

(English Translation)

Consolidated Financial Results
for the Fiscal Year Ended March 31, 2019 (IFRS)

May 13, 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 annual shareholders' meeting: June 21, 2019
Scheduled date of commencement of dividend payment: June 24, 2019
Scheduled date of filing of annual securities report: June 21, 2019
Presentation of supplementary materials on financial results: Yes
Holding of financial presentation meeting: Yes

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

1. Consolidated Financial Results for the Fiscal Year Ended March 31, 2019
(From April 1, 2018 to March 31, 2019)

(1) Consolidated Results of Operations

(Percentage figures represent changes from the previous fiscal year)

	Revenue	Core operating profit	Operating profit	Profit before tax	Profit	Profit attributable to owners of parent
Fiscal year ended March 31, 2019	¥166,592 million (1.1%)	¥13,320 million (-7.3%)	¥8,223 million (-20.2%)	¥8,903 million (-1.8%)	¥6,864 million (-14.9%)	¥6,864 million (-14.9%)
Fiscal year ended March 31, 2018	¥164,717 million (10.4%)	¥14,368 million (-%)	¥10,301 million (61.3%)	¥9,067 million (52.1%)	¥8,069 million (68.2%)	¥8,070 million (68.2%)

	Total comprehensive income	Basic earnings per share	Diluted earnings per share	Return on equity	Rate of profit before tax to total assets	Ratio of operating profit to revenue
Fiscal year ended March 31, 2019	¥10,132 million (77.8%)	¥115.46	¥114.04	6.7%	3.0%	4.9%
Fiscal year ended March 31, 2018	¥5,697 million (-51.5%)	¥143.19	¥142.92	9.5%	3.3%	6.3%

(Reference)

Share of profit (loss) of investments accounted for using equity method

Fiscal year ended March 31, 2019 1,377 million yen

Fiscal year ended March 31, 2018 -51 million yen

(Note)

Core operating profit is calculated by deducting profits 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
Fiscal year ended March 31, 2019	¥306,838 million	¥116,323 million	¥116,323 million	37.9%	¥1,825.00
Fiscal year ended March 31, 2018	¥278,364 million	¥87,542 million	¥87,542 million	31.4%	¥1,550.65

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended March 31, 2019	¥23,811 million	- ¥24,983 million	¥24,803 million	¥42,093 million
Fiscal year ended March 31, 2018	¥18,925 million	- ¥15,896 million	¥3,206 million	¥18,529 million

2. Dividends

	Annual dividends per share					Total amount of cash dividends (annual)	Payout ratio (consolidated)	Ratio of dividends to equity attributable to owners of parent (consolidated)
	First quarter	Second quarter	Third quarter	Year-end	Total			
Fiscal year ended March 31, 2018	¥-	¥15.00	¥-	¥15.00	¥30.00	¥1,711 million	21.0%	2.0%
Fiscal year ended March 31, 2019	¥-	¥15.00	¥-	¥15.00	¥30.00	¥1,858 million	26.0%	1.8%
Fiscal year ending March 31, 2020 (forecast)	¥-	¥15.00	¥-	¥15.00	¥30.00		27.7%	

**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%)	¥49.88
Annual	¥201,000 million (20.7%)	¥8,500 million (-36.2%)	¥8,500 million (3.4%)	¥7,000 million (2.0%)	¥108.19

***Notes**

(1) Changes in significant subsidiaries during the fiscal year 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 March 31, 2019 65,162,652 shares

As of March 31, 2018 60,662,652 shares

(ii) Number of treasury shares as of the end of the period:

As of March 31, 2019 1,423,511 shares

As of March 31, 2018 4,207,195 shares

(iii) Average number of shares during the period:

Fiscal year ended March 31, 2019 59,452,456 shares

Fiscal year ended March 31, 2018 56,362,385 shares

(Note)

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

(Reference) Overview of Non-consolidated Results

4. Non-consolidated Financial Results for the Fiscal Year Ended March 31, 2019

(From April 1, 2018 to March 31, 2019)

(1) Non-consolidated Results of Operations

(Percentage figures represent changes from the previous fiscal year)

