Consolidated Financial Results for FY2013 (IFRS)

25 June 2014

Company name:	Sosei Group Corporation	Listing: Tokyo Stock Exchange
Security code:	4565	URL http://www.sosei.com/
Representative:	Shinichi Tamura Representative Executive Officer, CEO	
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Date of general shareholders' meeting: 18 June 2014 Scheduled date of dividend payments: —

Scheduled date of security report filing: 25 June 2014
Supplementary materials for financial results: No
Financial results briefing session: No

(Rounded down to nearest million yen)

1. Consolidated results for the FY2013 (from 1 April 2013 to 31 March 2014)

(1) Consolidated operating results (Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net income before income taxes		Net income		Net income attributable to owners of the parent company		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2013	2,069	5.7	756	(11.4)	737	(22.8)	1,526	60.9	1,526	60.9	1,685	60.7
FY2012	1,958	—	853	—	956	—	948	—	948	—	1,049	—

	Net income per share – basic	Net income per share – diluted	Ratio of net income to equity attributable to owners of the parent company	Ratio of net income before income taxes to total assets	Ratio of operating income to revenue
	Yen	Yen	%	%	%
FY2013	126.65	124.89	13.7	6.4	36.5
FY2012	79.97	79.17	12.9	11.9	43.6

(Reference) Investment income under equity method: - million yen for FY2013; and - million yen for FY2012

On 1 April 2013, the Group made a 100-for-1 stock split for its common shares. The number of common shares issued for the prior financial years was calculated assuming the stock split had taken place at the beginning of the relevant financial year.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets	Equity per share attributable to owners of the parent company
	Million yen	Million yen	Million yen	%	Yen
As of 31 March 2014	14,582	14,354	14,354	98.4	1,044.06
As of 31 March 2013	8,615	7,947	7,947	92.3	666.67

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at the end of year
	Million yen	Million yen	Million yen	Million yen
FY2013	363	(315)	4,375	7,214
FY2012	985	(185)	90	2,537

2. Dividends

	Dividends per share					Total amount of dividends	Dividend payout ratio (consolidated)	Ratio of dividend to equity attributable to owners of the parent company (consolidated)
	End Q1	End Q2	End Q3	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2012	—	0.00	—	0.00	0.00	—	—	—
FY2013	—	0.00	—	0.00	0.00	—	—	—
FY2014 (E)	—	0.00	—	0.00	0.00		—	

3. Forecast for the FY2014 (from 1 April 2014 to 31 March 2015)

(Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net income before income taxes		Net income attributable to owners of the parent company		Ratio of net income to equity attributable to owners of the parent company
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2014	3,300	59.4	2,000	164.4	2,000	171.1	2,000	31.0	145.46

* Notes

(1) Changes in the number of significant subsidiaries during the financial year (changes of specified subsidiaries affecting the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and restatements

1) Changes in accounting policies required by IFRS: None

2) Changes due to changes in accounting policies other than those of item 1: None

3) Changes in accounting estimates: None

(3) Number of common shares issued

1) Number of shares issued at financial year end (including treasury shares)	FY2013	13,749,200 shares	FY2012	11,921,900 shares
2) Number of treasury shares at financial year end	FY2013	－ shares	FY2012	－ shares
3) Average number of shares issued during financial year	FY2013	12,050,163 shares	FY2012	11,860,355 shares

On 1 April 2013, the Group made a 100-for-1 stock split for its common shares. The number of common shares issued for the prior financial years was calculated assuming the stock split had taken place at the beginning of the relevant financial year.

* Implementation status of financial audit

The audit procedures of the financial statements (announced in Security Report on 25 June 2014) pursuant to the Financial Instruments and Exchange Law have been completed.

* Explanation regarding the appropriate use of forecasts of business results and other points to be noted

The financial forecast is based on judgments and estimates that have been prepared on the basis of information available as of the time of disclosure of this material and assumptions about uncertainties that could affect the forecasts of business results made as of the time of disclosure of this material. The actual business results may differ materially from the forecasts due to various factors in the future.

○ Contents of Attached Materials

1. Analysis of Operating Results and Financial Position

(1) Analysis of operating results

(Current term operating results)

In this financial year, significant milestones such as the launch of QVA149 (product name "Ultibro® Breezhaler® (EU)/ Ultibro® Inhalation Capsules (Japan)")* by our licensing partner, Novartis International AG ("Novartis"), a marketing agreement for oropharyngeal candidiasis treatment SO-1105, and the progress of two Activus' compounds into pre-clinical development, were achieved.

The Group sold the marketing rights for NorLevo® 0.75 mg to ASKA Pharmaceutical Co., Ltd. to make more efficient use of its internal resources. Based on this agreement, Sosei Co. Ltd. will receive consideration from ASKA Pharmaceutical Co., Ltd. until 2020, based on sales of NorLevo®.

With regard to its sales, the Group posted milestones and royalties from Ultibro®, royalties from Seebri®, and sales from NorLevo®.

The operating results for the current consolidated financial year are as shown in the table below.

Consolidated operating results

(millions of yen)

	FY2012	FY2013	Growth vs. PY
Revenue	1,958	2,069	110
Gross profit	1,633	1,818	185
Operating income (loss)	853	756	(97)
Net income (loss)	948	1,526	577

(Revenue and gross profit)

Revenue for this financial year totaled 2,069 million yen, an increase of 5.7% compared to the previous financial year. This was mainly due to milestones for Ultibro® triggered by regulatory approvals granted in the EU and Japan, royalties from Seebri® and Ultibro®, and revenue from NorLevo®.

