

Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending December 31, 2017 [IFRS]

August 8, 2017

Company name Stock exchange listing Code number URL Representative Contact Scheduled date of quarterly securities report submission Scheduled date of dividend payment commencement Supplementary materials for quarterly financial results Earnings announcement for quarterly financial results	: Otsuka Holdings Company Limited : Tokyo Stock Exchange : 4578 : https://www.otsuka.com/en/ : Tatsuo Higuchi President and Representative Director, CEO : Yuji Kogure Director, Investor Relations Department Telephone: +81-3-6361-7411 : August 9, 2017 : September 4, 2017 : Yes : Yes (for institutional investors, analysts and the press)
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(Figures are rounded down to the nearest million yen unless otherwise stated)

1. Consolidated Financial Results for the Second Quarter of FY2017 (January 1, 2017 to June 30, 2017)

(1) Consolidated Operating Results (cumulative)

(% change from the same period of the previous fiscal year)

	Net sales		Operating profit		Profit before taxes		Profit for the period		Profit attributable to owners of the Company		Total comprehensive income for the period	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2017 Q2	595,361	1.3	49,506	(39.8)	48,437	(27.2)	43,368	(13.9)	42,426	(14.5)	32,920	—
FY2016 Q2	587,652	—	82,279	—	66,548	—	50,370	—	49,613	—	(64,016)	—

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
FY2017 Q2	78.29	78.04
FY2016 Q2	91.56	91.56

(2) Consolidated Financial Position

	Total assets	Total equity	Equity attributable to owners of the Company	Ratio of equity attributable to owners of the Company to total assets	Equity attributable to owners of the Company per share
	Million yen	Million yen	Million yen	%	Yen
As of June 30, 2017	2,430,813	1,743,988	1,715,712	70.6	3,166.40
As of December 31, 2016	2,478,290	1,738,441	1,710,531	69.0	3,156.83

2. Dividends

	Annual dividend per share				
	First Quarter	Second Quarter	Third Quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY2016	—	50.00	—	50.00	100.00
FY2017	—	50.00	—	—	—
FY2017 (forecast)	—	—	—	50.00	100.00

(Note) Revisions to dividends forecast most recently announced: None

3. Forecasts of Consolidated Financial Results for FY2017 (January 1, 2017 to December 31, 2017)

(% change from the same period of the previous fiscal year)

	Net sales		Operating profit		Profit before taxes		Profit		Profit attributable to owners of the Company		Basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2017	1,260,000	5.4	120,000	18.6	119,000	2.0	87,000	(6.8)	85,000	(8.2)	156.87

(Note) Revisions to financial forecast most recently announced: None

4. Others

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in a change in scope of consolidation): None
- (2) Changes in accounting policies and changes in accounting estimates
 - 1) Changes in accounting policies required by IFRS: Yes
 - 2) Changes in accounting policies due to other reasons: None
 - 3) Changes in accounting estimates: None
- (3) Number of shares issued and outstanding (common stock)
 - 1) Number of shares issued and outstanding as of the end of the reporting period (including treasury shares):
 - June 30, 2017 557,835,617 shares
 - December 31, 2016 557,835,617 shares
 - 2) Number of shares of treasury shares as of the end of the reporting period:
 - June 30, 2017 15,986,511 shares
 - December 31, 2016 15,986,347 shares
 - 3) Average number of shares outstanding during the reporting period:
 - Quarter ended June 30, 2017 541,849,173 shares
 - Quarter ended June 30, 2016 541,849,644 shares

* The quarterly financial statements are not subject to quarterly reviews.

* Note to ensure appropriate use of forecasts, and other comments in particular

Forecasts and other forward-looking statements included in this report are based on information currently available and certain assumptions that the Company deems reasonable. Actual performance and other results may differ significantly due to various factors. Please refer to "1. Qualitative Information (3) Forecast for Consolidated Performance" on page 8 for information regarding the forecast of consolidated financial results.

The Company plans to hold an earnings release conference call for institutional investors, analysts and the press on August 8, 2017. Presentation materials and the webcast of the meeting will be available on the Company's website promptly after the meeting.

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1. Qualitative Information

(1) Consolidated Operating Results

The forward-looking statements in this report were prepared at the discretion of the Otsuka group of companies (hereinafter the “Group”) based on information available as of June 30, 2017. For analysis purpose, financial results disclosed in the previous second quarter under JGAAP have been reclassified based on IFRS.

Summary of Operating Results for the first six months of FY2017

For the first six months of FY2017 (from January 1 to June 30, 2017), the Group recorded net sales of ¥595,361 million (up 1.3% year on year), with operating profit of ¥49,506 million (down 39.8%), profit for the period of ¥43,368 million (down 13.9%) and profit attributable to owners of the Company of ¥42,426 million (down 14.5%).

