

KYOWA KIRIN

Kyowa Hakko Kirin Co., Ltd.

Consolidated Financial Summary (IFRS) Fiscal 2018 First Quarter (January 1, 2018 – March 31, 2018)

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

SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS (IFRS) for Three Months Ended March 31, 2018

May 8, 2018

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Scheduled date of submission of Quarterly Securities Report: May 14, 2018

Scheduled start date of dividend payment: -

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 Three Months Ended March 31, 2018

(1) Consolidated operating results *(Percentages indicate year-on-year changes.)*

	Revenue		Core operating profit		Profit before tax		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Three months ended								
March 31, 2018	84,721	(7.2)	16,248	(3.3)	30,281	74.0	22,005	83.1
March 31, 2017	91,313	-	16,796	-	17,400	-	12,017	-

Total comprehensive income: Three months ended March 31, 2018: ¥18,668 million; 89.5%

Three months ended March 31, 2017: ¥9,850 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
	Millions of yen	%	Yen	Yen
Three months ended				
March 31, 2018	22,005	83.1	40.20	40.16
March 31, 2017	12,017	-	21.96	21.94

(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
	Millions of yen	Millions of yen	Millions of yen	%
As of				
March 31, 2018	716,395	626,815	626,815	87.5
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	-				
Fiscal year ending December 31, 2018 (Forecast)		15.00	-	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 March 31, 2018	576,483,555 shares
As of December 31, 2017	576,483,555 shares

b. Number of treasury shares

As of March 31, 2018	29,038,088 shares
As of December 31, 2017	29,176,451 shares

c. Average number of shares during the period

Three months ended March 31, 2018	547,341,265 shares
Three months ended March 31, 2017	547,244,693 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.

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1. Operating Results and Financial Statements

(1) Summary of Consolidated Business Performance

For the three months ended March 31, 2018 (January 1, 2018 to March 31, 2018), revenue was ¥84.7 billion (down 7.2% compared to the same period of the previous fiscal year), and profit attributable to owners of parent was ¥22.0 billion (up 83.1%). 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 ¥16.2 billion (down 3.3%).

- Main factors for the decline in revenue were the impact of excluding Kyowa Medex Co., Ltd. from the scope of consolidation, the market penetration of generics, the impact of rival products, and the decline in licensing revenue. Despite the improved share of profit (loss) of investments accounted for using equity method, the effect of the decline in gross profit led to a decrease in core operating profit.
- 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 ¥66.5 billion (down 8.0%) and core operating profit was ¥14.4 billion (down 4.8%).

- Revenue in Japan decreased compared to the same period of the previous fiscal year mainly due to the impact of excluding Kyowa Medex Co., Ltd. from the scope of consolidation, the impact of the market penetration of generics in conjunction with measures to reduce medical costs, and the impact of rival products.
 - Revenue from core product NESP[®], a renal anemia treatment drug, decreased compared to the same period of the previous fiscal year.
 - 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. In addition, revenue from REGPARA[®], a treatment for secondary hyperparathyroidism, decreased compared to the same period of the previous fiscal year due to the impact of rival products.
 - Revenue from Patano[®], 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. In addition, since its launch in January, Rituximab BS [KHK], an anticancer agent has achieved steady market penetration.
- Revenue from international business decreased year on year due mainly to the decrease in licensing revenue.
 - In Europe and the Americas, although products such as Abstral[®], a treatment for cancer pain, and Moventig[®], an opioid-induced constipation (OIC) treatment, saw an increase in sales, revenue decreased compared to the same period of the previous fiscal year due mainly to the decline in milestone revenue related to Benralizumab from AstraZeneca and other factors.
 - In Asia, revenue was higher compared to the same period of the previous fiscal year with steady growth in revenue being achieved for GRAN[®], a neutropenia treatment drug, particularly popular in China and Taiwan, as well as for NESP[®], a renal anemia treatment drug, among others.

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 three months ended March 31, 2018 are as follows.

