from other components of equity to retained earnings	(15)	566	551	–	–
Total transactions with owners	(15)	566	524	(7,825)	(7,825)
Balance at June 30, 2018	3,928	–	(10,234)	638,263	638,263

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

January 1, 2017 to June 30, 2017

(Millions of yen)

	Equity attributable to owners of parent					
					Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Share acquisition rights	Exchange differences on translation of foreign operations
Balance at January 1, 2017	26,745	509,128	(26,890)	79,655	563	(14,694)
Profit	–	–	–	20,348	–	–
Other comprehensive income	–	–	–	–	–	75
Total comprehensive income	–	–	–	20,348	–	75
Dividends of surplus	–	–	–	(6,840)	–	–
Purchase of treasury shares	–	–	(8)	–	–	–
Disposal of treasury shares	–	17	86	–	–	–
Share-based payment transactions	–	–	–	–	6	–
Transfer from other components of equity to retained earnings	–	–	–	78	–	–
Total transactions with owners	–	17	78	(6,762)	6	–
Balance at June 30, 2017	26,745	509,145	(26,812)	93,241	569	(14,619)

	Equity attributable to owners of parent				Total equity
	Other components of equity			Total	
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total		
Balance at January 1, 2017	2,528	–	(11,603)	577,036	577,036
Profit	–	–	–	20,348	20,348
Other comprehensive income	779	–	854	854	854
Total comprehensive income	779	–	854	21,202	21,202
Dividends of surplus	–	–	–	(6,840)	(6,840)
Purchase of treasury shares	–	–	–	(8)	(8)
Disposal of treasury shares	–	–	–	103	103
Share-based payment transactions	–	–	6	6	6
Transfer from other components of equity to retained earnings	(78)	–	(78)	–	–
Total transactions with owners	(78)	–	(72)	(6,740)	(6,740)
Balance at June 30, 2017	3,230	–	(10,821)	591,498	591,498

(4) Condensed Quarterly Consolidated Statement of Cash Flows

(Millions of yen)

	January 1, 2018 to June 30, 2018	January 1, 2017 to June 30, 2017
Cash flows from operating activities		
Profit before tax	45,695	29,063
Depreciation and amortization	10,508	10,853
Impairment losses (reversal of impairment losses)	(3,003)	1,664
Share of loss (profit) of investments accounted for using equity method	(934)	2,363
Gain on sale of investments in subsidiaries	(10,968)	–
Decrease (increase) in inventories	(3,928)	263
Decrease (increase) in trade receivables	3,660	1,963
Increase (decrease) in trade payables	1,768	(318)
Income taxes paid	(8,398)	(8,762)
Other	(4,614)	(5,042)
Net cash provided by (used in) operating activities	29,787	32,047
Cash flows from investing activities		
Purchase of property, plant and equipment	(6,245)	(7,949)
Proceeds from sale of property, plant and equipment	1	1,852
Purchase of intangible assets	(1,219)	(2,427)
Purchase of investments accounted for using equity method	(1,000)	(1,950)
Proceeds from sale of other financial assets	9	453
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	9,087	–
Collection of loans receivable	5,800	–
Net decrease (increase) in loans receivable from parent	(29,200)	(13,500)
Other	(204)	403
Net cash provided by (used in) investing activities	(22,971)	(23,118)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(378)	146
Dividends paid	(7,936)	(6,840)
Other	(83)	(228)
Net cash provided by (used in) financing activities	(8,397)	(6,922)
Effect of exchange rate changes on cash and cash equivalents	(599)	754
Net increase (decrease) in cash and cash equivalents	(2,179)	2,761
Net increase (decrease) in cash and cash equivalents due to transfer to assets held for sale	1,074	–
Cash and cash equivalents at beginning of period	14,685	13,076
Cash and cash equivalents at end of period	13,580	15,837

(5) Notes to Condensed Quarterly Consolidated Financial Statements

Notes on going concern assumption

No applicable items.

Segment information

(1) Outline of reportable segments

The Group has two reportable segments, Pharmaceuticals and Bio-Chemicals. These segments, which are components of the Group about which separate financial information is available, are chosen based on business segments for which the Board of Directors can evaluate regularly to decide the resource allocation and assess performance.

The Group's foundation is operating companies and it comprises two business groups, Pharmaceuticals and Bio-Chemicals, formed on the basis of the products and services handled by each company. The Pharmaceuticals business conducts research, development, manufacturing and sales of ethical pharmaceuticals and others. The Bio-Chemicals business conducts research, development, manufacturing and sales of raw materials for pharmaceutical and industrial use, primarily amino acids, nucleic acids and related compounds, healthcare products and others.

A core company in each business group is in charge of formulating a comprehensive domestic and overseas strategy and developing business operations.

The method of accounting for reportable segments is identical to the method employed for the preparation of the consolidated financial statements. Inter-segment revenue is mainly based on prices in arm's length transactions.

The Group uses "core operating profit" as an indicator showing recurring profitability from operating activities for performance management and others. Therefore, "core operating profit," which is calculated by deducting "selling, general and administrative expenses" and "research and development expenses" from "gross profit," and adding "share of profit (loss) of investments accounted for using equity method" to the amount, is presented as segment profit.

(2) Information on reportable segments

Six months ended June 30, 2018 (January 1, 2018 – June 30, 2018)

(Millions of yen)

	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Revenue from external customers	133,794	38,326	172,120	–	172,120
Inter-segment revenue	553	944	1,497	(1,497)	–
Total	134,348	39,269	173,617	(1,497)	172,120
Segment profit (Core operating profit)	28,364	3,404	31,768	362	32,129
			Other income		14,735
			Other expenses		(725)
			Finance income		406
			Finance costs		(850)
			Profit before tax		45,695

Note: The ¥362 million for adjustments of segment profit is due to elimination of inter-segment transactions.

Six months ended June 30, 2017 (January 1, 2017 – June 30, 2017)

(Millions of yen)

	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Revenue from external customers	137,504	39,516	177,020	–	177,020
Inter-segment revenue	475	1,299	1,774	(1,774)	–
Total	137,979	40,815	178,793	(1,774)	177,020
Segment profit (Core operating profit)	26,775	3,212	29,987	109	30,096
			Other income		1,018
			Other expenses		(2,072)
			Finance income		319
			Finance costs		(298)
			Profit before tax		29,063

Note: The ¥109 million for adjustments of segment profit is due to elimination of inter-segment transactions.