(Operating income)

Operating income in this financial year totaled 756 million yen. The change from the previous financial year is primarily due to increased selling, general and administrative expenses. The breakdown of selling, general and administrative expenses is shown in the table below ("Breakdown of selling, general and administrative expenses").

(Net income)

Net income totaled 1,526 million yen. This was mainly due to Sosei R&D recognizing deferred tax income of 807 million yen. This accounting treatment was possible starting this consolidated financial year as stable revenue from royalties from Seebri® and Ultibro® became certain.

Breakdown of selling, general and administrative expenses

(millions of yen)

	FY2012	FY2013	Changes vs. PY
Research and development expenses	228	305	76
Selling, general and administrative expenses:	606	882	275
Personnel expenses	365	364	(1)
Outsourcing expenses	96	333	237
Other	144	183	39

* *Ultibro® Breezhaler® (EU) / Ultibro® Inhalation Capsules (Japan) and Seebri® Breezhaler® 50mcg (EU) /Seebri® Inhalation Capsules 50 mcg (Japan) are the registered trademarks of Novartis AG ("Novartis").*

(Research and development expenses; selling, general and administrative expenses)

R&D expenses during the current financial year increased 76 million yen from the previous financial year, and totaled 305 million yen due to increased research expenses for nanoparticle technology. Selling, general and administrative expenses increased by 275 million yen from the previous financial year, and totaled 882 million yen. This was due to outsourcing expenses, including new business start-up cost, patent maintenance fees, and consulting fees relating to the adoption of IFRS.

Operating results by business segment are as follows.

(Domestic pharmaceutical business)

Revenue in the domestic pharmaceutical business segment amounted to 502 million yen, and operating loss totaled 114 million yen. The change from the previous financial year was due to increase of R&D subsidy and subsidy income.

Progress with the main products under development for the domestic pharmaceutical business is as follows.

■SO-1105 *Oropharyngeal Candidiasis: Phase III ongoing*

SO-1105 is an antifungal agent, administered as a muco-adhesive buccal tablet for the treatment of oropharyngeal candidiasis in immunocompromised patients. Oropharyngeal candidiasis is an inflammatory mucous membrane disease afflicting the oral cavity and pharynx. It is caused by infection due mainly to a fungus known as *Candida albicans,* and it is commonly found in patients suffering from chronic diseases such as diabetes and immunocompromised patients such as those suffering from HIV infection. This drug was originally developed by BioAlliance Pharma of France, and it has been approved for marketing in 24 European countries, the U.S., and Korea since first obtaining approval in October 2006 in France. The Group believes that this product can also contribute to patient compliance in Japan and thus obtained the exclusive development and marketing rights for SO-1105 in Japan from BioAlliance in May 2011.

Presently, Phase III clinical trials for efficacy and safety of this product are in progress.

In February 2014, the Group signed an exclusive domestic commercialization agreement with FUJIFILM Pharma Co., Ltd.

■APNT (Activus Pure Nanoparticle Technology): *Nanoparticle technology*

APNT is the technology differentiable from existing technology in that it enables pulverizing poorly soluble compounds to nano-sized crystal particles ranging from the 50-nm level to the 200-nm level while minimizing contamination. Making use of this feature, APNT demonstrates advantages in applications related to injections, ophthalmic solutions, and inhalations with poorly soluble compounds, which have been very difficult to achieve to date. Since 2013, basic patents have been granted in Japan and overseas, and the Group intends to further strengthen technology platforms in order to obtain patents for individual products. In addition to state support from the New Energy and Industrial Technology Organization (NEDO), the Group collaborates with TOA Pharmaceuticals Co., Ltd., a company that has much experience and expertise in the manufacturing and sale of pharmaceutical products, and its subsidiary Nitto Medic Co., Ltd., in order to commercialize this technology to make drugs available to patients.

In February 2014, the Group announced the initiation of pre-clinical trials for two candidates for development with APNT applications (APP13002 and APP13007). These two candidates are poorly soluble and the Group believes its nanoparticle technology will enable formulations free of solubilization agents. Also, based on the re-profiling model, the candidates' active ingredients are pharmaceutical compounds with more than 10 years of proven clinical use, which helps reduce development risk.

Details regarding these candidates are as follows.

・APP13002 *Infectious Eye Diseases: Pre-clinical trial*

APP13002 is a new product for infectious eye diseases such as cornea and conjunctivitis. The Group strategically intends to develop the product for the domestic market. Presently, the domestic market for infectious eye diseases as a whole is estimated at 20 billion yen.

・APP13007 *Inflammatory Eye Diseases: Pre-clinical trial*

APP13007 is an ophthalmic solution for inflammatory eye diseases caused by various factors such as inflammations after cataract or Lasik eye surgery, allergic inflammations or inflammations caused by improper use of contact lenses etc. The Group plans to conduct the trials outside of Japan. Inflammatory eye diseases world-wide market as a whole is estimated at 70 billion yen.

In addition to the two products mentioned above, the Group continues research and development regarding new drugs for posterior segment disorders, and, in particular, retinal diseases such as diabetic retinopathy and age-related macular degeneration. The Group intends to conduct further research to establish intellectual property rights while optimizing formulations to achieve high efficacy. According to the Japan Ophthalmologists Association, there are currently 1.67 million visually impaired patients in Japan, and the resulting social costs are estimated at 8,800 billion yen. Two posterior segment disorders, namely diabetic retinopathy and age-related maculopathy, account for more than 30 percent of diseases that cause vision impairment. The Group believes that the establishment of this technology will enable the development of groundbreaking ophthalmic solutions, and this will make highly useful drugs available and contribute significantly to reducing the number of visually impaired people.

