



Kyowa Kirin Co., Ltd.

Consolidated Financial Summary (IFRS) Fiscal 2019 Third Quarter (January 1, 2019 – September 30, 2019)

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

**SUMMARY OF CONSOLIDATED FINANCIAL STATEMENTS (IFRS)
for Nine Months Ended September 30, 2019**

October 29, 2019

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 Scheduled date of submission of Quarterly Securities Report: October 29, 2019
 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 Nine Months Ended September 30, 2019

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

Nine months ended	Revenue		Core operating profit		Profit before tax		Profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
September 30, 2019	225,457	14.0	45,752	15.8	33,450	(41.2)	56,318	18.8
September 30, 2018	197,721	-	39,524	-	56,881	-	47,417	60.9

Total comprehensive income: Nine months ended September 30, 2019: ¥54,461 million; 17.9%
 Nine months ended September 30, 2018: ¥46,205 million; 39.4%

- Notes: 1. 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.
2. Following the conclusion of an agreement on February 5, 2019, in which the Company agreed to transfer 95% of the shares of its consolidated subsidiary Kyowa Hakko Bio Co., Ltd. to Kirin Holdings Company, Limited, the Bio-Chemicals business is categorized as a discontinued operation from the first quarter of fiscal 2019. Accordingly, revenue, core operating profit, and profit before tax show figures for continuing operations and exclude discontinued operations. In addition, the consolidated financial statements for the corresponding period of the previous year have been restated to reflect the change, and accordingly year-on-year changes are not stated for the items of that period.

Nine months ended	Profit attributable to owners of parent		Basic earnings per share	Diluted earnings per share
	Millions of yen	%	Yen	Yen
September 30, 2019	56,318	18.8	104.48	104.39
September 30, 2018	47,417	60.9	86.62	86.53

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Ratio of equity attributable to owners of parent to total assets
As of	Millions of yen	Millions of yen	Millions of yen	%
September 30, 2019	749,721	659,501	659,501	88.0
December 31, 2018	741,982	649,621	649,621	87.6

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, 2018	–	15.00	–	20.00	35.00
Fiscal year ending December 31, 2019	–	20.00	–		
Fiscal year ending December 31, 2019 (Forecast)				20.00	40.00

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

3. Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2019 (from January 1, 2019 to December 31, 2019)

(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	305,000	–	53,000	–	47,000	–	68,000	25.0	68,000	25.0	126.30

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

The Company categorizes the Bio-Chemicals business as a discontinued operation from the first quarter of fiscal 2019. Accordingly, in the Consolidated Earnings Forecasts for the Fiscal Year Ending December 31, 2019, revenue, core operating profit, and profit before tax show figures for continuing operations and exclude discontinued operations, and year-on-year changes are not stated.

* 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): Yes

Excluded: three companies Kyowa Hakko Bio Co., Ltd., Kyowa Pharma Chemical Co., Ltd., Thai Kyowa Biotechnologies Co., Ltd.

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

- Changes in accounting policies required by IFRS: Yes
- Changes in accounting policies other than a. above: No
- Changes in accounting estimates: No

Note: See page 18, “2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto, (5) Notes to Condensed Quarterly Consolidated Financial Statements, *Significant accounting policies.*”

- (3) Number of shares issued (ordinary shares)

- a. Number of shares issued (including treasury shares)

As of September 30, 2019	540,000,000 shares
As of December 31, 2018	576,483,555 shares

- b. Number of treasury shares

As of September 30, 2019	3,051,637 shares
As of December 31, 2018	29,042,650 shares

c. Average number of shares during the period

Nine months ended September 30, 2019	539,020,972 shares
Nine months ended September 30, 2018	547,402,806 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
 1. 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.
 2. The Company changed its company name from Kyowa Hakko Kirin Co., Ltd. to Kyowa Kirin Co., Ltd. on July 1, 2019.

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1. Operating Results and Financial Statements

Since applying IFRS, the Group adopts “core operating profit” as a level of profit that shows the recurring profitability from operating activities. Core operating profit 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.

At a meeting held on February 5, 2019, the Board of Directors resolved that the Company would transfer 95% of its shareholdings in its consolidated subsidiary, Kyowa Hakko Bio Co., Ltd. to Kirin Holdings Company, Limited and concluded a share transfer agreement with Kirin Holdings Company, Limited on the same date, with the intention of maximizing shareholder value by concentrating management resources. In accordance with this agreement, the Company completed the transfer of the aforementioned shares on April 24, 2019.