	Net sales	Operating profit	Ordinary profit	Profit
Fiscal year ended March 31, 2019	¥153,789 million (2.1%)	¥4,930 million (-30.2%)	¥5,242 million (-22.4%)	¥3,505 million (-59.6%)
Fiscal year ended March 31, 2018	¥150,642 million (2.9%)	¥7,062 million (-20.5%)	¥6,751 million (-22.1%)	¥8,685 million (31.2%)

	Earnings per share	Diluted earnings per share
Fiscal year ended March 31, 2019	¥58.96	¥58.23
Fiscal year ended March 31, 2018	¥154.10	¥153.82

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
Fiscal year ended March 31, 2019	¥274,300 million	¥95,696 million	34.8%	¥1,496.58
Fiscal year ended March 31, 2018	¥248,211 million	¥82,820 million	33.3%	¥1,462.42

(Reference)

Equity

Fiscal year ended March 31, 2019 95,390 million yen

Fiscal year ended March 31, 2018 82,561 million yen

(Note)

The financial figures for non-consolidated results are based on Japan GAAP.

*** Financial results reports are exempt from audit 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 Monday, May 13, 2019.

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1. Overview of Operating Results, etc.

The Group has applied IFRS in place of previous Japan GAAP from the end of the year ended March 31, 2018.

(1) Overview of Operating Results for the Current Fiscal Year

(Operating Results for the Current Fiscal Year)

In the current fiscal year, the tone of economic recovery in Japan continued such as an increase of the employment crunch and steady growth in exports and production in the first half of the year, but concerns about a standstill due to factors including a slowdown in exports to China arose in the second half. Meanwhile, as political risks centered on trade friction gain attention overseas, a shift toward the weakening of the yen has been seen in the exchange rate against the US dollar.

In the generic drug industry, while 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”, it was announced that the quantitative share of generic drugs reached to 76.7% in November 2018 according to the data on Prescription in Pharmacy in the Survey on the Trend of Medical Care Expenditures released by the Health Insurance Bureau of the Ministry of Health, Labour and Welfare. In April 2018, the revision of drug prices that significantly lowered drug prices by 7.48% was made at the same time as implementation of efforts aimed at expanding the medical fee points to promote the use of generic drugs. Those above had major impacts on the industry.

Under such circumstances, the Company steadily implemented the three basic policies of “Expansion,” “Production” and “Development” set forth under the 7th Medium-term Business Plan “Obelisk”. Obelisk had been formulated positioning the three years from April 2016 to March 2019 as a transition period from the preparatory stage entering global markets to launching into new business fields, and the current year was its final year.

In “Expansion,” the Company had proceeded to acquire the shares of Elmed Eisai Co., Ltd. based on the Strategic Alliance Agreement and the Share Transfer Agreement concluded with Eisai Co., Ltd. in March 2018, and has worked on to quickly maximize the integration and synergies of the two companies by efforts such as conducting joint marketing activities for five products sold by Elmed Eisai Co., Ltd. since October 2018. In April 2019, we made Elmed Eisai a wholly-owned subsidiary.

In “Development,” the Company launched 13 products with 25 strengths, added dosages and administrations for four products, and added indications, dosages and administrations for four products in an effort to increase equivalency with the original drugs. Furthermore, the Company endeavored to expand its product lineup through efforts such that Kyowa Pharmaceutical Industry Co., Ltd. obtained an approval of production and marketing for Etanercept BS “Nichi-Iko” and Nichi-Iko succeeded to the marketing authorization for Futhan® 10mg for Injection and Futhan® 50mg for Injection in Japan (from Torii Pharmaceutical Co., Ltd.).

As an implementation of “Production,” regarding the manufacturing infrastructure, the Company completed the construction and started operation of the Obelisk Building in January 2018, which is a manufacturing facility at Toyama Plant 1, and is aimed to establish a supply system capable of producing 18.5 billion tablets, which is the target for the fiscal year ended March 31, 2019. We also expanded the supply system for biosimilars with the completion of a new plant of Aprogen Biologics Inc., which is a subsidiary of Aprogen Inc., an affiliate of the Company, in April 2018.

However, the numerical target of ROE of 10% or more mentioned in the 7th Medium-term Business Plan “Obelisk” was not reached as this was 6.7% due to factors such as the issuance of the 9th series of share acquisition rights in 2018.

The Group has adopted “core operating profit” (IFRS) as an indicator representing ordinary profitability, and the financial results for the current fiscal year were as follows. “Core operating profit” is calculated by deducting gains and losses caused by extraordinary factors from operating profit.