Results by business segment are as follows:

	Pharmaceuticals	Nutraceuticals	Consumer products	Others	Adjustments	Total
Net sales	373,761	154,289	16,924	73,801	(23,414)	595,361
Operating profit	36,994	19,967	5,262	6,225	(18,943)	49,506

1) Pharmaceuticals

Under the Second Medium-Term Management Plan, which runs until the end of FY 2018, the Group is targeting sustainable growth over the medium and long term by positioning the antipsychotic agent *ABILIFY MAINTENA*, the antipsychotic agent *REXULTI*, and the vasopressin V₂ receptor antagonist *Samsca/JINARC* as its three global products and positioning the anti-cancer agent *LONSURF* as one of the next-generation products^{*1}.

Japan

In the area of the central nervous system and neurology, prescriptions for antipsychotic agent *ABILIFY* increased, however sales of the drug declined compared with the prior year period due to repricing measures for market expansion based on the April 2016 NHI price revisions. Sales of intramuscular depot formulation *ABILIFY prolonged release aqueous suspension for intramuscular injection* (once-monthly injection) increased significantly, supported by growth in prescriptions. Antiepileptic drug *E Keppra*, which is co-promoted with UCB Japan, registered steady growth in prescriptions, reflecting strong support from medical specialists due to the drug’s efficacy, safety and usability. *Neupro Patch*, a treatment for Parkinson’s disease and restless legs syndrome, also registered growth in sales, after the launch of an 18mg patch in June 2016 contributed to a growth in prescriptions.

In the area of oncology, sales of anti-cancer agent *Abraxane* increased slightly compared with the prior year period, despite the impact of repricing measures for market expansion. Sales of anti-cancer agent *LONSURF* increased as it has come to hold a position as one of the standard therapies for unresectable advanced or recurrent colorectal cancer. Antiemetic agent *Aloxi* registered a modest rise in sales compared with the prior year period.

In the area of the cardiovascular and renal system, sales of *Samsca* increased compared with the prior year period due to promotional activities targeting medical specialists to highlight its value as an oral aquaretic agent. Prescription growth is also being driven by the recommended use of *Samsca* in treatment guidelines for autosomal dominant polycystic kidney disease (“ADPKD”), an intractable kidney disease.

In the area of the digestive system, prescriptions increased significantly for *TAKECAB*, a treatment for acid-related diseases, co-promoted with Takeda Pharmaceutical Company Limited.

In the area of ophthalmology, efforts to promote the product concept of dry eye treatment *Mucosta ophthalmic suspension* led to growth in sales. Also, *Mikeluna combination ophthalmic solution*, a treatment for glaucoma and ocular hypertension launched in January 2017, is registering steady growth in prescriptions.

In the area of diagnostics, sales of diagnostics declined overall, mainly due to a drop in sales of Helicobacter pylori-related products and a pullback in demand for influenza diagnostic agents compared with the prior year period, when there was a spike in demand.

In the area of clinical nutrition, sales of clinical nutrition products increased overall, supported mainly by growth in sales volume for high-calorie total parenteral nutrition (“TPN”) solution *ELNEOPA-NF Injection*, a new prescription launched in January 2017.

North America

Sales of *ABILIFY MAINTENA* (once-monthly injection) increased compared with the prior year period, spurred by growing awareness of the drug’s ease of use. Sales of *REXULTI* have grown significantly since the drug was launched in the U.S. in 2015, supported by growth in prescriptions for schizophrenia and as an adjunctive therapy in major depressive disorder. The drug was also launched in Canada in April 2017. Sales of *NUEDEXTA* increased steadily. *NUEDEXTA* was developed by U.S. company Avanir Pharmaceuticals, Inc., which has strengths in drug development in the area of neurological disorders. Sales growth was supported by the drug’s growing status as the world’s first and only treatment for the neurologic disease pseudobulbar affect (“PBA”). Sales of *LONSURF* declined compared with the prior year period. Sales of *Samsca*, which is sold as an oral aquaretic agent, were steady compared with the prior year period, but prescriptions of *JINARC*, the same compound as *Samsca* but sold under a different brand name as a treatment for ADPKD, have grown steadily since its launch in Canada in 2015.

Others

Prescriptions for *ABILIFY MAINTENA* increased in Europe, driving a large increase in sales compared with the prior year period. Under a license agreement with Servier, *LONSURF* has been launched in a growing number of countries since manufacturing and marketing approval was granted in April 2016. *Samsca* is gaining ground in the market as an oral aquaretic agent and has also been granted approval in more countries as a treatment for ADPKD, under the brand name *JINARC*. *Samsca/JINARC* is now sold in 24 markets worldwide, including Japan and North America.

As a result, net sales in the pharmaceutical segment for the first six months of FY2017 (from January 1 to June 30, 2017) totaled ¥373,761 million (up 0.8% year on year), with operating profit of ¥ 36,994 million (down 46.1%).

*1: *LONSURF* and SGI-110

2) Nutraceuticals

In the nutraceutical segment, the Group operates a global business focused on functional beverages and foods that support the maintenance and improvement of day-to-day well-being.