As the Company effectively forfeited control over Kyowa Hakko Bio Co., Ltd. with the conclusion the share transfer agreement, the Bio-Chemicals business is categorized as a discontinued operation from the first quarter of fiscal 2019. As a result, the profit from discontinued operations is presented separately from continuing operations on the condensed quarterly consolidated statement of profit or loss. Accordingly, the amounts presented for revenue, core operating profit and profit before tax are amounts from continuing operations from which discontinued operations have been excluded. Note that the results for the nine months ended September 30, 2018 have been restated to reflect the same presentation as the period under review so that comparative analysis can be performed.

In addition, the Group did have two reportable segments of “Pharmaceuticals business” and “Bio-Chemicals business.” However, following the conclusion of the share transfer agreement, the “Bio-Chemicals business” was categorized as a discontinued operation and from the first quarter of fiscal 2019, the Group has only the one reportable segment of the “Pharmaceuticals business.”

(1) Summary of Consolidated Business Performance

1) Overview of results

(Billions of yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018	Year-on-year change	Year-on-year (%)
Revenue	225.5	197.7	27.7	14.0%
Core operating profit	45.8	39.5	6.2	15.8%
Profit before tax	33.5	56.9	(23.4)	(41.2)%
Profit from continuing operations	26.9	42.8	(15.9)	(37.1)%
Profit from discontinued operations	29.4	4.6	24.8	537.5%
Profit attributable to owners of parent	56.3	47.4	8.9	18.8%

For the nine months ended September 30, 2019 (January 1, 2019 to September 30, 2019), revenue was ¥225.5 billion (up 14.0% compared to the same period of the previous fiscal year), core operating profit was ¥45.8 billion (up 15.8%), and profit attributable to owners of parent was ¥56.3 billion (up 18.8%).

- The increase in revenue was partly the result of growth in Asia in addition to the steady penetration of the market by new products launched in Europe, the U.S. and Japan last year. The increase in core operating profit was partly the result of an increase in revenue of global strategic products, which were launched in Europe and the U.S. last year, despite increases in selling, general and administrative expenses and research and development expenses.
- The increase in profit attributable to owners of parent was owing to an increase in profit from discontinued operations due to recording of a gain on sale of investments in subsidiaries associated with the transfer of Kyowa Hakko Bio Co., Ltd. shares, despite a decrease in profit from continuing operations resulting from the impairment losses and business restructuring expenses recorded in

the period under review, while there were a gain on sale of investments in subsidiaries associated with the transfer of Kyowa Medex Co., Ltd. (currently Hitachi Chemical Diagnostics Systems Co., Ltd.) shares and a reversal of impairment losses recorded in the same period of the previous fiscal year.

2) Revenue by geographic region

(Billions of yen)

	Nine months ended September 30, 2019	Percentage of consolidated revenue (%)	Nine months ended September 30, 2018	Percentage of consolidated revenue (%)	Year-on-year change
Japan	140.6	62.4%	135.1	68.3%	5.5
International	84.9	37.6%	62.7	31.7%	22.2
Americas	32.8	14.5%	14.6	7.4%	18.2
Europe	31.7	14.1%	31.8	16.1%	(0.1)
Asia	20.3	9.0%	16.2	8.2%	4.2
Others	0.1	0.0%	0.1	0.1%	(0.1)
Total consolidated revenue	225.5	100.0%	197.7	100.0%	27.7