While being mindful of the efficient use of funds based on collaboration with peer companies, the Group continues its drive to secure manufacturing facilities and equipment and enable progress in R&D. It also works to make further progress with projects other than those mentioned above and further enhancement of technology platform related to nanoparticles and formulations.

■Regenerative-medicine-related business

RMF1 (regenerative medicine fund)

In June 2013, the Group founded Sosei Corporate Venture Capital (hereinafter "Sosei CVC") with the aim of managing a regenerative medicine fund (Sosei RMF1; hereinafter "RMF1") to support pharmaceutical venture companies engaging in regenerative-medicine-related R&D in Japan (such as tissue engineering and cell regeneration medicine, and development of related equipment).

Sosei CVC is an general partner of RMF1 and is currently in negotiation with limited partner candidates that include financial institutions and corporations. The fund aims to raise 2 billion yen during its first round of fundraising. SMBC Venture Capital Co., Ltd., a group company of Sumitomo Mitsui Banking Corporation, has agreed to invest in the fund. The Group plans to invest 200 million yen in the fund.

Regenerative medicine is a growth domain with promising technologies originating in Japan. The management of RMF1 is in line with the Group’s fundamental strategy of searching for new seeds using limited resources.

(Overseas pharmaceutical business)

The revenue of the overseas pharmaceutical business segment totaled 1,566 million yen. The difference from the previous financial year was attributable primarily to exchange rate differences when converting foreign-currency-denominated milestone income, and differences in royalty income. The segment generated operating income of 973 million yen.

Progress made in the development of major products relating to overseas pharmaceutical business is set out below.

■NVA237 *COPD:* *Launched in the EU, Japan, etc. ; Phase III in the US*
Asthma: *Phase III*

NVA237 (glycopyrronium bromide; brand names: Seebri® Breezhaler® (EU), Seebri® Inhalation Capsules 50mcg (Japan); “Seebri”), is a novel, once-daily inhaled long-acting muscarinic antagonist (LAMA) indicated as a maintenance bronchodilator treatment to relieve symptoms in patients with COPD that was exclusively licensed to Novartis in April 2005 by Sosei and its co-development partner Vectura. Seebri is approved in over 60 countries across Europe, Japan, Canada, Australia, Latin America, Asia, and the Middle East and has been launched in Germany, Japan and other major markets.

Under the terms of agreement with Novartis, Sosei is entitled to receive royalties on global net sales of both Seebri and Ultibro. Novartis has reported 58M USD in sales of Seebri for FY2013 (Jan-Dec 2013) and 30M USD for FY2014 Q1 (Jan- Mar 2014). Royalties on the above sales will be recorded in Sosei’s FY2013, and FY2014 Q1 respectively.

US filing for Seebri is expected in Q4 2014. In addition, Phase III clinical trial program targeted toward a future expansion of indication of Seebri for uncontrolled asthma is being conducted by Novartis.

■QVA149 *COPD*: *Approved in the EU, Japan, etc.; Phase III in the US*

QVA149 (glycopyrronium bromide/indacaterol maleate; brand names: Ultibro® Breezhaler® (EU), Ultibro® Inhalation Capsules (Japan); “Ultibro”) is a novel, once-daily inhaled, fixed-dose combination of the LAMA (glycopyrronium bromide) and the LABA (indacaterol maleate), indicated as a maintenance bronchodilator treatment to relieve symptoms in patients with COPD.

Ultibro was approved as first-in-class in the EU and Japan in September 2013, and has since received approvals in over 30 countries outside the US, and has been launched in seven countries, including Germany, Japan and Canada. By combining the efficacy benefits and safety profiles of both LAMA and LABA, Ultibro is expected to set a new standard of care in COPD.

Under the terms of agreement with Novartis, Sosei is entitled to receive royalties on global net sales of both Seebri and Ultibro. Novartis has reported 6M USD in sales of Ultibro for FY2013 Q4 (Oct-Dec 2013) and 14M USD for FY2014 Q1 (Jan- Mar 2014). Royalties on the above sales will be recorded in Sosei’s FY2013 and FY2014 Q1 respectively.

The US filing for QVA149 is expected in Q4 2014, and China filing later this year.

(Earnings forecast for the FY2014)

Revenue is forecasted to come primarily from revenue from NorLevo tablets 0.75 mg, royalties from Seebri and Ultibro, and milestone payments resulting from the filing in the US for Seebri and Ultibro. Our earnings forecast for the full term are revenue of 3,300 million yen, operating income of 2,000 million yen, net income before income taxes of 2,000 million yen, and net income attributable to the owners of the parent company of 2,000 million yen. The forecast has been prepared in conformity with International Financial Reporting Standards (IFRS).

(2) Analysis of financial position

The financial position as of the end of the current financial year was as follows.

Financial position

(million yen)

	FY2012	FY2013	FY2013 Growth vs. PY
Total assets	8,615	14,582	5,966
Cash flows from operating activities	985	363	(621)
Cash flows from investing activities	(185)	(315)	(129)
Cash flows from financing activities	90	4,375	4,284

(Assets)

Assets stood at 14,582 million yen at the end of the financial year, representing an increase of 5,966 million yen from the previous year-end, attributable primarily to financing during the year, which increased cash and cash equivalents by 4,677 million yen.