(in millions of yen)	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Change
Revenue	164,717	166,592	+1,874
Core operating profit	14,368	13,320	-1,047
Profit before tax	9,067	8,903	-164
Profit attributable to owners of parent	8,070	6,864	-1,205
Diluted earnings per share	¥142.92	¥114.4	- ¥28.88

Revenue increased by 1,800 million yen year-on-year due to an increase in sales volume despite the impact of pricing competition in the United States and the revision of drug prices in Japan.

Although efforts were made to reduce costs, core operating profit decreased by 1,000 million yen year-on-year due to above pricing competition and the revision of drug prices, etc. As a result, profit attributable to owners of parent decreased by 1,200 million yen year-on-year.

(Prospects for the Future)

Looking ahead, although there are concerns about a deterioration of the earning environment due to the revision of drug prices scheduled to be carried out twice in a short period in October 2019 and April 2020, the Company will strive to further expand its business and share through efforts such as maximizing the integration synergies with ELMED Co., Ltd. (trade name changed from Elmed Eisai Co., Ltd.), which became a wholly-owned subsidiary in April 2019.

Specifically, the Company has established the 8th Medium-term Business Plan “Nexus ∞” with the fiscal year ending March 2022 as the final year, and aiming to maximize three synergies (therapeutic area/region, cost and people) based on the theme of “Better than the Best by our infinite collaboration” seeking to further evolve into a global general generic manufacturer by engaging in the four core strategies of “further deepening and evolving of business fields,” “pursuit optimization of operation,” “enhance competitiveness and assure the global standard quality” and “ensure reliability as a life science company based on ESG activities.”

For the fiscal year ending March 31, 2020, which is the first year of the plan, the management forecasts revenue of 201,000 million yen, core operating profit of 8,500 million yen and profit attributable to owners of parent of 7,000 million yen.

(2) Overview of Financial Position for the Current Fiscal Year

(i) Assets, Liabilities and Equity

Assets on a consolidated basis at the end of the current fiscal year increased by 28,474 million yen from the previous fiscal year-end to 306,838 million yen. This was mainly attributable to, despite a decrease in inventories by 7,538 million yen, an increase in cash and cash equivalents by 23,564 million yen, and an increase in investments accounted for using equity method by 6,612 million yen.

Liabilities on a consolidated basis decreased by 307 million yen from the previous fiscal year-end to 190,514 million yen. This was mainly attributable to, despite an increase in borrowings by 7,050 million yen, a decrease in trade and other payables by 6,513 million yen.

Equity on a consolidated basis increased by 28,781 million yen from the previous fiscal year-end to 116,323 million yen. This was mainly attributable to an increase in other equity instruments by 9,918 million yen and a decrease in treasury shares by 6,152 million yen.

(ii) Cash Flows

At the end of the current fiscal year, cash and cash equivalents on a consolidated basis increased by 235,64 million yen from the previous fiscal year-end to 42,093 million yen.

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

(Cash flows from operating activities)

Net cash provided by operating activities on a consolidated basis for the current fiscal year amounted to income over expenditure of 23,811 million yen. The main outflows included a decrease in trade and other payables by 3,837 million yen and 2,443 million yen in income taxes paid. In terms of inflows, there were records of profit before tax of 8,903 million yen, depreciation and amortization of 9,401 million yen, impairment losses of 4,730 million yen and a decrease in inventories of 8,085 million yen.

(Cash flows from investing activities)

Net cash provided by investing activities on a consolidated basis for the current fiscal year amounted to expenditure over income of 24,983 million yen. This was mainly due to outflows such as 7,440 million yen in purchase of property, plant and equipment, expenditure of 7,338 million yen arising due to the purchase of intangible assets, expenditure of 5,678 million yen arising due to the purchase of investments accounted for using equity method as a result of the acquisition of the shares issued by Elmed Eisai Co., Ltd., and 4,957 million yen in payments for acquisition of businesses due to the acquisition of an injection plant in the United States.