Japan

Although sales volume for the *POCARI SWEAT* electrolyte supplement drink declined amid a weak sports drink market*² associated with seasonal factors, the product's market share is growing*³ on the back of efforts to communicate with customers, focusing on promoting the drink as a source of hydration during dry weather and its ability to prevent heat stroke. Despite a weak market for non-medicinal nutritional drinks*⁴, sales volume for carbonated nutritional drink *ORONAMIN C* was steady compared with the prior year period due to continued active efforts to communicate with customers. Sales volume for the *Calorie Mate* range declined compared with the prior year period, mainly due to the drop following the prior year period's temporary increase in demand that occurred after the 2016 Kumamoto Earthquake but the brand retained the leading share in the nutritionally balanced foods market*⁵. Sales in the *Calorie Mate Jelly* range, which was expanded in May 2016, are growing steadily due to growing awareness of the product's value as a new type of balanced nutritional food.

Sales volume for the *SOYJOY* range of baked soy bars declined compared with the prior year period due to the drop following the prior year period's launching of three products of *SOYJOY Crispy* in April 2016. However, *SOYJOY Crispy White Macadamia*, which was launched in February 2017, is gradually gaining ground in the market.

North America

Nature Made, supplied by subsidiary Pharmavite LLC of the U.S., is the number one retail vitamin and supplement brand in the U.S.*⁶. Sales increased compared with the prior year period, partly due to growth in the U.S. market for supplements*⁷. Sales of FoodState Inc. of the U.S. also rose steadily.

Others

Sales increased at Nutrition & Santé SAS, one of the Group's subsidiaries that operates in more than 40 countries, mainly in Europe. Sales growth was driven by gluten-free nutrition and health food products including those sold under the *Gerblé* brand, France's leading health food brand*⁸, and meat-free products. *POCARI SWEAT*, which is sold in 19 markets worldwide, mainly in Asia, registered an increase in sales volume in China on the back of growth in distribution channels and greater product recognition. However, total overseas sales volume declined compared with the prior year period, reflecting unfavorable weather and a weaker economy in Indonesia, among other factors.

As a result, net sales in the nutraceutical segment for the first six months of FY2017 (from January 1 to June 30, 2017) totaled ¥154,289 million (up 1.6% year on year), with operating profit of ¥19,967 million (up 0.0%). In this business, the Group is making improvements to the value chain, such as rebuilding its product strategy to emphasize growth and profitability.

*2: INTAGE SRI (01/2017 to 06/2017 -8.4%). All rights reserved, no reproduction without permission.

*3: INTAGE SRI (01/2017 to 06/2017 +0.6%). All rights reserved, no reproduction without permission.

*4: INTAGE SRI (01/2017 to 06/2017 -6.5%). All rights reserved, no reproduction without permission.

*5: INTAGE SRI Cumulative revenues, nutritionally balanced foods market (categories: cookies and biscuits, cereal, cakes) 01/2017 to 06/2017. All rights reserved, no reproduction without permission.

*6: © 2017, The Nielsen Company, Scantrack© service, US xAOC Channel 26-weeks ending 7/1/17. All rights reserved, no reproduction without permission.

*7: © 2017, The Nielsen Company, Scantrack© service, US xAOC Channel 26-weeks ending 7/1/17, the Total Vitamin Category grew +2.8%. All rights reserved, no reproduction without permission.

*8: 2016 Value Share of Market, Information Resources Inc.

3) Consumer products

Sales volume for *MATCH*, a carbonated electrolyte drink containing vitamins, was steady compared with the prior year period, supported by an aggressive marketing strategy, sales promotion activities and other initiatives to reenergize the brand. Sales volume for mineral water products, centered on *CRYSTAL GEYSER*, declined compared with the prior year period, mainly due to weaker sales in the direct sales channel. However, continued steps were taken to grow the customer base by promoting the value of mineral water products.

As a result, net sales in the consumer products segment for the first six months of FY2017 (from January 1 to June 30, 2017) totaled ¥16,924 million (down 1.8% year on year), with operating profit of ¥5,262 million (up 12.6%). In the consumer products segment, the Group is continuing its efforts to improve profitability by reviewing marketing strategies and sales promotion activities and improve the expense-to-sales ratio.

4) Others

In the specialty chemical business, sales increased compared with the prior year period, supported by growth in sales volume for hydrazine hydrate, foaming agents and other products. In the fine chemical business, sales increased compared with the prior year period, due mainly to growth in sales volume for active pharmaceutical ingredients and intermediates.

In the transportation and warehousing business, sales rose slightly compared with the prior year period, supported by a steady level of handling volume. Sales in the direct sales support business increased compared with the prior year period, largely due to growth in the volume of orders handled and an increase in the number of contracts in the insurance business.

As a result, net sales in the others segment for the first six months of FY2017 (from January 1 to June 30, 2017) totaled ¥73,801 million (up 5.3% year on year), with operating profit of ¥6,225 million (down 3.8%).

<Research and Development Activities>

Research and development expenses for the first six months of FY2017 (from January 1 to June 30, 2017) totaled ¥80,765 million.

The primary areas of research and development as well as the status of new product development by business segment were as follows:

(Pharmaceuticals)

The Group conducts research and development with a primary focus on the areas of the central nervous system and neurology and oncology. The Group also conducts research and development focusing on fields that are yet to be fully addressed such as cardiovascular and renal system, ophthalmology, etc.