(Cash flows from operating activities)

Cash derived from operating activities totaled 363 million yen as a result of increase of 737 million yen in net income before income taxes and minority interests.

(Cash flows from investing activities)

Cash used in investing activities totaled 315 million yen. This was attributable to factors such as a 304 million yen outflow related to capitalized development costs stated.

(Cash flows from financing activities)

Cash derived from financing activities totaled 4,375 million yen, owing to the receipt of proceeds from the issuance of common stock.

(3) Basic policy on distribution of profits and dividends for current and next financial years

The Group is conscious that the return of profits to shareholders is an important management issue. The development of pharmaceuticals requires large amounts of up-front investment over long development periods. Given these industry characteristics, the Group believes that the active development of its pipeline (developmental products) and an increase of corporate value will enable it to return profit to shareholders. The result of this kind of strategy can already be seen in a steady revenue stream that have started flowing in from Seebri and Ultibro milestones and royalties.

The Group will consider dividend payment in light of the operating results and financial condition at such time, as well as the balance between up-front investment necessary for the further growth and distribution of profit.

2. Status of the Corporate Group

The Group is composed of the Group and four consolidated subsidiaries, and its principal business is research and development for, and selling of pharmaceutical products. Business segments are categorized primarily on the basis of geographical location (namely, domestic pharmaceutical business and overseas pharmaceutical business).

Business segment	Company name	Nature of business
Company-wide business activities	Sosei Group Corporation	Planning of management strategy for entire Group Undertaking administrative duties on behalf of its subsidiaries
Domestic pharmaceutical business	Sosei Co., Ltd.	Pharmaceutical R&D and sales
	Activus Pharma Co., Ltd.	Development of pharmaceuticals based on the nanoparticle technology
	Sosei CVC Ltd.	Management of regenerative medicine fund
Overseas pharmaceutical business	Sosei R&D Ltd.	Overseas development and commercialization through licensing, overseas business development etc.

3. Management Policy

(1) Basic corporate management policy

As a biopharmaceutical company, the Group is actively focusing on continuing enhancement of its product pipeline, by utilizing the global network established through the technology transfer that preceded its bio business and its unique development strategy. Through the early provision of vital pharmaceutical products to the world, the Group aim to develop ever further as a global pharmaceutical company that transcends national and regional boundaries, supporting people's health and helping them to live happy and rewarding lives.

(2) Target management indicators

The Group aims to achieve sustainable growth by actively undertaking R&D of pharmaceutical products and securing earnings by bringing the products it develops directly to the market or by licensing them out. The Group conducts its business activities with the goal of expediting R&D in ways that improve the pipeline still further, thereby being quick to bring to market, sell, or out-license a large number of developed products.

(3) Mid- to long-term management strategy

The development of pharmaceutical products is a sphere characterized by fierce competition between numerous domestic and overseas companies, research institutions, and other entities, including major international corporations. Development requires massive investment and long lead times, and the likelihood of success is not high. Given this, and given the Group's relatively small scale in terms of factors such as human resources, finance, and plant and equipment, we adhere to the following strategy for developing pharmaceutical products.

1) Positioning

By using the network and experience it has gained through its activities involving technology transfers throughout its history, the Group evaluates the situation in the pharmaceutical industry in Japan from a global perspective and introduces pharmaceutical products from Europe and North America into the Japanese market, at the same time seizing even greater business opportunities overseas on the basis of seeds it has an access to both in Japan and internationally.

The Group also pursues the development of its unique business model as a biopharmaceutical company that has the capacity to mitigate risk in its pharmaceutical development. In addition, while adhering firmly to our founding vision of aiming to become "a global biopharmaceutical company of Japanese origin," we are quick to address changes in the environment and adopt the most appropriate strategies on a case-by-case basis.

2) Pipeline strategy

The distinguishing characteristic of the Group's pipeline strategy is the building of a balanced portfolio in which risks are controlled by combining developmental products with different risks, lead times, and costs.

3) Collaboration in R&D

We aim to incorporate state-of-the-art technologies by building wide-ranging collaborative relationships at each stage of research and development, thereby avoiding increases in fixed costs. The Group builds its R&D structure by combining its own R&D personnel with the aforesaid collaborative relationships.

4) Securing of earnings

The Group aims to secure its earnings by employing the following two models, doing so through the aforesaid pipeline strategy that gives emphasis on the risk control and building of wide-ranging collaborative relationships.

(a) Model entailing securing earnings by identifying products already launched in overseas markets or in late-stage development, and developing them in-house primarily for the domestic market until they start generating revenue.
Examples: NorLevo, SO-1105

(b) Model based on securing earnings from milestone and royalty income from out-licensed products. This entails the Group targeting the global market by developing products up to a stage at which their marketability is enhanced, following which they are out-licensed to other pharmaceutical companies.
Examples: NVA237, QVA149

For each developmental product the Group takes into consideration factors such as the financial condition, R&D structure, and competitive advantage of the product in order to plan whether to select model (a) or (b) and thereby secure a stable and timely earnings stream.

(4) Issues to be addressed

1) Enhancement of product pipeline

As with the Group, it is generally the case that for biotechnology companies that initially incur losses as a result of investment in pharmaceutical product development, the total value of the developmental products represents corporate value. In view of this, strengthening the pipeline in order to enhance its value is the most important issue for the Group's management strategy.