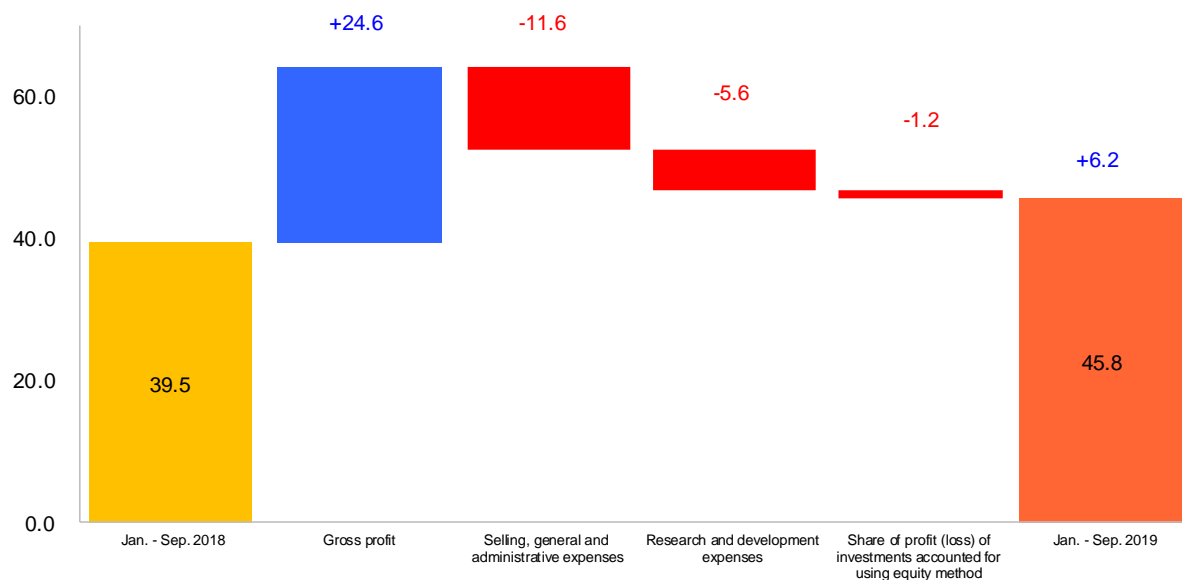
Note: Revenue is classified by region or country based on location of customer.

- Revenue in Japan increased from the same period of the previous fiscal year due mainly to the growth in sale of new products, despite various factors including the reduction in drug price standards implemented in April last year, the impacts of generics and rival products, as well as the impact of switching to Darbepoetin Alfa Injection Syringe [KKF], an authorized generic of NESP[®], a renal anemia treatment drug, following that drug's launch.
 - Revenue of core product NESP[®], a renal anemia treatment drug, was down from the same period of the previous fiscal year because of the aforementioned reason but Darbepoetin Alfa Injection Syringe [KKF], launched in August this year, has begun to steadily achieve market penetration.
 - Revenue from long term NHI products such as ALLELOCK[®], an anti-allergy agent, CONIEL[®], a hypertension and angina pectoris drug, and Depakene[®], an anti-epileptic drug, decreased compared to the same period of the previous fiscal year due mainly to the impact of the market penetration of generics.
 - Revenue from REGPARA[®], a treatment for secondary hyperparathyroidism, decreased due mainly to the impact of rival products, while revenue from new product ORKEDIA[®], a treatment for secondary hyperparathyroidism, which was launched in May last year, increased.
 - Firm growth in revenue was also realized for G-Lasta[®], an agent for decreasing the incidence of febrile neutropenia, Dovobet[®], a topical combination drug for psoriasis vulgaris, ROMIPLATE[®], a treatment for chronic idiopathic thrombocytopenic purpura, NOURIAST[®], an antiparkinsonian agent, and LUMICEF[®], a treatment for psoriasis, among others.
 - Rituximab BS [KHK], an anticancer agent, launched in January last year, has achieved market penetration and sales growth as planned.
- Revenue from international business increased year on year due to the steady growth of new products that were launched globally last year.
 - In the Americas and Europe, Crysvida[®], a treatment for X-linked hypophosphatemia whose sales commenced in the U.S. and Europe in April last year, continued to perform solidly, and the number of patients receiving the drug grew steadily. Furthermore, POTELIGEO[®], an anticancer agent which was launched in the U.S. in October last year, has also been penetrating the market favorably.
 - Revenue from Asia increased from the same period of the previous fiscal year, due to the growth of REGPARA[®] for the treatment of secondary hyperparathyroidism particularly in China as well as the start of sales of Neulasta (product name in Japan: G-Lasta[®]), an agent for decreasing the incidence of febrile neutropenia, and other products, from January this year in the Middle East.

- Licensing revenue decreased from the same period of the previous fiscal year as an increase in royalties revenue from AstraZeneca in relation to benralizumab was outweighed by a decline in milestone revenue for the same drug.

3) Core operating profit

Billions of yen



- Core operating profit increased from the same period of the previous fiscal year, mainly due to a large increase in gross profit due to strong sales of global strategic products, namely Crysvida[®], a treatment for X-linked hypophosphatemia, and POTELIGEO[®], an anticancer agent, whose sales were launched in Europe and the U.S. last year, despite increases in selling, general and administrative expenses accompanying the launch of those global strategic products as well as in research and development expenses.