Research and development expenses for the pharmaceutical business for the first six months of FY2017 (from January 1 to June 30, 2017) were ¥76,027 million.

Research and development activities carried out during the first six months of FY2017 (from January 1 to June 30, 2017) in the pharmaceutical business are summarized below.

Category	Brand Name, (Generic Name), Development Code	Status
Central nervous system and neurology	<i>REXULTI</i> (brexpiprazole) OPC-34712	<Japan> <ul style="list-style-type: none"> • An application for the indication of schizophrenia was filed in January 2017. <Europe> <ul style="list-style-type: none"> • An application for the indication of schizophrenia was filed in March 2017. <U.S.> <ul style="list-style-type: none"> • Phase I trial of long acting injectable for the indication of schizophrenia was initiated in February 2017. <U.S. and Europe> <ul style="list-style-type: none"> • Plans for a Phase III trial for the treatment of post-traumatic stress syndrome were reviewed and restarted as a Phase II trial.
	<i>ABILIFY</i> (aripiprazole) OPC-14597	<Japan> <ul style="list-style-type: none"> • Development for the treatment of agitation associated with Alzheimer-type dementia was halted in line with development strategy.
	<i>ABILIFY MAINTENA</i> (aripiprazole)	<Japan and Europe> <ul style="list-style-type: none"> • Development for the treatment of bipolar disorder was halted in line with development strategy.
	(idalopirdine) Lu AE58054	<ul style="list-style-type: none"> • Development for the treatment of Alzheimer-type dementia was halted based on a comprehensive review of the results of the Phase III trials.
	(centanafadine) EB-1020	<ul style="list-style-type: none"> • Drug under development that was acquired through the acquisition of Neurovance, Inc. in March 2017. Its development status is as follows: <U.S.> <ul style="list-style-type: none"> • Phase II trial for attention deficit hyperactivity disorder (ADHD) is currently underway.
Oncology	(guadecitabine) SGI-110	<Japan, U.S., Europe and Asia> <ul style="list-style-type: none"> • Phase III trial for the treatment of myelodysplastic syndrome was initiated in February 2017. <U.S. and Europe> <ul style="list-style-type: none"> • Development for the treatment of hepatocellular carcinoma was halted based on a comprehensive review of the results of the Phase II trial.

Category	Brand Name, (Generic Name), Development Code	Status
	<i>LONSURF</i> (trifluridine, tipiracil) TAS-102	<Asia> • An application for the indication of colorectal cancer was filed in May 2017.
	(tegafur, gimeracil, oteracil, folinate) TAS-118	<Japan and Asia> • Development for the treatment of pancreatic cancer was halted based on a comprehensive review of the results of the Phase III trial.
	TAS-115	<Japan> • Phase II trial for the treatment of prostate cancer was initiated in January 2017.
	TAS4464	<Japan, U.S. and Europe> • Phase I trial for the treatment of solid cancer and hematological cancer was initiated in February 2017.
	<i>SATIVEX</i> (nabiximols)	<U.S.> • Development for the treatment of cancer pain was halted based on a comprehensive review of the results of the Phase III trial.
	(onalespib) AT13387	<U.S. and Europe> • Development for the treatment of non-small cell lung cancer was halted based on a comprehensive review of the results of Phase II trial.
	AT7519	<U.S.> • Development for the treatment of multiple myeloma was halted based on a comprehensive review of the results of Phase II trial.
	OPB-111001	<Europe> • Development for the treatment of solid cancer was halted based on a comprehensive review of the results of Phase I trial.
	(rebamipide) OPC-12759	<Japan> • Development for the treatment of oral mucositis associated with chemoradiation therapy for cancer was halted based on a comprehensive review of the results of Phase II trial.
Cardiovascular and renal system	<i>Samsca</i> (tolvaptan) OPC-41061	<Japan> • Phase III trial for the treatment of syndrome of inappropriate antidiuretic hormone secretion (SIADH) was initiated in June 2017.
Other categories	<i>ZOSYN</i> (tazobactam, piperacillin) YP-18	<Japan> • Approval was granted in May 2017 for the additional indication of complicated skin and soft tissue infections.
	<i>WT1 mRNA Assay Kit II</i> 'Otsuka' ODK-1003	<Japan> • Approval was granted in April 2017 for the additional indication of in-vitro diagnostic agent for acute lymphoblastic leukemia.

Nutraceuticals

In the nutraceutical business, the Group draws on its knowledge in the pharmaceutical business to constantly conduct research and development of world-class products centering on functional foods and beverages that support the maintenance and improvement of day-to-day well-being.