The first policy for addressing this is to continually introduce promising products for development. When introducing new products for development we will endeavor to make use of the Group’s international network to strengthen our information-gathering capability, negotiation capability, and planning capability in a manner that enables us to provide development and marketing plans that are attractive to the licensing partners. The Group hopes that its present endeavors such as nanotechnology development and management of regenerative medicine fund will result in enhancement of its pipeline.

The second policy is to increase the lineup of products that are in later stages of development. The development of pharmaceutical products begins with basic research and progresses through numerous steps before the product is approved and delivered to the market, including preclinical trials and Phase I, Phase II, and Phase III clinical trials. It is obvious, therefore, that the later the development stage, the higher the likelihood of obtaining approval for and launching a product (which means that the value of the relevant developmental product is enhanced). The Group will continue the development of its present pipeline products and will endeavor to shift emphasis towards more later-stage products.

2) Reduction of business risk

The development of pharmaceutical products has potential for high levels of return when successful, but it is accompanied by a high degree of uncertainty. In light of this, if a business strategy that focuses only on specific developmental products is pursued, and such products fail, it becomes more likely that the continuity of management will cease. In order to mitigate such risks, the Group has adopted a “pipeline strategy.”

The term “developmental product” is a simple one in itself, but the risks involved in each case differ widely, depending on the nature of the compound, the domain, and the development stage. Accordingly, the philosophy of the pipeline strategy is to structure the pipeline with multiple developmental products in which those risk characteristics differ, thereby diversifying risk. The Group will endeavor to use this method to increase earnings and reduce business risks.

3) Fundraising

Corporate value can be enhanced by seeking out and introducing products that are promising candidates for development and then expediting their development to later stages, but this increases R&D costs. Hitherto, the Group has raised funds by out-licensing developmental products to drug manufacturers and by issuing new shares, but we will continue to consider the possibility of raising additional funds to strengthen the foundations of our business, including through investment in research and development.

4) Strengthening the R&D structure

In order to expedite the progress of developmental products to later stages, obtain approvals, and launch products into markets, it is crucial to have an R&D structure that is both highly reliable and highly efficient. In order to ensure this, the Group will actively recruit outstanding personnel and, by building collaborative relationships with other companies, will make efficient use of state-of-the-art technologies that those other companies possess in a variety of fields.

4. Consolidated Financial Statements (IFRS)

(1) Consolidated statement of financial position

(thousands of yen)

	FY2013 (31 March 2014)	FY2012 (31 March 2013)	Transition date to IFRS (1 April 2012)
Assets			
Non-current assets			
Property, plant and equipment	59,602	73,568	76,712
Goodwill	5,426,003	5,426,003	5,426,003
Intangible assets	722,286	459,980	269,619
Deferred tax assets	869,093	—	—
Other non-current assets	40,923	41,251	42,568
Total non-current assets	7,117,908	6,000,803	5,814,904
Current assets			
Trade and other receivables	99,767	43,572	33,010
Other current assets	149,669	33,632	78,966
Cash and cash equivalents	7,214,934	2,537,527	1,497,653
Total current assets	7,464,371	2,614,733	1,609,630
Total assets	14,582,280	8,615,536	7,424,534
Liabilities and Equity			
Liabilities			
Non-current liabilities			
Deferred income	13,315	16,762	11,039
Deferred tax liabilities	—	—	870
Other financial liabilities	—	338,540	302,268
Other non-current liabilities	6,900	6,888	6,841
Total non-current liabilities	20,215	362,191	321,019
Current liabilities			
Trade and other payables	156,067	265,770	271,808
Deferred income	3,446	3,446	2,778
Income tax payables	24,774	8,987	9,658
Other current liabilities	22,777	27,148	25,643
Total current liabilities	207,066	305,353	309,888
Total liabilities	227,282	667,544	630,908
Equity			
Capital stock	19,453,732	17,059,203	16,988,055
Capital surplus	21,573,914	19,247,356	19,213,222
Retained earnings	(26,934,383)	(28,460,561)	(29,409,070)
Other components of equity	261,735	101,992	1,419
Equity attributable to owners of the parent company	14,354,998	7,947,991	6,793,626
Non-controlling interests	—	—	—
Total equity	14,354,998	7,947,991	6,793,626
Total liabilities and equity	14,582,280	8,615,536	7,424,534

(2) Consolidated statement of comprehensive income

(thousands of yen)

	FY2013 (from 1 April 2013 to 31 March 2014)	FY2012 (from 1 April 2012 to 31 March 2013)
Revenue	2,069,836	1,958,996
Cost of sales	251,401	325,749
Gross profit	1,818,434	1,633,247
Research and development expenses	305,029	228,857
Selling, general and administrative expenses	882,137	606,665
Other income	125,126	56,279
Other expenses	—	360
Operating income	756,393	853,643
Finance income	30,052	102,625
Finance costs	48,597	—
Net income before income taxes	737,848	956,268
Income tax expenses	(788,328)	7,759
Net income	1,526,177	948,509
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Available-for-sale financial assets measured at fair value	—	(1,419)
Exchange differences on translating foreign operations	159,743	101,992
Total items that may be reclassified subsequently to profit or loss	159,743	100,573
Total other comprehensive income	159,743	100,573
Comprehensive income	1,685,920	1,049,082
Net income for the year attributable to:		
Owners of the parent company	1,526,177	948,509
Non-controlling interests	—	—
Net income	1,526,177	948,509
Comprehensive income for the year attributable to:		
Owners of the parent company	1,685,920	1,049,082
Non-controlling interests	—	—
Comprehensive income	1,685,920	1,049,082
Net income per share (yen)		
Basic	126.65	79.97
Diluted	124.89	79.17