(Cash flows from financing activities)

Net cash provided by financing activities on a consolidated basis for the current fiscal year amounted to income over expenditure of 248,03 million yen. The main outflows were 7,920 million yen in repayments of long-term borrowings and 1,734 million yen in dividends paid, while inflows included 16,700 million yen in proceeds from long-term borrowings, 6,724 million yen in proceeds from issuance of new shares, 4,143 million yen in proceeds from disposal of treasury shares, and 9,918 in proceeds from issuance of other equity instruments.

2. Basic Stance Regarding the Selection of Accounting Standards

Aiming at improved international comparability of financial information in capital markets, the Group has applied International Financial Reporting Standards (IFRS).

3. Consolidated Financial Statements and Primary Notes

(1) Consolidated Statement of Financial Position

(in millions of yen)

	Fiscal year ended March 31, 2018 (as of March 31, 2018)	Fiscal year ended March 31, 2019 (as of March 31, 2019)
Assets		
Current assets		
Cash and cash equivalents	18,529	42,093
Trade and other receivables	32,087	30,035
Inventories	74,321	66,783
Income taxes receivable	-	72
Other financial assets	974	447
Other current assets	2,365	3,290
Total current assets	128,278	142,722
Non-current assets		
Property, plant and equipment	54,045	55,710
Goodwill	38,536	42,892
Intangible assets	45,735	46,721
Investments accounted for using equity method	6,380	12,993
Other financial assets	3,962	5,724
Deferred tax assets	1,326	9
Other non-current assets	99	64
Total non-current assets	150,086	164,115
Total assets	278,364	306,838

(in millions of yen)

	Fiscal year ended March 31, 2018 (as of March 31, 2018)	Fiscal year ended March 31, 2019 (as of March 31, 2019)
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	50,686	44,172
Borrowings	35,499	37,435
Other financial liabilities	994	956
Income taxes payable	1,676	74
Provisions	2,928	-
Refund liabilities	-	2,196
Contract liabilities	-	116
Other current liabilities	5,608	6,884
Total current liabilities	97,394	91,837
Non-current liabilities		
Borrowings	85,625	90,739
Other financial liabilities	2,232	1,589
Retirement benefit liability	465	173
Provisions	56	57
Refund liabilities	-	75
Contract liabilities	-	865
Deferred tax liabilities	2,823	3,329
Other non-current liabilities	2,224	1,847
Total non-current liabilities	93,427	98,677
Total liabilities	190,821	190,514
Equity		
Share capital	19,976	23,360
Capital surplus	18,827	21,896
Other equity instruments	-	9,918
Treasury shares	(9,046)	(2,893)
Retained earnings	51,912	55,016
Other components of equity	5,872	9,025
Total equity attributable to owners of parent	87,542	116,323
Non-controlling interests	0	0
Total equity	87,542	116,323
Total liabilities and equity	278,364	306,838

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

(Consolidated Statement of Income)

(in millions of yen)

	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Revenue	164,717	166,592
Cost of sales	123,914	133,434
Gross profit	40,803	33,157
Selling, general and administrative expenses	23,136	22,504
Research and development expenses	4,467	3,503
Other operating income	948	1,528
Other operating expenses	3,845	455
Operating profit	10,301	8,223
Finance income	76	192
Finance costs	1,259	890
Share of profit (loss) of investments accounted for using equity method	(51)	1,377
Profit before tax	9,067	8,903
Income tax expense	997	2,039
Profit	8,069	6,864
Profit attributable to:		
Owners of parent	8,070	6,864
Non-controlling interests	(0)	(0)
Profit	8,069	6,864
Earnings per share		
Basic earnings per share (Yen)	143.19	115.46
Diluted earnings per share (Yen)	142.92	114.04

(Consolidated Statement of Comprehensive Income)

(in millions of yen)

	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Profit	8,069	6,864
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	800	537
Remeasurements of defined benefit plans	478	162
Share of other comprehensive income of investments accounted for using equity method	167	(350)
Total of items that will not be reclassified to profit or loss	1,446	349
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(3,810)	2,990
Share of other comprehensive income of investments accounted for using equity method	(8)	(71)
Total of items that may be reclassified to profit or loss	(3,818)	2,919
Other comprehensive income (net of tax)	(2,372)	3,268
Comprehensive income	5,697	10,132
Comprehensive income attributable to:		
Owners of parent	5,698	10,132
Non-controlling interests	(0)	(0)
Comprehensive income	5,697	10,132