(2) Summary of Consolidated Financial Position

(Billions of yen)

	As of September 30, 2019	As of December 31, 2018	Change
Assets	749.7	742.0	7.7
Non-current assets	317.9	356.1	(38.2)
Current assets	431.8	385.8	45.9
Liabilities	90.2	92.4	(2.1)
Equity	659.5	649.6	9.9
Ratio of equity attributable to owners of parent to total assets (%)	88.0%	87.6%	0.4%

- Assets as of September 30, 2019, were ¥749.7 billion, an increase of ¥7.7 billion compared to the end of the previous fiscal year.
 - Non-current assets declined from the end of the previous fiscal year by ¥38.2 billion to ¥317.9 billion, due mainly to Kyowa Hakko Bio Co., Ltd. and its subsidiaries being excluded from the scope of consolidation, despite an increase in property, plant and equipment resulting from the application of IFRS 16 “Leases,” etc.
 - Current assets increased from the end of the previous fiscal year by ¥45.9 billion to ¥431.8 billion due mainly to an increase in loans receivable from parent as fund management, etc. resulting from

the transfer proceeds, etc. of Kyowa Hakko Bio Co., Ltd. despite a decrease due to Kyowa Hakko Bio Co., Ltd. and its subsidiaries being excluded from the scope of consolidation.

- Liabilities as of September 30, 2019, were ¥90.2 billion, a decrease of ¥2.1 billion compared to the end of the previous fiscal year, due mainly to Kyowa Hakko Bio Co., Ltd. and its subsidiaries being excluded from the scope of consolidation, despite an increase in other financial liabilities resulting from the application of IFRS 16 “Leases,” etc.
- Equity as of September 30, 2019, was ¥659.5 billion, an increase of ¥9.9 billion compared to the end of the previous fiscal year, due mainly to an increase resulting from the recording of profit attributable to owners of parent, despite a decrease due to a payment of dividends as well as implementation of shareholder return measures such as repurchase and cancellation of treasury shares, etc.

As a result, the ratio of equity attributable to owners of parent to total assets as of the end of the third quarter was 88.0%, an increase of 0.4 percentage points compared to the end of the previous fiscal year.

(3) Summary of Consolidated Cash Flows

(Billions of yen)

	Nine months ended September 30, 2019	Nine months ended September 30, 2018	Year-on-year change	Year-on-year (%)
Net cash provided by (used in) operating activities	38.6	46.4	(7.8)	(16.8)%
Net cash provided by (used in) investing activities	4.1	(30.8)	35.0	–
Net cash provided by (used in) financing activities	(46.6)	(16.5)	(30.1)	182.8%
Cash and cash equivalents at beginning of period	15.9	14.7	1.2	8.0%
Cash and cash equivalents at end of period	12.1	14.5	(2.4)	(16.6)%

Cash and cash equivalents as of September 30, 2019, were ¥12.1 billion, a decrease of ¥3.8 billion compared with the balance of ¥15.9 billion as of December 31, 2018.

The main contributing factors affecting cash flow during the nine months ended September 30, 2019 were as follows:

- Net cash provided by operating activities was ¥38.6 billion (down 16.8% compared to the same period of the previous fiscal year). Major inflows included profit before tax from continuing operations of ¥33.5 billion and depreciation and amortization of ¥14.5 billion. Major outflows included income taxes paid of ¥21.8 billion.
- Net cash provided by investing activities was ¥4.1 billion (¥30.8 billion was used in the same period of the previous fiscal year). Major inflows included proceeds from sale of investments in subsidiaries associated with the transfer of Kyowa Hakko Bio Co., Ltd. shares of ¥105.1 billion (included in net cash provided by investing activities from discontinued operations) and the collection of loans receivable of ¥24.3 billion. Major outflows included ¥102.1 billion for a net increase in loans receivable from parent.
- Net cash used in financing activities was ¥46.6 billion (up 182.8% compared to the same period of the previous fiscal year). The main outflows included ¥22.6 billion for purchase of treasury shares and dividends paid of ¥21.7 billion.

(4) Research and Development Activities

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.

For the nine months ended September 30, 2019, the Group's research and development expenses totaled ¥37.9 billion, and the development statuses of our main late-stage development products are as follows.