The *Amino-Value* brand has been developed based on research into the benefits of branched chain amino acids (BCAA) in the fields of clinical nutrition and sports nutrition. Two products in the range, *Amino-Value 4000* and *Amino-Value Powder 8000*, were relaunched in April 2017 as Japan's first Foods with Function Claim for alleviation of fatigue caused by physical activity, with BCAA as the functional component. Also in April 2017 the Group launched a new product developed from research on exercise and nutrition and research on the digestive tract and nutrition called *BODY MAINTÉ* Jelly, which is a conditioning nutritional food that perfectly conditions the body from the perspective of bodily recovery and maintenance through a nutritional formulation that combines lactic-acid bacteria *B240* (a strain licensed to Otsuka Pharmaceutical), BCAA + Arginine, and whey protein. In addition, in May 2017, Otsuka Pharmaceutical launched *Kenja-no-Kaimin Sleep Rhythm Support* (The Wise Man's Sleep Solution), a new food product with a Function Claim of improving sleep-wake rhythms and the quality of sleep. The newly developed food contains asparagus-derived proline-containing 3-alkyl diketopiperazines*1, which has been shown to improve sleep patterns with disrupted biological rhythms and enhance the quality of sleep.

*1:Asparagus-derived proline-containing 3-alkyl diketopiperazines (as cyclo (L-leucyl-L-prolyl), cyclo (L-phenylalanyl-L-prolyl), cyclo (L-tyrosyl-L-prolyl))

Research and development expenses for the nutraceutical business for the first six months of FY2017 (from January 1 to June 30, 2017) were ¥2,478 million.

Consumer products

In the consumer products business, the Group is engaged in the research and development of original and unique products in the field of food and beverage that are part of everyone's daily life.

Research and development expenses for the consumer products business for the first six months of FY2017 (from January 1 to June 30, 2017) were ¥282 million.

Others

In the other businesses, the Group is primarily engaged in the research and development of specialty chemical products and fine chemicals.

Research and development expenses for the other businesses for the first six months of FY2017 (from January 1 to June 30, 2017) were ¥1,976 million.

(2) Consolidated Financial Position

1) Assets, Liabilities, and Net Assets

Assets

Total assets as of June 30, 2017 were ¥2,430,813 million, a decrease of ¥47,477 million compared to ¥2,478,290 million at the end of the previous fiscal year. This decrease was due to the ¥67,097 million decrease in current assets and ¥19,619 million increase in non-current assets.

(Current Assets)

Total current assets as of June 30, 2017 were ¥1,046,758 million, a decrease of ¥67,097 million compared to ¥1,113,855 million at the end of the previous fiscal year. This decrease was mainly due to decreases in trade and other receivables by ¥22,292 million and other financial assets by ¥59,912 million, while there was an increase in inventories by ¥15,210 million.

(Non-current Assets)

Total non-current assets as of June 30, 2017 were ¥1,384,054 million, an increase of ¥19,619 million compared to ¥1,364,434 million at the end of the previous fiscal year. This was mainly due to increases in property, plant and equipment by ¥11,896 million, investments in associates by ¥7,376 million, and other financial assets by ¥9,938 million, while there was a decrease in intangible assets by ¥10,817 million.

Liabilities

(Current Liabilities)

Total current liabilities as of June 30, 2017 were ¥390,830 million, a decrease of ¥45,783 million compared to ¥436,613 million at the end of the previous fiscal year. This decrease was mainly due to decreases in trade and other payables by ¥13,474 million, income taxes payable by ¥16,009 million, and other current liabilities by ¥14,797 million.

(Non-current Liabilities)

Total non-current liabilities as of June 30, 2017 were ¥295,993 million, a decrease of ¥7,241 million compared to ¥303,235 million at the end of the previous fiscal year. This decrease was mainly due to a decrease in bonds and borrowings by ¥18,409 million, while there was an increase in other financial liabilities by ¥11,881 million.

Net Assets

Total net assets as of June 30, 2017 were ¥1,743,988 million, an increase of ¥5,547 million compared to ¥1,738,441 million at the end of the previous fiscal year. This increase was mainly due to a ¥27,092 million payment of dividends, a ¥15,486 million increase in total shareholders' equity as a result of quarterly net income attributable to owners of the Company of ¥43,368 million, and a ¥10,486 million decrease in other components of equity due to stock market and exchange rate fluctuations.

2) Cash Flows

Cash and cash equivalents as of June 30, 2017 increased by ¥3,724 million to ¥373,599 million from the end of the previous fiscal year. Net cash provided by operating activities and investing activities were ¥55,899 million and ¥212 million respectively, while net cash used in financing activities was ¥48,529 million.

Cash Flows from Operating Activities

Net cash provided by operating activities was ¥55,899 million as of June 30, 2017. Contributing factors were ¥48,437 million in profit before taxes, ¥30,739 million in depreciation and amortization expenses, a ¥23,764 million in impairment loss and reversal of impairment loss, a ¥22,529 million decrease in trade and other receivables, a ¥16,468 million increase in inventories, a ¥10,832 million decrease in trade and other payables, and ¥(23,659) million in income taxes paid.

Cash Flows from Investing Activities

Net cash provided by investing activities was ¥212 million as of June 30, 2017. Main investing activities included ¥(27,041) million in payments for acquisition of property, plant and equipment, ¥(18,119) million in payments for acquisition of intangible assets, ¥42,756 million in proceeds from sales and redemption of investments, ¥(19,681) million in payments for acquisition of investments, ¥(11,052) million in payments for acquisition of subsidiaries, and ¥28,495 million in decrease (increase) in time deposits.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥(48,529) million as of June 30, 2017. Main financing activities included ¥(22,350) million in repayments of non-current borrowings, and ¥(27,709) million in dividends paid.