(3) Consolidated Statement of Changes in Equity

Previous Fiscal Year (from April 1, 2017 to March 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, 2017	19,976	18,845	-	(9,401)	45,050	7,267	1,200
Profit (loss)					8,070		
Other comprehensive income						(3,818)	964
Total comprehensive income	-	-	-	-	8,070	(3,818)	964
Purchase of treasury shares				(0)			
Disposal of treasury shares		(17)		355			
Dividends					(1,689)		
Share-based payment transactions							
Transfer from other components of equity					481		
Total transactions with owners	-	(17)	-	355	(1,207)	-	-
Balance as of March 31, 2018	19,976	18,827	-	(9,046)	51,912	3,448	2,165

	Equity attributable to owners of parent					
	Other components of equity			Total	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Other	Total			
Balance as of April 1, 2017	-	234	8,701	83,171	0	83,171
Profit (loss)				8,070	(0)	8,069
Other comprehensive income	481		(2,372)	(2,372)	0	(2,372)
Total comprehensive income	481	-	(2,372)	5,698	(0)	5,697
Purchase of treasury shares				(0)		(0)
Disposal of treasury shares		(102)	(102)	236		236
Dividends				(1,689)		(1,689)
Share-based payment transactions		127	127	127		127
Transfer from other components of equity	(481)		(481)	-		-
Total transactions with owners	(481)	24	(456)	(1,326)	-	(1,326)
Balance as of March 31, 2018	-	258	5,872	87,542	0	87,542

Current Fiscal Year (from April 1, 2018 to March 31, 2019)

(in millions of yen)

	Equity attributable to owners of parent						
	Share capital	Capital surplus	Other equity instruments	Treasury shares	Retained earnings	Other components of equity	
						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
Cumulative effects of changes in accounting policies					(480)		
Restated balance	19,976	18,827	-	(9,046)	51,431	3,448	2,165
Profit (loss)					6,864		
Other comprehensive income						2,919	206
Total comprehensive income	-	-	-	-	6,864	2,919	206
Issuance of new shares	3,384	3,384					
Direct issuance expenses due to issuance of new shares		(23)					
Issuance of other equity instruments			9,918				
Purchase of treasury shares				(0)			
Disposal of treasury shares		(1,993)		6,153			
Transfer of loss on disposal of treasury shares		1,678			(1,678)		
Forfeiture of share acquisition rights					13		
Dividends					(1,734)		
Share-based payment transactions							
Transfer to capital surplus from retained earnings		23			(23)		
Transfer from other components of equity					142		
Total transactions with owners	3,384	3,068	9,918	6,152	(3,279)	-	-
Balance as of March 31, 2019	23,360	21,896	9,918	(2,893)	55,016	6,367	2,371

	Equity attributable to owners of parent					
	Other components of equity			Total	Non-controlling interests	Total equity
	Remeasurements of defined benefit plans	Other	Total			
Balance as of April 1, 2018	-	258	5,872	87,542	0	87,542
Cumulative effects of changes in accounting policies				(480)		(480)
Restated balance	-	258	5,872	87,062	0	87,062
Profit (loss)				6,864	(0)	6,864
Other comprehensive income	142		3,268	3,268	(0)	3,268
Total comprehensive income	142	-	3,268	10,132	(0)	10,132
Issuance of new shares				6,768		6,768
Direct issuance expenses due to issuance of new shares				(23)		(23)
Issuance of other equity instruments				9,918		9,918
Purchase of treasury shares				(0)		(0)
Disposal of treasury shares		(3)	(3)	4,155		4,155
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	(142)		(142)	-		-
Total transactions with owners	(142)	27	(115)	19,129	-	19,129
Balance as of March 31, 2019	-	285	9,025	116,323	0	116,323

(Note)

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

(4) Consolidated Statement of Cash Flows

(in millions of yen)