Nephrology

- In Japan, we applied for a partial change approval in April regarding treatment, dosage and administration for calcimimetic KHK7580 (product name in Japan: ORKEDIA®) targeting hypercalcemia in patients with parathyroid carcinoma and patients with primary hyperparathyroidism who are unable to undergo parathyroidectomy or relapse after parathyroidectomy. In China, South Korea, etc., in May we started a phase III clinical study targeting secondary hyperparathyroidism.
- In Japan, we are implementing a phase III clinical study for RTA 402 (generic name: bardoxolone methyl) targeting diabetic kidney disease.
- In China, in February we reapplied for approval of indication for KRN321 (product name in Japan: NESP®), a long-acting erythropoiesis stimulating agent for the treatment of renal anemia in maintenance dialysis patients.
- In Japan, in February we started a phase II clinical study for NHE 3 inhibitor KHK7791 (generic name: Tenapanor) targeting hyperphosphatemia in maintenance dialysis patients.

Oncology

- In Japan, we started a phase II clinical study in June targeting mobilization of hematopoietic stem cells into peripheral blood for the long-acting granulocyte-colony stimulating factor KRN125 (product name in Japan: G-Lasta®).

Immunology and allergy

- 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®). Also, we have applied for approval of its indication for treatment of psoriasis in South Korea (application filed in July 2018). Additionally, in April we applied for approval of its indication for treatment of psoriasis in China. Furthermore, in Japan, we started a phase III clinical study targeting systemic sclerosis in May, and we started a phase III clinical study targeting palmoplantar pustulosis in August.
- In Japan, the U.S., Canada and Europe, we are currently conducting a phase II clinical study for the anti-OX40 fully human antibody KHK4083 targeting atopic dermatitis.

CNS

- For adenosine A_{2A} receptor antagonist KW-6002 (product name in U.S.: NOURIANZ™; product name in Japan: NOURIAST®), we obtained approval of its indication for combination therapy with levodopa/carbidopa for adult patients with Parkinson's disease experiencing "off" episodes in the U.S. in August.
- 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®).
- In Japan, we are currently conducting a phase II clinical study targeting Parkinson's disease for adenosine A_{2A} receptor antagonist KW-6356.

Other

- For the human monoclonal anti-Fibroblast Growth Factor 23 (FGF23) antibody KRN23 (product name in Japan, U.S. and Europe: Crysvida®), we obtained approval of its indication for treatment of FGF23-related hypophosphatemic rickets and osteomalacia in Japan in September. Additionally, we applied for approval of its indication for treatment of FGF23-related hypophosphatemic rickets and osteomalacia in South Korea in May, and we applied for approval of its indication for treatment of X-

linked hypophosphatemia in China in June. 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 received approval of its indication for treatment of aplastic anemia, which so far has not been effectively treated, in Japan in June. Additionally, we began conducting phase II/III clinical studies targeting aplastic anemia, which has not been treated with immunosuppressive drugs, in an international joint clinical trial that includes Japan in June.

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

No revisions have been made to the consolidated earnings forecasts announced on February 5, 2019.

2. Condensed Quarterly Consolidated Financial Statements and Significant Notes Thereto
(1) Condensed Quarterly Consolidated Statement of Financial Position

(Millions of yen)

	As of September 30, 2019	As of December 31, 2018
Assets		
Non-current assets		
Property, plant and equipment	74,175	103,153
Goodwill	130,983	140,061
Intangible assets	59,415	58,234
Investments accounted for using equity method	8,643	8,887
Other financial assets	18,869	15,452
Retirement benefit asset	6,948	7,846
Deferred tax assets	18,158	21,543
Other non-current assets	745	963
Total non-current assets	317,935	356,138
Current assets		
Inventories	45,830	77,221
Trade and other receivables	83,850	104,443
Loans receivable from parent	283,400	181,300
Other financial assets	1,713	736
Other current assets	4,939	6,277
Cash and cash equivalents	12,055	15,867
Total current assets	431,786	385,844
Total assets	749,721	741,982

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

	As of September 30, 2019	As of December 31, 2018
Equity		
Share capital	26,745	26,745
Capital surplus	463,893	509,161
Treasury shares	(3,788)	(26,705)
Retained earnings	186,070	151,760
Other components of equity	(13,418)	(11,341)
Total equity attributable to owners of parent	659,501	649,621
Total equity	659,501	649,621
Liabilities		
Non-current liabilities		
Retirement benefit liability	427	511
Provisions	1,633	3,419
Deferred tax liabilities	40	181
Other financial liabilities	15,553	2,377
Other non-current liabilities	1,284	5,414
Total non-current liabilities	18,936	11,902
Current liabilities		
Trade and other payables	43,082	49,400
Other financial liabilities	2,666	2,209
Income taxes payable	11,177	10,562
Other current liabilities	14,359	18,289
Total current liabilities	71,284	80,459
Total liabilities	90,220	92,362
Total equity and liabilities	749,721	741,982