(3) Forecast for Consolidated Performance

There are no changes to the full year consolidated forecast released on February 14, 2017.

2. Condensed Interim Consolidated Financial Statements and Major Notes
(1) Condensed Interim Consolidated Statement of Financial Position

		(Millions of yen)	
		As of December 31, 2016	As of June 30, 2017
Assets			
Current assets			
Cash and cash equivalents		369,875	373,599
Trade and other receivables		353,193	330,900
Inventories		133,758	148,969
Income taxes receivable		14,381	6,613
Other financial assets		209,289	149,376
Other current assets		33,031	37,030
	Subtotal	1,113,529	1,046,489
Assets held for sale		325	268
Total current assets		1,113,855	1,046,758
Non-current assets			
Property, plant and equipment		358,762	370,659
Goodwill		231,839	234,756
Intangible assets		446,974	436,157
Investments in associates		166,600	173,977
Other financial assets		143,278	153,216
Deferred tax assets		6,939	7,378
Other non-current assets		10,038	7,908
Total non-current assets		1,364,434	1,384,054
Total assets		2,478,290	2,430,813

	(Millions of yen)	
	As of December 31, 2016	As of June 30, 2017
Liabilities and equity		
Liabilities		
Current liabilities		
Trade and other payables	162,349	148,875
Bonds and borrowings	79,264	76,870
Other financial liabilities	3,872	5,317
Income taxes payable	21,482	5,473
Provisions	552	-
Other current liabilities	169,091	154,294
Total current liabilities	436,613	390,830
Non-current liabilities		
Bonds and borrowings	193,972	175,563
Other financial liabilities	11,942	23,824
Net defined benefit liabilities	15,331	15,547
Provisions	504	507
Deferred tax liabilities	70,264	69,273
Other non-current liabilities	11,219	11,278
Total non-current liabilities	303,235	295,993
Total liabilities	739,848	686,824
Equity		
Equity attributable to owners of the Company		
Share capital	81,690	81,690
Capital surplus	503,979	504,161
Treasury shares	(47,264)	(47,265)
Retained earnings	1,209,139	1,224,625
Other components of equity	(37,012)	(47,499)
Total equity attributable to owners of the Company	1,710,531	1,715,712
Non-controlling interests	27,910	28,276
Total equity	1,738,441	1,743,988
Total liabilities and equity	2,478,290	2,430,813

(2) Condensed Interim Consolidated Statement of Income

	(Millions of yen)	
	FY2016 (From January 1, 2016 to June 30, 2016)	FY2017 (From January 1, 2017 to June 30, 2017)
Net sales	587,652	595,361
Cost of sales	(197,393)	(200,204)
Gross profit	390,259	395,157
Selling, general and administrative expenses	(248,051)	(276,161)
Research and development expenses	(71,159)	(80,765)
Share of profit of associates	9,193	10,673
Other income	2,702	2,198
Other expenses	(664)	(1,595)
Operating profit	82,279	49,506
Finance income	3,366	2,228
Finance costs	(19,097)	(3,718)
Other non-operating income (expenses)	-	422
Profit before taxes	66,548	48,437
Income tax expenses	(16,178)	(5,069)
Profit for the period	50,370	43,368
Attributable to:		
Owners of the Company	49,613	42,426
Non-controlling interests	756	942
Earnings per share:		
Basic earnings per share (Yen)	91.56	78.29
Diluted earnings per share (Yen)	91.56	78.04

(3) Condensed Interim Consolidated Statement of Comprehensive Income

	(Millions of yen)	
	FY2016 (From January 1, 2016 to June 30, 2016)	FY2017 (From January 1, 2017 to June 30, 2017)
Profit for the period	50,370	43,368
Other comprehensive income		
Components that will not be reclassified to profit or loss		
Remeasurements of defined benefit plans	12,560	2
Financial assets measured at fair value through other comprehensive income	(4,666)	5,296
Share of other comprehensive income of associates	(187)	97
Subtotal	7,706	5,396
Components that may be reclassified to profit or loss		
Foreign currency translation reserve	(99,599)	(17,379)
Cash flow hedges	(124)	(30)
Share of other comprehensive income of associates	(22,368)	1,564
Subtotal	(122,093)	(15,845)
Total other comprehensive income	(114,386)	(10,448)
Comprehensive income	(64,016)	32,920
Attributable to:		
Owners of the Company	(61,830)	32,092
Non-controlling interests	(2,185)	827
Comprehensive income	(64,016)	32,920

(4) Condensed Interim Consolidated Statement of Changes in Equity
FY2016 (From January 1, 2016 to June 30, 2016)

(Millions of yen)