	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Cash flows from operating activities		
Profit before tax	9,067	8,903
Depreciation and amortization	8,659	9,401
Impairment loss	4,067	4,730
Interest and dividend income	(73)	(56)
Interest expenses	627	650
Share of loss (profit) of investments accounted for using equity method	51	(1,377)
Loss (gain) on sales and retirement of property, plant and equipment	187	108
Decrease (increase) in trade and other receivables	383	1,599
Decrease (increase) in inventories	(7,061)	8,085
Increase (decrease) in trade and other payables	2,179	(3,837)
Increase (decrease) in provisions	603	(1,042)
Increase (decrease) in contract liabilities	-	290
Other	1,225	(653)
Subtotal	19,916	26,800
Dividends received	80	86
Interest received	18	23
Interest paid	(608)	(663)
Income taxes paid	(1,358)	(2,443)
Income taxes refund	877	7
Net cash provided by (used in) operating activities	18,925	23,811
Cash flows from investing activities		
Purchase of property, plant and equipment	(8,360)	(7,440)
Purchase of intangible assets	(5,940)	(7,338)
Purchase of investments	(7)	(998)
Purchase of investments accounted for using equity method	(1,665)	(5,678)
Collection of loans receivable	49	598
Proceeds from reversal of international interests	-	999
Payments for acquisition of businesses	-	(4,957)
Other	27	(168)
Net cash provided by (used in) investing activities	(15,896)	(24,983)

(in millions of yen)

	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(123)	(2,123)
Proceeds from long-term borrowings	15,200	16,700
Repayments of long-term borrowings	(9,408)	(7,920)
Proceeds from issuance of new shares	-	6,724
Proceeds from disposal of treasury shares	235	4,143
Repayments of finance lease obligations	(1,010)	(943)
Proceeds from issuance of other equity instruments	-	9,918
Dividends paid	(1,686)	(1,734)
Other	(0)	39
Net cash provided by (used in) financing activities	3,206	24,803
Effect of exchange rate changes on cash and cash equivalents	(163)	(66)
Net increase (decrease) in cash and cash equivalents	6,071	23,564
Cash and cash equivalents at beginning of period	12,457	18,529
Cash and cash equivalents at end of period	18,529	42,093

(5) Notes to Consolidated Financial Statements

(Notes on premise of going concern)

Not applicable.

(Reporting entity)

Nichi-Iko Pharmaceutical Co., Ltd. (hereinafter referred to as the “Company”) is a company incorporated in Japan. The consolidated financial statements of the Company and its subsidiaries (hereinafter referred to as “the Group”) with the fiscal closing date at March 31, 2019 are composed of the Company, its subsidiaries and ownership interests in its associates. The Group is mainly engaged in the manufacturing and sales of pharmaceuticals.

(Basis of preparation)

1 Compliance with IFRS

Pursuant to the provision of Article 93 of the Ordinance on Terminology, Forms, and Preparation Methods of Consolidated Financial Statements (Ordinance of the Ministry of Finance No. 28 of 1976; hereinafter referred to as “Ordinance on Consolidated Financial Statements”), the consolidated financial statements of the Group have been prepared in compliance with IFRS since the Group qualifies as a “Specified Company under Designated International Accounting Standards” prescribed in Article 1-2 of the Ordinance on Consolidated Financial Statements.

2 Basis of measurement

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments, etc. measured at fair value and liabilities or assets pertaining to defined benefit plans calculated by deducting the fair value of plan assets from the present value of net defined benefit liability.

3 Presentation currency

The consolidated financial statements of the Group are presented in Japanese yen, which is the Company’s functional currency, and figures are rounded down to the nearest million yen.

4 Accounting judgments, estimates and assumptions

In preparing consolidated financial statements, the management is obligated to make judgments, estimates and assumptions that may affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates.

The main accounting judgments, estimates and assumptions are as follows.

- Significant assumptions used for calculation of discounted cash flows in impairment test of property, plant and equipment, goodwill and intangible assets
- Recognition of intangible assets arising from development
- Recoverability of deferred tax assets

- Measurement of net defined benefit liability
- Accounting and valuation of provisions
- Probability of outflow of future economic benefits on contingent liabilities

5 Accounting standards and interpretations that have been issued but not yet applied

The major new and revised standards and interpretations issued prior to the approval date of the consolidated financial statements are as follows: The Group has not early adopted these in the current fiscal year.

The impact of standards and interpretations that have not been applied on the consolidated financial statements of the Group is under consideration and cannot be estimated at this point.