Nephrology

- In Japan, in March we obtained approval of indication of calcium receptor agonist KHK7580 (generic name: evocalcet) 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, we are currently preparing to conduct phase III clinical study for RTA 402 (generic name: bardoxolone methyl) targeting chronic kidney disease (CKD) with type 2 diabetes.
- 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 (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 (generic name: burosumab), 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 are currently applying for approval of indication for treatment of X-linked hypophosphatemia in both adult and pediatric patients (application accepted in October 2017). 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, 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 ¥19.0 billion (down 4.8%) and core operating profit was ¥1.2 billion (down 21.8%).

- 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 increased.
- Revenue from international business stayed at the same level as in the same period of the previous fiscal year.
 - In the Americas, revenue was broadly unchanged from the same period of the previous fiscal year.
 - In Europe, excluding currency effects, revenue was broadly unchanged from the same period of the previous fiscal year.
 - In Asia, 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

1) Assets, liabilities and equity

- Assets as of March 31, 2018 were ¥716.4 billion, an increase of ¥8.1 billion compared to the end of the previous fiscal year.
 - Non-current assets increased by ¥3.8 billion to ¥363.9 billion, due mainly to an increase in investments accounted for using equity method.
 - Current assets increased by ¥4.3 billion to ¥352.5 billion, due mainly to an increase in loans receivable from parent as fund management, despite decreases in assets held for sale and trade and other receivables.
- Equity as of March 31, 2018 was ¥626.8 billion, an increase of ¥10.8 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.
- Liabilities as of March 31, 2018 were ¥89.6 billion, a decrease of ¥2.7 billion compared to the end of the previous fiscal year, due to decreases in the liabilities directly associated with assets held for sale and others, despite an increase in trade and other payables, etc.

As a result, the ratio of equity attributable to owners of parent to total assets as of the end of the first quarter was 87.5%, an increase of 0.5 percentage points compared to the end of the previous fiscal year.

2) Cash flow summary

Cash and cash equivalents as of March 31, 2018 were ¥12.3 billion, a decrease of ¥2.4 billion compared to the balance of ¥14.7 billion as of December 31, 2017.

The main contributing factors affecting cash flow during the three months ended March 31, 2018 were as follows:

(Cash flows from operating activities)

- Net cash provided by operating activities was ¥19.5 billion, a 3.0% increase compared to the same period of the previous fiscal year. The main factors included profit before tax of ¥30.3 billion, despite income taxes paid of ¥6.9 billion, etc.

(Cash flows from investing activities)

- Net cash used in investing activities was ¥14.5 billion, a 43.1% increase compared to the same period of the previous fiscal year. Major outflows included a net increase of ¥24.8 billion in loans receivable from parent and ¥3.4 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.

(Cash flows from financing activities)

- Net cash used in financing activities was ¥8.3 billion, a 24.0% increase compared to the same period of the previous fiscal year. The main outflows included dividends paid of ¥7.9 billion.

(3) 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 March 31, 2018	As of December 31, 2017
Assets		
Non-current assets		
Property, plant and equipment	108,283	109,578
Goodwill	142,088	142,837
Intangible assets	58,803	57,599
Investments accounted for using equity method	9,233	1,857
Other financial assets	14,655	14,890
Retirement benefit asset	7,700	8,582
Deferred tax assets	21,270	22,856
Other non-current assets	1,906	1,945
Total non-current assets	363,939	360,145
Current assets		
Inventories	73,725	71,222
Trade and other receivables	93,650	100,925
Loans receivable from parent	168,000	143,200
Other financial assets	781	517
Other current assets	3,994	3,346
Cash and cash equivalents	12,306	14,685
Subtotal	352,456	333,895
Assets held for sale	–	14,255
Total current assets	352,456	348,150
Total assets	716,395	708,295

(1) Condensed Quarterly Consolidated Statement of Financial Position (continued)*(Millions of yen)*