(3) Consolidated statement of changes in equity

(thousands of yen)

	Capital stock	Capital surplus	Retained earnings	Other components of equity		
				Available-for-sale financial assets	Foreign currency translation adjustments	Other components of equity, total
Balance as of 1 April 2012	16,988,055	19,213,222	(29,409,070)	1,419	―	1,419
Net income	―	―	948,509	―	―	―
Available-for-sale financial assets	―	―	―	(1,419)	―	(1,419)
Foreign currency translation adjustments	―	―	―	―	101,992	101,992
Total comprehensive income for the year	―	―	948,509	(1,419)	101,992	100,573
Issuance of new shares	71,148	19,516	―	―	―	―
Share-based payment compensation	―	14,618	―	―	―	―
Total business transactions with owners	71,148	34,134	―	―	―	―
Balance as of 31 March 2013	17,059,203	19,247,356	(28,460,561)	―	101,992	101,992
Net income	―	―	1,526,177	―	―	―
Foreign currency translation adjustments	―	―	―	―	159,743	159,743
Total comprehensive income for the year	―	―	1,526,177	―	159,743	159,743
Issuance of new shares	2,394,529	2,326,557	―	―	―	―
Total business transactions with owners	2,394,529	2,326,557	―	―	―	―
Balance as of 31 March 2014	19,453,732	21,573,914	(26,934,383)	―	261,735	261,735

	Equity attributable to owners of the parent company	Non-controlling interests	Total equity
Balance as of 1 April 2012	6,793,626	―	6,793,626
Net income	948,509	―	948,509
Available-for-sale financial assets	(1,419)	―	(1,419)
Foreign currency translation adjustments	101,992	―	101,992
Total comprehensive income	1,049,082		1,049,082
Issuance of new shares	90,664	―	90,664
Share-based payment compensation	14,618	―	14,618
Total business transactions with owners	105,282	―	105,282
Balance as of 31 March 2013	7,947,991	―	7,947,991
Net income	1,526,177	―	1,526,177
Foreign currency translation adjustments	159,743	―	159,743
Total comprehensive income	1,685,920	―	1,685,920
Issuance of new shares	4,721,086	―	4,721,086
Total business transactions with owners	4,721,086	―	4,721,086
Balance as of 31 March 2014	14,354,998	―	14,354,998

(4) Consolidated statement of cash flow

(thousands of yen)

	FY2013 (from 1 April 2013 to 31 March 2014)	FY2012 (from 1 April 2012 to 31 March 2013)
Cash flows from operating activities		
Net income before income taxes	737,848	956,268
Depreciation and amortization	20,352	21,185
Share-based compensation expenses	—	14,618
Subsidy income	(73,903)	(53,455)
Foreign exchange losses (gains)	(156,961)	(48,665)
Decrease (increase) in advances paid	—	(4,641)
Decrease (increase) in accounts receivable – other	(50,134)	—
Decrease (increase) in accounts receivable – trade	(56,178)	(10,562)
Increase (decrease) in accounts payable – trade	(118,694)	99,863
Increase (decrease) in accrued expenses	774	(112,762)
Other	(25,840)	21,406
Subtotal	277,262	883,254
Interests and dividends received	3,026	1,216
Proceeds from subsidy	90,665	105,548
Income taxes paid	(7,675)	(5,008)
Net cash from operating activities	363,279	985,010
Cash flows from investing activities		
Purchases of property, plant and equipment	(10,521)	(27,688)
Purchase of intangible assets	—	(680)
Capitalized development costs	(304,366)	(156,837)
Other	(306)	0
Net cash used in investing activities	(315,194)	(185,205)
Cash flows from financing activities		
Proceeds from issuance of common stock	4,723,606	90,664
Payments for redemption of monetary receivables	(348,597)	—
Net cash from financing activities	4,375,008	90,664
Effect of exchange rate changes on cash and cash equivalents	254,314	149,403
Increase (decrease) in cash and cash equivalents	4,677,406	1,039,874
Cash and cash equivalents at the beginning of year	2,537,527	1,497,653
Cash and cash equivalents at the end of year	7,214,934	2,537,527

(5) Notes to Consolidated Financial Statements

(Notes related to going concern assumptions)

Not applicable.

(Segments Information)

(1) Overview of reportable segments

The Group's reportable segments are components of business activities for which discrete financial information is available, and such information is regularly reviewed by the Group's board of directors in order to make decisions about the allocation of the resources and assess performance. The Group has adopted the holding company structure, and the holding company is responsible for management and administration of the entire Group. The Group has two reportable segments (namely, domestic pharmaceutical business and overseas pharmaceutical business), based on the legal entities that are the current profit management units. The domestic pharmaceutical business segment mainly imports products from overseas for sale both in Japan and overseas. The overseas pharmaceutical business segment mainly introduces and develops pharmaceuticals for out-licensing.

The following table shows major products in the major segments, with reportable segments established as described above.