(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, 2019 to September 30, 2019	January 1, 2018 to September 30, 2018
Continuing operations		
Revenue	225,457	197,721
Cost of sales	(57,087)	(53,936)
Gross profit	168,370	143,785
Selling, general and administrative expenses	(83,888)	(72,300)
Research and development expenses	(37,862)	(32,250)
Share of profit (loss) of investments accounted for using equity method	(868)	289
Other income	315	18,283
Other expenses	(12,342)	(436)
Finance income	721	535
Finance costs	(996)	(1,025)
Profit before tax	33,450	56,881
Income tax expense	(6,542)	(14,078)
Profit from continuing operations	26,908	42,803
Discontinued operations		
Profit from discontinued operations	29,410	4,614
Profit	56,318	47,417
Profit attributable to		
Owners of parent	56,318	47,417
Earnings per share		
Basic earnings per share (Yen)	104.48	86.62
Continuing operations	49.92	78.19
Discontinued operations	54.56	8.43
Diluted earnings per share (Yen)	104.39	86.53
Continuing operations	49.88	78.11
Discontinued operations	54.51	8.42

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

	January 1, 2019 to September 30, 2019	January 1, 2018 to September 30, 2018
Profit	56,318	47,417
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Financial assets measured at fair value through other comprehensive income	99	778
Remeasurements of defined benefit plans	–	(561)
Share of other comprehensive income of investments accounted for using equity method	(42)	(5)
Total of items that will not be reclassified to profit or loss	57	212
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	(1,859)	(1,428)
Share of other comprehensive income of investments accounted for using equity method	(56)	5
Total of items that may be reclassified to profit or loss	(1,915)	(1,423)
Other comprehensive income	(1,857)	(1,211)
Comprehensive income	54,461	46,205
Comprehensive income attributable to		
Owners of parent	54,461	46,205

(3) Condensed Quarterly Consolidated Statement of Changes in Equity

January 1, 2019 to September 30, 2019

(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, 2019	26,745	509,161	(26,705)	151,760	787	(16,402)
Changes in accounting policies	–	–	–	(454)	–	–
Balance after restatement	26,745	509,161	(26,705)	151,306	787	(16,402)
Profit	–	–	–	56,318	–	–
Other comprehensive income	–	–	–	–	–	(1,915)
Total comprehensive income	–	–	–	56,318	–	(1,915)
Dividends of surplus	–	–	–	(21,688)	–	–
Purchase of treasury shares	–	–	(22,597)	–	–	–
Disposal of treasury shares	–	(17)	263	–	–	–
Cancellation of treasury shares	–	(45,251)	45,251	–	–	–
Share-based remuneration transactions	–	–	–	–	(86)	–
Transfer from other components of equity to retained earnings	–	–	–	134	–	–
Total transactions with owners	–	(45,269)	22,917	(21,553)	(86)	–
Balance at September 30, 2019	26,745	463,893	(3,788)	186,070	700	(18,316)

	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, 2019	4,275	–	(11,341)	649,621	649,621	
Changes in accounting policies	–	–	–	(454)	(454)	
Balance after restatement	4,275	–	(11,341)	649,166	649,166	
Profit	–	–	–	56,318	56,318	
Other comprehensive income	99	(42)	(1,857)	(1,857)	(1,857)	
Total comprehensive income	99	(42)	(1,857)	54,461	54,461	
Dividends of surplus	–	–	–	(21,688)	(21,688)	
Purchase of treasury shares	–	–	–	(22,597)	(22,597)	
Disposal of treasury shares	–	–	–	246	246	
Cancellation of treasury shares	–	–	–	–	–	
Share-based remuneration transactions	–	–	(86)	(86)	(86)	
Transfer from other components of equity to retained earnings	(176)	42	(134)	–	–	
Total transactions with owners	(176)	42	(221)	(44,126)	(44,126)	
Balance at September 30, 2019	4,198	–	(13,418)	659,501	659,501	