	As of March 31, 2018	As of December 31, 2017
Equity		
Share capital	26,745	26,745
Capital surplus	509,162	509,145
Treasury shares	(26,695)	(26,820)
Retained earnings	127,023	113,504
Other components of equity	(9,420)	(6,546)
Total equity attributable to owners of parent	626,815	616,028
Total equity	626,815	616,028
Liabilities		
Non-current liabilities		
Retirement benefit liability	559	668
Provisions	3,566	3,558
Deferred tax liabilities	208	192
Other financial liabilities	2,096	2,121
Other non-current liabilities	6,408	7,320
Total non-current liabilities	12,837	13,858
Current liabilities		
Trade and other payables	47,261	44,907
Other financial liabilities	1,976	2,963
Income taxes payable	5,648	6,425
Other current liabilities	21,858	20,004
Subtotal	76,743	74,298
Liabilities directly associated with assets held for sale	-	4,111
Total current liabilities	76,743	78,409
Total liabilities	89,580	92,267
Total equity and liabilities	716,395	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 March 31, 2018	January 1, 2017 to March 31, 2017
Revenue	84,721	91,313
Cost of sales	(30,964)	(35,066)
Gross profit	53,757	56,247
Selling, general and administrative expenses	(27,983)	(26,197)
Research and development expenses	(10,915)	(11,978)
Share of profit (loss) of investments accounted for using equity method	1,389	(1,276)
Other income	14,540	841
Other expenses	(195)	(229)
Finance income	172	116
Finance costs	(484)	(124)
Profit before tax	30,281	17,400
Income tax expense	(8,276)	(5,383)
Profit	22,005	12,017
Profit attributable to		
Owners of parent	22,005	12,017
Earnings per share		
Basic earnings per share (Yen)	40.20	21.96
Diluted earnings per share (Yen)	40.16	21.94

Condensed Quarterly Consolidated Statement of Comprehensive Income*(Millions of yen)*

	January 1, 2018 to March 31, 2018	January 1, 2017 to March 31, 2017
Profit	22,005	12,017
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	(113)	190
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	(679)	190
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(2,569)	(2,394)
Share of other comprehensive income of investments accounted for using equity method	(90)	37
Total of items that may be reclassified to profit or loss	(2,658)	(2,357)
Other comprehensive income	(3,338)	(2,167)
Comprehensive income	18,668	9,850
Comprehensive income attributable to Owners of parent	18,668	9,850

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

January 1, 2018 to March 31, 2018

(Millions of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					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	–	–	–	22,005	–	–
Other comprehensive income	–	–	–	–	–	(2,658)
Total comprehensive income	–	–	–	22,005	–	(2,658)
Dividends of surplus	–	–	–	(7,936)	–	–
Purchase of treasury shares	–	–	(4)	–	–	–
Disposal of treasury shares	–	17	129	–	–	–
Share-based payment transactions	–	–	–	–	(87)	–
Transfer from other components of equity to retained earnings	–	–	–	(551)	–	–
Total transactions with owners	–	17	125	(8,487)	(87)	–
Balance at March 31, 2018	26,745	509,162	(26,695)	127,023	611	(13,644)

	Equity attributable to owners of parent					Total equity
	Other components of equity			Total	Total	
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total			
Balance at January 1, 2018	3,741	–	(6,546)	616,028	616,028	
Profit	–	–	–	22,005	22,005	
Other comprehensive income	(113)	(567)	(3,338)	(3,338)	(3,338)	
Total comprehensive income	(113)	(567)	(3,338)	18,668	18,668	
Dividends of surplus	–	–	–	(7,936)	(7,936)	
Purchase of treasury shares	–	–	–	(4)	(4)	
Disposal of treasury shares	–	–	–	145	145	
Share-based payment transactions	–	–	(87)	(87)	(87)	
Transfer from other components of equity to retained earnings	(16)	567	551	–	–	
Total transactions with owners	(16)	567	464	(7,881)	(7,881)	
Balance at March 31, 2018	3,613	–	(9,420)	626,815	626,815	

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

January 1, 2017 to March 31, 2017

(Millions of yen)