Reportable segments	Company name	Main products
Domestic pharmaceutical business	・Sosei Co., Ltd. ・Activus Pharma Co., Ltd.	・SO-1105 ・NorLevo
Overseas pharmaceutical business	・Sosei R&D Ltd.	・Seebri ・Ultibro

Fiscal Year from April 1, 2012, to March 31, 2013

(thousands of yen)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	509,631	1,449,365	1,958,996	—	1,958,996
Revenue between segments	—	—	—	—	—
Total	509,631	1,449,365	1,958,996	—	1,958,996
Operating income (or loss)	(201,191)	1,432,224	1,231,032	(377,389)	853,643
Finance income/costs (net)					102,625
Net income before income taxes					956,268
Other items					
Depreciation expenses	12,760	2,477	15,237	5,947	21,185

The adjustment amount relates to the holding company, which does not belong to any reportable segment.

Fiscal Year from April 1, 2013, to March 31, 2014

(thousands of yen)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	502,858	1,566,977	2,069,836	—	2,069,836
Revenue between segments	—	—	—	—	—
Total	502,858	1,566,977	2,069,836	—	2,069,836
Operating income (or loss)	(114,725)	973,505	858,780	(102,387)	756,393
Finance income/costs (net)					(18,544)
Net income before income taxes					737,848
Other items					
Depreciation expenses	15,656	161	15,818	4,534	20,352

The adjustment amount relates to the holding company, which does not belong to any reportable segment.

(3) Information regarding products and services

Information regarding the revenue for each product/service is not separately presented because the same is presented in the reporting segments above.

(4) Geographical information

The following table provides geographical information relating to external revenue and non-current assets.

External revenue

(thousands of yen)

	FY2013 (from 1 April 2013 to 31 March 2014)	FY2012 (from 1 April 2012 to 31 March 2013)
Japan	339,674	376,227
Australia	163,184	133,403
Switzerland	1,566,977	1,447,163
Other	—	2,202
Total	2,069,836	1,958,996

Revenue is classified by country or region based on the locations of customers.

Non-current assets

(thousands of yen)

	FY2013 (31 March 2014)	FY2012 (31 March 2013)	Transition date to IFRS (1 April 2012)
Japan	821,899	573,603	364,517
United Kingdom	5,426,914	5,427,199	5,450,386
Total	6,248,814	6,000,803	5,814,904

Non-current assets do not include financial products and deferred tax assets.

(5) Information on major customers

Revenues

(thousands of yen)

Name of customer	FY2013 (from 1 April 2013 to 31 March 2014)	FY2012 (from 1 April 2012 to 31 March 2013)	Relevant segment

Novartis Pharma AG	1,566,977	1,447,163	Overseas pharmaceutical business
Aska Pharmaceutical Co., Ltd.	338,674	376,227	Domestic pharmaceutical business

(Earnings per share)

(1) Basic net income per share

The following table shows basic net income per share and basis for calculation thereof.

	FY2013 (from 1 April 2013 to 31 March 2014)	FY2012 (from 1 April 2012 to 31 March 2013)
Net income for the year attributable to owners of the parent company (thousands of yen)	1,526,177	948,509
Weighted average number of common shares outstanding (shares)	12,050,163	11,860,355
Basic net income per share (yen)	126.65	79.97

(2) Diluted net income per share

The following table shows diluted net income per share and basis for calculation thereof.

	FY2013 (from 1 April 2013 to 31 March 2014)	FY2012 (from 1 April 2012 to 31 March 2013)
Net income for the year attributable to owners of the parent company (thousands of yen)	1,526,177	948,509
Adjusted net income used in the calculation of diluted net income per share (thousands of yen)	—	—
Net income used in the calculation of diluted net income per share (thousands of yen)	1,526,177	948,509
Weighted average number of common shares outstanding (shares)	12,050,163	11,860,355
Increases in number of common shares used in the calculation of diluted net income per share (shares)		
Increases due to the exercise of stock options (shares)	169,522	120,307
Weighted average number of common shares outstanding used in the calculation of diluted net income per share (shares)	12,219,685	11,980,662
Diluted net income per share (yen)	124.89	79.17

The Group made a 100-for-1 stock split of common stocks effective April 1, 2013. Net income per share for the previous fiscal year are calculated as if the stock split had taken place at the beginning of the previous fiscal year.

(Significant Subsequent Events)

At the BOD meeting held on May 13, 2014, it was resolved to submit proposals for reduction of capital surplus and appropriation of surplus to the ordinary general meeting of shareholders, and the proposals were subsequently approved at the general meeting held on June 18, 2014.

(1) Purpose of reduction of capital surplus and appropriation of surplus

The purpose of reduction of capital surplus and appropriation of surplus is to cover the loss carried forward. This will give the Group the flexibility and mobility in implementing financial strategies so that the Group may be able to pay out appropriate profits in the form of dividends to the shareholders at an early date.

(2) Summary of reduction of capital surplus

Pursuant to stipulations in Article 448 Section 1 of the Companies Act, the Group drew down capital surplus for transfer to other capital surplus.

1) Decrease in capital surplus
Capital surplus: 13,803,978,000 yen

2) Increase in surplus
Other capital surplus: 13,803,978,000 yen

(3) Summary of appropriation of surplus

Pursuant to stipulations in Article 452 of the Companies Act, the Group applied other capital surplus, transferred as described in (2) above, to make up for losses carried forward.

1) Decrease in surplus
Other capital surplus: 13,803,978,000 yen

2) Increase in surplus
Retained earnings brought forward: 13,803,978,000 yen

(4) Timetable for decrease in capital surplus and appropriation of surplus

1) Date of resolution of BOD meeting: May 13, 2014

2) Date of resolution of ordinary general meeting of shareholders: June 18, 2014

3) Effective date: June 18, 2014

(Disclosure regarding transition to IFRS)

For fiscal year ended March 31, 2013, and in preceding fiscal years, the Group prepared consolidated financial statements based on the Generally Accepted Accounting Standards in Japan (J-GAAP), and the Group first prepared consolidated financial statements in accordance with IFRS from the fiscal year ended March 31, 2014.