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

January 1, 2018 to September 30, 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	–	–	–	47,417	–	–
Other comprehensive income	–	–	–	–	–	(1,423)
Total comprehensive income	–	–	–	47,417	–	(1,423)
Dividends of surplus	–	–	–	(16,148)	–	–
Purchase of treasury shares	–	–	(10)	–	–	–
Disposal of treasury shares	–	16	129	–	–	–
Share-based remuneration transactions	–	–	–	–	31	–
Transfer from other components of equity to retained earnings	–	–	–	(551)	–	–
Total transactions with owners	–	16	119	(16,698)	31	–
Balance at September 30, 2018	26,745	509,161	(26,701)	144,222	729	(12,408)

	Equity attributable to owners of parent					Total equity
	Other components of equity				Total	
	Financial assets measured at fair value through other comprehensive income	Remeasurements of defined benefit plans	Total			
Balance at January 1, 2018	3,741	–	(6,546)	616,028	616,028	
Profit	–	–	–	47,417	47,417	
Other comprehensive income	778	(566)	(1,211)	(1,211)	(1,211)	
Total comprehensive income	778	(566)	(1,211)	46,205	46,205	
Dividends of surplus	–	–	–	(16,148)	(16,148)	
Purchase of treasury shares	–	–	–	(10)	(10)	
Disposal of treasury shares	–	–	–	145	145	
Share-based remuneration transactions	–	–	31	31	31	
Transfer from other components of equity to retained earnings	(15)	566	551	–	–	
Total transactions with owners	(15)	566	582	(15,982)	(15,982)	
Balance at September 30, 2018	4,504	–	(7,176)	646,252	646,252	

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

	January 1, 2019 to September 30, 2019	January 1, 2018 to September 30, 2018
Cash flows from operating activities		
Profit before tax from continuing operations	33,450	56,881
Depreciation and amortization	14,516	11,667
Impairment losses (reversal of impairment losses)	6,067	(3,231)
Share of loss (profit) of investments accounted for using equity method	868	(289)
Gain on sale of investments in subsidiaries	–	(10,968)
Decrease (increase) in inventories	(6,531)	(3,878)
Decrease (increase) in trade receivables	2,716	5,200
Increase (decrease) in trade payables	1,604	1,444
Income taxes paid	(21,817)	(8,366)
Other	1,427	(5,582)
Net cash provided by (used in) operating activities from discontinued operations	6,297	3,496
Net cash provided by (used in) operating activities	38,598	46,373
Cash flows from investing activities		
Purchase of property, plant and equipment	(5,869)	(2,812)
Proceeds from sale of property, plant and equipment	20	6,230
Purchase of intangible assets	(13,218)	(6,282)
Purchase of investments accounted for using equity method	(1,000)	(1,000)
Proceeds from sale of investments in subsidiaries resulting in change in scope of consolidation	–	9,087
Collection of loans receivable	24,288	5,800
Net decrease (increase) in loans receivable from parent	(102,100)	(36,441)
Other	(1,191)	(279)
Net cash provided by (used in) investing activities from discontinued operations	103,200	(5,152)
Net cash provided by (used in) investing activities	4,131	(30,849)
Cash flows from financing activities		
Repayments of lease liabilities	(2,284)	–
Purchase of treasury shares	(22,597)	(10)
Dividends paid	(21,688)	(16,148)
Other	(8)	(162)
Net cash provided by (used in) financing activities from discontinued operations	(19)	(157)
Net cash provided by (used in) financing activities	(46,596)	(16,477)
Effect of exchange rate changes on cash and cash equivalents	56	(350)
Net increase (decrease) in cash and cash equivalents	(3,812)	(1,303)
Cash and cash equivalents at beginning of period (Amount on the consolidated statement of financial position)	15,867	14,685
Reversing from assets held for sale	–	1,074
Cash and cash equivalents at beginning of period	15,867	15,759
Cash and cash equivalents at end of period	12,055	14,456

(5) Notes to Condensed Quarterly Consolidated Financial StatementsNotes on going concern assumption

No applicable items.

Significant accounting policies

Significant accounting policies applied in these condensed quarterly consolidated financial statements are the same as those applied in the consolidated financial statements for the previous fiscal year, except for the application of IFRS 16 “Leases” and the segregation of discontinued operations as mentioned below.

Income tax expense for the nine months ended September 30, 2019, was calculated based on the estimated annual effective tax rate.

Application of IFRS 16 “Leases”

The Group has applied IFRS 16 “Leases” (“IFRS 16”) from the first quarter of fiscal 2019.