	Equity attributable to owners of the Company				Other components of equity	
	Share capital	Capital surplus	Treasury shares	Retained earnings	Remeasurements of defined benefit plans	Financial assets
						measured at fair value through other comprehensive income
Balance as of January 1, 2016	81,690	503,384	(47,262)	1,159,537	–	23,096
Profit for the period	–	–	–	49,613	–	–
Other comprehensive income	–	–	–	–	12,499	(4,734)
Comprehensive income	–	–	–	49,613	12,499	(4,734)
Purchase of treasury shares	–	–	(1)	–	–	–
Dividends	–	–	–	(27,092)	–	–
Share-based payment transactions	–	24	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	448	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	12,563	(12,499)	(63)
Total transactions with owners, etc.	–	472	(1)	(14,529)	(12,499)	(63)
Balance as of June 30, 2016	81,690	503,856	(47,263)	1,194,622	–	18,298

	Equity attributable to owners of the Company				Other components of equity	
	Foreign currency translation reserve	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance as of January 1, 2016	(22,112)	130	1,113	1,698,463	28,906	1,727,370
Profit for the period	–	–	–	49,613	756	50,370
Other comprehensive income	(119,085)	(124)	(111,444)	(111,444)	(2,942)	(114,386)
Comprehensive income	(119,085)	(124)	(111,444)	(61,830)	(2,185)	(64,016)
Purchase of treasury shares	–	–	–	(1)	–	(1)
Dividends	–	–	–	(27,092)	(501)	(27,594)
Share-based payment transactions	–	–	–	24	–	24
Changes in ownership interests in subsidiaries that do not result in loss of control	–	–	–	448	429	877
Transfer from other components of equity to retained earnings	–	–	(12,563)	–	–	–
Total transactions with owners, etc.	–	–	(12,563)	(26,621)	(72)	(26,694)
Balance as of June 30, 2016	(141,198)	5	(122,894)	1,610,010	26,648	1,636,659

FY2017 (From January 1, 2017 to June 30, 2017)

(Millions of yen)

	Equity attributable to owners of the Company					
	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Remeasurements of defined benefit plans	Financial assets measured at fair value through other comprehensive income
Balance as of January 1, 2017	81,690	503,979	(47,264)	1,209,139	–	22,358
Profit for the period	–	–	–	42,426	–	–
Other comprehensive income	–	–	–	–	(0)	5,479
Comprehensive income	–	–	–	42,426	(0)	5,479
Purchase of treasury shares	–	–	(0)	–	–	–
Dividends	–	–	–	(27,092)	–	–
Share-based payment transactions	–	117	–	–	–	–
Changes in ownership interests in subsidiaries that do not result in loss of control	–	64	–	–	–	–
Transfer from other components of equity to retained earnings	–	–	–	152	0	(153)
Total transactions with owners, etc.	–	182	(0)	(26,940)	0	(153)
Balance as of June 30, 2017	81,690	504,161	(47,265)	1,224,625	–	27,685

	Equity attributable to owners of the Company					
	Other components of equity					
	Foreign currency translation reserve	Cash flow hedges	Total	Total	Non-controlling interests	Total equity
Balance as of January 1, 2017	(59,377)	6	(37,012)	1,710,531	27,910	1,738,441
Profit for the period	–	–	–	42,426	942	43,368
Other comprehensive income	(15,781)	(30)	(10,333)	(10,333)	(115)	(10,448)
Comprehensive income	(15,781)	(30)	(10,333)	32,092	827	32,920
Purchase of treasury shares	–	–	–	(0)	–	(0)
Dividends	–	–	–	(27,092)	(646)	(27,738)
Share-based payment transactions	–	–	–	117	–	117
Changes in ownership interests in subsidiaries that do not result in loss of control	(0)	–	(0)	64	185	249
Transfer from other components of equity to retained earnings	–	–	(152)	–	–	–
Total transactions with owners, etc.	(0)	–	(152)	(26,911)	(461)	(27,372)
Balance as of June 30, 2017	(75,160)	(24)	(47,499)	1,715,712	28,276	1,743,988

(5) Condensed Interim Consolidated Statement of Cash Flows

(Millions of yen)

	FY2016 (From January 1, 2016 to June 30, 2016)	FY2017 (From January 1, 2017 to June 30, 2017)
Cash flows from operating activities		
Profit before taxes	66,548	48,437
Depreciation and amortization expenses	29,675	30,739
Impairment loss and reversal of impairment loss	(393)	23,764
Share of loss (profit) of associates	(9,193)	(10,673)
Finance income	(3,366)	(2,228)
Finance costs	19,097	3,718
Other non-operating (income) expenses	—	(422)
Decrease (increase) in inventories	(10,733)	(16,468)
Decrease (increase) in trade and other receivables	54,557	22,529
Increase (decrease) in trade and other payables	7,689	(10,832)
Other	(34,576)	(11,531)
Subtotal	<u>119,304</u>	<u>77,033</u>
Interest and dividends received	3,870	4,063
Interest paid	(1,852)	(1,536)
Income taxes paid	(25,677)	(23,659)
Net cash flows from (used in) operating activities	<u>95,645</u>	<u>55,899</u>
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	672	379
Payments for acquisition of property, plant and equipment	(22,420)	(27,041)
Payments for acquisition of intangible assets	(8,851)	(18,119)
Proceeds from sales and redemption of investments	70,484	42,756
Payments for acquisition of investments	(48,642)	(19,681)
Payments for acquisition of subsidiaries	—	(11,052)
Decrease (increase) in time deposits	(59,562)	28,495
Other	(3,341)	4,475
Net cash flows from (used in) investing activities	<u>(71,661)</u>	<u>212</u>
Cash flows from financing activities		
Purchase of treasury shares	(1)	(0)
Increase (decrease) in current borrowings	13	668
Proceeds from non-current borrowings	732	2,206
Repayments of non-current borrowings	(15,681)	(22,350)
Dividends paid	(27,565)	(27,709)
Other	(790)	(1,344)
Net cash flows from (used in) financing activities	<u>(43,292)</u>	<u>(48,529)</u>
Increase (decrease) in cash and cash equivalents	(19,308)	7,583
Cash and cash equivalents at beginning of period	460,619	369,875
Effect of exchange rate changes on cash and cash equivalents	(25,743)	(3,859)
Cash and cash equivalents at end of period	<u>415,566</u>	<u>373,599</u>