	Equity attributable to owners of parent					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					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	–	–	–	12,017	–	–
Other comprehensive income	–	–	–	–	–	(2,357)
Total comprehensive income	–	–	–	12,017	–	(2,357)
Dividends of surplus	–	–	–	(6,840)	–	–
Purchase of treasury shares	–	–	(3)	–	–	–
Disposal of treasury shares	–	17	86	–	–	–
Share-based payment transactions	–	–	–	–	(59)	–
Transfer from other components of equity to retained earnings	–	–	–	6	–	–
Total transactions with owners	–	17	83	(6,834)	(59)	–
Balance at March 31, 2017	26,745	509,145	(26,807)	84,838	504	(17,051)

	Equity attributable to owners of parent					Total equity
	Other components of equity			Total	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	–	–	–	12,017	12,017	
Other comprehensive income	190	–	(2,167)	(2,167)	(2,167)	
Total comprehensive income	190	–	(2,167)	9,850	9,850	
Dividends of surplus	–	–	–	(6,840)	(6,840)	
Purchase of treasury shares	–	–	–	(3)	(3)	
Disposal of treasury shares	–	–	–	102	102	
Share-based payment transactions	–	–	(59)	(59)	(59)	
Transfer from other components of equity to retained earnings	(6)	–	(6)	–	–	
Total transactions with owners	(6)	–	(65)	(6,799)	(6,799)	
Balance at March 31, 2017	2,712	–	(13,834)	580,087	580,087	

(4) Condensed Quarterly Consolidated Statement of Cash Flows*(Millions of yen)*

	January 1, 2018 to March 31, 2018	January 1, 2017 to March 31, 2017
Cash flows from operating activities		
Profit before tax	30,281	17,400
Depreciation and amortization	5,139	5,512
Reversal of impairment losses	(3,360)	–
Share of loss (profit) of investments accounted for using equity method	(1,389)	1,276
Gain on sale of investments in subsidiaries	(10,968)	–
Decrease (increase) in inventories	(3,380)	(107)
Decrease (increase) in trade receivables	6,043	3,271
Increase (decrease) in trade payables	6,902	3,636
Income taxes paid	(6,932)	(7,899)
Other	(2,862)	(4,186)
Net cash provided by (used in) operating activities	19,475	18,902
Cash flows from investing activities		
Purchase of property, plant and equipment	(3,394)	(4,459)
Proceeds from sale of property, plant and equipment	1	1,856
Purchase of intangible assets	(108)	(1,460)
Purchase of investments accounted for using equity method	(1,000)	(950)
Proceeds from sale of other financial assets	9	439
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	(24,800)	(5,310)
Other	(75)	(235)
Net cash provided by (used in) investing activities	(14,479)	(10,120)
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	(362)	235
Dividends paid	(7,936)	(6,840)
Other	(45)	(124)
Net cash provided by (used in) financing activities	(8,343)	(6,730)
Effect of exchange rate changes on cash and cash equivalents	(105)	1,232
Net increase (decrease) in cash and cash equivalents	(3,453)	3,285
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	12,306	16,361

(5) Notes to Condensed Quarterly Consolidated Financial StatementsNotes 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

Three months ended March 31, 2018 (January 1, 2018 – March 31, 2018)

(Millions of yen)

	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Revenue from external customers	66,176	18,545	84,721	–	84,721
Inter-segment revenue	311	491	802	(802)	–
Total	66,487	19,036	85,523	(802)	84,721
Segment profit (Core operating profit)	14,391	1,190	15,581	667	16,248
			Other income		14,540
			Other expenses		(195)
			Finance income		172
			Finance costs		(484)
			Profit before tax		30,281

Note: The ¥667 million for adjustments of segment profit is due to elimination of inter-segment transactions.

Three months ended March 31, 2017 (January 1, 2017 – March 31, 2017)*(Millions of yen)*

	Reportable segments		Total	Adjustments (Note)	Consolidated
	Pharmaceuticals	Bio-Chemicals			
Revenue from external customers	72,069	19,244	91,313	–	91,313
Inter-segment revenue	203	753	957	(957)	–
Total	72,272	19,998	92,270	(957)	91,313
Segment profit (Core operating profit)	15,115	1,522	16,637	159	16,796
					841
					(229)
					116
					(124)
					17,400

Note: The ¥159 million for adjustments of segment profit is due to elimination of inter-segment transactions.