(1) Policies applied from the date of initial application

At inception of a contract, the Group determines whether the contract is, or contains, a lease. The lease liabilities for leases are measured at the present value of the remaining of total lease payments at the commencement date of lease, discounted using the lessee’s incremental borrowing rate. The cost of the right-of-use asset is initially measured at the amount of the initial measurement of lease liabilities, adjusted by any initial direct costs and any lease incentives received plus costs such as restoration obligation required under the contract. The Group depreciates the right-of-use asset from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term on a straight-line basis. In measuring lease liabilities, the Group has elected not to separate a lease component and a related non-lease component, and to recognize them as a single lease component.

The Group presents in the consolidated statement of financial position, right-of-use assets in “property, plant and equipment” and lease liabilities in “other financial liabilities.”

The Group has elected not to recognize right-of-use assets and lease liabilities in accordance with the recognition exemption provisions in IFRS 16 for short-term leases for which the lease term ends within 12 months and low-value leases. The Group recognizes the lease payments associated with those leases as an expense on a straight-line basis over the lease term.

(2) Impact of application of IFRS 16

The Group has retrospectively applied IFRS 16 to its leases using the modified retrospective approach and recognized the cumulative effect of initially applying the standard as the adjustment of the beginning balance of retained earnings for the first quarter of fiscal 2019. In the transition to IFRS 16, the Group chose the practical expedient mentioned in IFRS 16 to reassess whether a contract is, or contains, a lease, and continues the determination under IAS 17 “Leases” (“IAS 17”) and IFRIC 4 “Determining whether an Arrangement contains a Lease.” The definition of a lease under IFRS 16 is applied only to contracts entered into or changed on or after the date of initial application.

At the date of initial application of IFRS 16, the Group recognized right-of-use assets and lease liabilities for leases previously classified as operating leases applying IAS 17. The lease liabilities were measured at the present value of the remaining lease payments as of the date of initial application, discounted using the lessee’s incremental borrowing rate at the date of initial application. The right-of-use assets were measured by either of the following methods, applying the first one for leases of significant importance in terms of value and the second one for other leases.

- Measure the value at the amount after depreciation until the date of initial application, of the present value of the remaining of total lease payments at the commencement date of lease, discounted using the lessee's incremental borrowing rate at the date of initial application, adjusted by prepaid lease payments and others
- Measure the value at the measurement of lease liabilities at the date of initial application, adjusted by prepaid lease payments and others

Right-of-use assets and lease liabilities for leases classified as finance leases applying IAS 17 were measured at the carrying amounts of leased assets and lease liabilities at the end of the previous fiscal year.

The weighted average of the lessee's incremental borrowing rate applied to the lease liabilities recognized in the consolidated statement of financial position at the date of initial application was 1.1 percent.

Furthermore, the Group uses the following practical expedients in the application of IFRS 16.

- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Account for leases for which the lease term ends within 12 months of the date of initial application in the same way as short-term leases

The conciliation between the operating lease contracts disclosed at the end of the previous fiscal year applying IAS 17 and the lease liabilities recognized in the consolidated statement of financial position at the date of initial application is as follows:

Operating lease contracts disclosed at end of the previous fiscal year	16,242
Amount discounted using incremental borrowing rate at the date of initial application	13,748
Finance lease liabilities recognized at end of the previous fiscal year	1,525
Present discounted value of cancelable operating lease contracts	2,770
Recognition exemption rules	
Short-term leases	(36)
Leases of low-value assets	(48)
Lease liabilities at the date of initial application	17,958

By applying IFRS 16, compared with the case that the previous standard was applied, right-of-use assets at the beginning of the first quarter of fiscal 2019, were up ¥15,085 million, lease liabilities were up ¥16,433 million, and retained earnings were down ¥454 million.

Discontinued operations

A discontinued operation is recognized if the operation includes a component of an entity that either has been disposed of or is classified as held for sale, represents a separate line of business of the Group or geographical area of operations, and is part of a plan to dispose of a separate line of business of the Group or geographical area of operations.

Segment information

Outline of reportable segments

The Group's reportable 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.

Although the Group previously had two reportable segments comprising the Pharmaceuticals business and the Bio-Chemicals business, effective from the first quarter of fiscal 2019, the Group has only the one reportable segment, which is the Pharmaceuticals business.

This change is the outcome of the Company entering into an agreement on February 5, 2019 to transfer 95% of the shares of Kyowa Hakko Bio Co., Ltd. to Kirin Holdings Company, Limited as of April 24, 2019. As a result, the Bio-Chemicals business is categorized as a discontinued operation.