IFRS		Mandatory adoption (From the fiscal year beginning on or after)	To be adopted by the Group	Description of new standards, interpretations and amendments
IFRS 16	Leases	January 1, 2019	Fiscal year ending March 31, 2020	Revision of accounting for lease agreements
IFRIC 23	Uncertainty over income tax treatments	January 1, 2019	Fiscal year ending March 31, 2020	Clarification of accounting for income taxes in situations where there is uncertainty concerning tax treatment
IAS 19	Employee benefits	January 1, 2019	Fiscal year ending March 31, 2020	Clarification of accounting of plan amendment, curtailment or settlement

(Changes in accounting policies)

The following standards are applied from the current fiscal year.

The Group has adopted IFRS 15 “Revenue from Contracts with Customers” (issued in May 2014) and “Clarifications to IFRS 15” (issued in April 2016) (hereinafter, “IFRS 15” collectively), from the current fiscal year.

In the application of IFRS 15, the Group has adopted the method where the cumulative effect of applying this standard is recognized at the date of initial application, which is allowed as the transition approach.

With the application of IFRS 15, the Group recognizes revenue based on the following five steps approach.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

With the application of this standard, for revenue from intellectual property that had previously been recognized as one-time revenue at the time of receipt, the consideration received is recorded as contract liabilities and recognized as revenue over a fixed period as performance obligations related to license agreements are fulfilled. Furthermore, the allowance for sales returns and allowance for rebates previously represented in provisions have been represented as refund liabilities, and the advances received previously represented as included in other current liabilities are represented as contract liabilities.

As a result, compared to the case in which the previous accounting standards are applied, primarily retained earnings decreased by 480 million yen, provisions decreased by 2,928 million yen, refund liabilities increased by 2,928 million yen and contract liabilities increased by 691 million yen at the beginning of the current fiscal year.

In the consolidated statement of income for the current fiscal year, compared to the case in which the previous accounting standards are applied, primarily revenue decreased by 331 million yen, operating profit decreased by 331 million yen, and profit decreased by 230 million yen.

Furthermore, in the consolidated statement of financial position as of the end of the current fiscal year, compared to the case in which the previous accounting standards are applied, primarily, retained earnings decreased by 710 million yen, provisions decreased by 2,271 million yen, while refund liabilities increased by 2,271 million yen and contract liabilities increased by 981 million yen.

Assets recognized from costs to obtain or fulfill contracts with customers

During the current fiscal year, the amount of assets recognized from costs to obtain or fulfill contracts with customers was not significant.

(Segment information, etc.)

1. Segment information

The Group conducts business by concentrating management resources on a single segment of the manufacturing and sales of generic pharmaceuticals. For this reason, descriptions by reportable segments have been omitted.

2. Related information

(1) Information about products and services

Revenue from each product and service is as follows.

(in millions of yen)

	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Treatments for blood and body fluid	28,089	27,445
Treatments for circulatory system	25,062	25,848
Antibiotics	20,181	23,708
Treatments for digestive system	14,532	14,564
Chemotherapeutics	15,678	13,795
Treatments for nervous system	12,042	12,995
Treatments for allergies	10,996	11,517
Others	38,133	36,717
Total	164,717	166,592

(2) Information by geographical area

(i) Revenue

Revenue by geographical area is shown below.

(in millions of yen)

	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Japan	128,532	130,891
United States	32,049	31,715
Others	4,135	3,984
Total	164,717	166,592

(Note)

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

(ii) Non-current assets

The breakdown of the carrying amount of non-current assets (excluding financial assets and deferred tax assets) by geographical area is shown below.

(in millions of yen)

	Fiscal year ended March 31, 2018 (as of March 31, 2018)	Fiscal year ended March 31, 2019 (as of March 31, 2019)
Japan	61,717	71,747
United States	64,974	68,806
Canada	14,807	13,579
Others	3,297	4,248
Total	144,797	158,381

(3) Information about major customers

Revenue to external customers accounting for 10% or more of the Group's revenue is shown below.