(6) Notes to Condensed Interim Consolidated Financial Statements

Note to Going Concern Assumptions

Not applicable.

Changes in Accounting Policies

The same significant accounting policies used for the prior fiscal year's consolidated financial statements are applied to the condensed interim consolidated financial statements except for the accounting standards provided below.

Income tax expenses for the six months ended June 30, 2017 are calculated based on the estimated average annual effective tax rate.

The Group applied the following standards starting from FY2017. The application of these standards had no material effect on the Group's condensed interim consolidated financial statements.

IFRS		Description of new standards, interpretations and amendments
IAS 7	Statement of Cash Flows	Amendment concerning disclosure for changes in liabilities attributable to financing activities
IAS 12	Income Taxes	Amendment concerning recognition of deferred tax assets on unrealized losses

Segment Information

(1) Overview of reportable segments

The Group's reportable segments are the constituent units of the Group for which separate financial information is available and which are subject to periodic reviews by the Board of Directors in order to make decisions on allocation of business resources and to evaluate the business performances of the respective segments.

As the Group's holding company, the Company directs the Group's strategic planning, monitors group operations and provides various services to its group companies. Business activities are conducted by the Group's subsidiaries and associates.

Centering on healthcare business, the Group operates activities inside and outside Japan relating to the following four reportable segments: "Pharmaceuticals," "Nutraceuticals," "Consumer products" and "Others" businesses.

The Group defines the reportable segments as follows:

"Pharmaceuticals" comprises manufacturing and sales of prescription drugs, intravenous solutions, and others.

"Nutraceuticals" comprises manufacturing and sales of functional beverages, etc., over-the-counter drugs and nutritional supplements.

"Consumer products" comprises manufacturing and sales of mineral water, soft beverages and food products.

"Others" encompasses logistics, warehousing, manufacturing and sales of chemical products, evaluation systems for LED displays and spectroanalysis devices.

(2) Net sales and performances by reportable segment

Net sales and performances by the Group's reportable segment are as follows.

Segment profit is based on operating profit.

Intersegment sales and transfers reflect reasonable prices for intersegment transfers based on market value.

FY2016 (From January 1, 2016 to June 30, 2016)

(Millions of yen)

	Reportable segment					Adjustments (Note 1)	Condensed Interim Consolidated Statement of Income (Note 2)
	Pharma- ceuticals	Nutra- ceuticals	Consumer products	Others	Total		
Net sales							
Sales to external customers	370,819	146,689	17,021	53,122	587,652	–	587,652
Intersegment sales or transfers	–	5,129	219	16,957	22,306	(22,306)	–
Total	370,819	151,818	17,241	70,079	609,959	(22,306)	587,652
Segment profit	68,631	19,964	4,673	6,469	99,738	(17,459)	82,279

(Notes) 1. Adjustments to segment profit of ¥(17,459) million include intersegment eliminations of ¥(92) million, unallocated corporate expenses of ¥(17,918) million, and other income of ¥552 million. Corporate expenses include headquarter costs and other indirect expenses.
2. Segment profit is adjusted to operating profit as stated in the condensed interim consolidated statement of income.

FY2017 (From January 1, 2017 to June 30, 2017)

(Millions of yen)

	Reportable segment					Adjustments (Note 1)	Condensed Interim Consolidated Statement of Income (Note 2)
	Pharma- ceuticals	Nutra- ceuticals	Consumer products	Others	Total		
Net sales							
Sales to external customers	373,761	148,820	16,783	55,996	595,361	–	595,361
Intersegment sales or transfers	–	5,468	141	17,804	23,414	(23,414)	–
Total	373,761	154,289	16,924	73,801	618,776	(23,414)	595,361
Segment profit	36,994	19,967	5,262	6,225	68,449	(18,943)	49,506

(Notes) 1. Adjustments to segment profit of ¥(18,943) million include intersegment eliminations of ¥(50) million, unallocated corporate expenses of ¥(19,304) million, and other income of ¥411 million. Corporate expenses include headquarter costs and other indirect expenses.
2. Segment profit is adjusted to operating profit as stated in the condensed interim consolidated statement of income.