(in millions of yen)

Name of customer	Related segment	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Mediceo Corporation	Pharmaceutical business	31,996	33,876
Suzuken Co., Ltd.	Pharmaceutical business	24,002	23,053
Alfresa Corporation	Pharmaceutical business	19,331	21,046

(Per share information)

The basis for the calculation of basic earnings per share attributed to owners of parent and diluted earnings per share is as follows:

(in millions of yen)

	Previous fiscal year (from April 1, 2017 to March 31, 2018)	Current fiscal year (from April 1, 2018 to March 31, 2019)
Profit attributable to owners of parent		
Profit attributable to owners of parent (in millions of yen)	8,070	6,864
Profit not attributable to common shareholders of parent (in millions of yen)	-	-
Profit used in calculation of earnings per share (in millions of yen)	8,070	6,864
Weighted average number of shares of common stock (shares)	56,362,385	59,452,456
Dilutive effect of stock options (shares)	103,820	740,780
After adjustment for the impact of dilutive effect (shares)	56,466,205	60,193,236
Earnings per share		
Basic earnings per share (Yen)	143.19	115.46
Diluted earnings per share (Yen)	142.92	114.04

(Significant subsequent events)

(Business combination by acquisition)

The Company made Elmed Eisai Co., Ltd. (hereinafter referred to as “Elmed Eisai”) a consolidated subsidiary on April 1, 2019. The trading name of Elmed Eisai was also changed to Elmed Co., Ltd. on the same day.

1. Overview of the business combination

(1) Name of the acquired company and nature of the business

Name of the acquired company: Elmed Eisai Co., Ltd.

Business details: Research and development, manufacturing and sales of value-added generic drugs, etc.

(2) Principal reasons for the business combination

The Company entered into the Strategic Alliance Agreement for a capital and business alliance and the Share Transfer Agreement for the common stocks of Elmed Eisai with Eisai Co., Ltd. (hereinafter “Eisai”) to expand and grow the generic pharmaceutical business and bring about increased profit for both companies through maximization of synergies by leveraging the assets and strengths of both companies to their full potential. The two companies will cooperate in the creation of the total inclusive ecosystem being developed by Eisai, and proceed to collaborate on the active pharmaceutical ingredient (API) business mainly being conducted by Eisai in its Vizag Plant in India.

(3) Date of business combination

April 1, 2019

(4) Method of acquisition of control and percentage of voting rights acquired

The Company held 33.4% of shares with voting rights in Elmed Eisai immediately before the business combination, and acquired additional 66.6% of the shares in exchange for cash on the business combination date, making it a wholly-owned subsidiary.

2. Consideration paid, and fair values of assets acquired and liabilities assumed on the acquisition date

The consideration paid for acquisition of Elmed Eisai’s shares, and fair values of assets acquired and liabilities assumed are as follows. The fair values of assets acquired and liabilities assumed as of the acquisition date are currently being calculated and the following amounts may change.

(in millions of yen)

	Amount
Consideration paid (cash)	17,000
Assets acquired and liabilities assumed	
Cash and cash equivalents	5,489
Trade and other receivables	11,339
Inventories	6,113
Property, plant and equipment	231
Intangible assets	2,119
Other assets	33
Trade and other payables	(10,051)
Retirement benefit liability	(168)
Deferred tax liabilities	(489)
Other liabilities	(266)
Total	14,352
Goodwill	2,647

(Sale of investments accounted for using equity method)

The Company concluded an agreement with an equity method affiliate Aprogen Inc., which stipulated the Company's decision to sell part of Aprogen's shares on May 13, 2019 and April 30, 2020 pursuant to a resolution in the meeting of the Board of Directors held on May 13, 2019. In association with this, the Company intends to include a gain on the sale of shares in the first quarter of the fiscal year ending March 31, 2020 and the first quarter of the fiscal year ending March 31, 2021.

1. Reason for the sale

The Company has continued a capital and business alliance with Aprogen Inc. for research and development of biosimilars since October 2010, and a decision was recently made to transfer part of the company's shares because an adequate relationship of mutual trust has been established in the past eight years since the commencement of the alliance.

There will be no change in the business alliance or business relationship with Aprogen Inc. after the selling shares.

2. Name and business details of the associate and details of transactions with the Company

Name: Aprogen Inc.

Business details:	Development of biopharmaceuticals
Details of transactions with the Company:	Joint development of biopharmaceuticals

3. Number of shares to be sold, gain on sale and holding ratio after the sale

(1) Portion sold on May 13, 2019

Number of shares sold:	5,500,000 shares
Gain on sale:	2,000 million yen (planned)
Holding ratio after the sale:	21.0 %

(2) Portion to be sold on April 30, 2020

Number of shares sold:	5,500,000 shares
Gain on sale:	2,000 million yen (planned)
Holding ratio after the sale:	10.3 %