(1) Exemptions under IFRS No. 1

In principle, IFRS require an entity presenting its first consolidated statements under IFRS (“First-time Adopter of IFRS”) to apply IFRS retroactively. However, IFRS No. 1 (“First-time Adoption of International Financial Reporting Standards”) provides for some exceptions. The following exceptions are applicable to the Group.

1) Business combinations

The Group has elected not to apply IFRS No. 3 retrospectively to business combinations that occurred before the date of transition to IFRS. Accordingly, the carrying amount of goodwill resulting from business combinations that occurred before the date of transition to IFRS is determined pursuant to J-GAAP. All such goodwill is tested for impairment as of the transition date, regardless of whether there is any indication that the carrying amount of such goodwill is impaired.

2) Cumulative exchange translation differences for foreign operations

The Group has elected to apply the IFRS No. 1 exception to deem the cumulative foreign currency translation differences for foreign operations to be zero as of the transition date.

3) Share-based payments

The Group has elected to apply the IFRS No. 1 exception and not to apply IFRS No. 2 share-based payment to stock options that were vested before the transition date.

(2) Reconciliation from J-GAAP to IFRS

1) Reconciliation of equity as of date of transition to IFRS (April 1, 2012)

In preparing the consolidated financial statements under IFRS, the Group has adjusted the amounts reported in the consolidated financial statements under J-GAAP as follows.

(thousands of yen)

J-GAAP		Reclassification	Differences in recognition and measurement	IFRS		
Presentation under J-GAAP	Amount			Amount	Notes	Presentation under IFRS
Property, plant and equipment (net)	61,727		14,984	76,712	(a)	Property, plant and equipment
Goodwill	5,426,003			5,426,003		Goodwill
Other (intangible assets)	255,153		14,466	269,619	(b)	Intangible assets
Investment and other assets	37,824		4,743	42,568	(c)	Other non-current assets
Total fixed assets	5,780,709	―	34,194	5,814,904		Total non-current assets
Cash and deposits	1,415,498	82,155		1,497,653	(d)	Cash and cash equivalents
Accounts receivable	33,010			33,010		Trade and other receivables
Securities	82,155	(82,155)		―	(d)	
Other (current assets)	78,966			78,966		Other current assets
Total current assets	1,609,630	―	―	1,609,630		Total current assets
Total assets	7,390,340	―	34,194	7,424,534		Total assets
			11,039	11,039	(e)	Deferred income
		870		870	(f)	Deferred tax liabilities
			302,268	302,268	(g)	Other financial liabilities
			6,841	6,841	(a)	Other non-current liabilities
Total fixed liabilities	―	870	320,148	321,019		Total non-current liabilities
Accounts payable – trade	61,922	209,886		271,808	(h)	Trade and other payables
Accounts payable – other	33,064	(33,064)		―	(h)	
Accrued expenses	156,951	(176,822)	19,870	―	(h)	
			2,778	2,778	(e)	Deferred income
Income tax payables	9,658			9,658		Income tax payable
Deferred tax liabilities	870	(870)		―	(f)	
Other	25,643			25,643		Other current liabilities
Total current liabilities	288,110	(870)	22,648	309,888		Total current liabilities
Total liabilities	288,110	―	342,797	630,908		Total liabilities
Capital stock	16,988,055			16,988,055		Capital stock
Capital surplus	18,908,795	304,427		19,213,222	(i)	Capital surplus
Retained earnings	(30,582,117)		1,173,047	(29,409,070)	(j)	Retained earnings
Valuation difference on available-for-sale securities	1,419			1,419	(k)	Other components of equity
Foreign currency translation adjustments	1,181,650		(1,181,650)	―	(k)	
Stock acquisition rights	304,427	(304,427)		―	(i)	
Total net assets (attributable to owners of the parent company)	6,802,229	―	(8,602)	6,793,626		Equity attributable to owners of the parent company
Minority interests	300,000	―	(300,000)	―	(g)	Non-controlling interests
Total net assets	7,102,229	―	(308,602)	6,793,626		Total equity
Total liabilities and net assets	7,390,340	―	34,194	7,424,534		Total liabilities and equity

Notes to reconciliation of equity as of date of transition to IFRS (April 1, 2012)

(a) Property, plant and equipment

Under J-GAAP, property, plant and equipment (except for leased assets) were depreciated mainly with the declining-balance method. Under IFRS, the straight-line method is used. Furthermore, under J-GAAP, the estimated asset removal costs are offset against the relevant lease deposits. As there is no such provision in IFRS, the estimated costs are recognized as asset removal obligations in the liabilities.

(b) Intangible assets

Certain development expenses, which are recognized in profit or loss under J-GAAP, are capitalized as intangible assets under IFRS to the extent that such expenses meet IFRS capitalization requirements.

(c) Other non-current assets

Under J-GAAP, lease deposits are amortized with the straight-line method. There is no such provision in IFRS, and the cumulative amortization is reversed.

(d) Cash and cash equivalents

Certain items presented as securities under J-GAAP are defined as cash and cash equivalents under IFRS, and these are presented as such.

(e) Deferred income

Under J-GAAP, government subsidies are recognized as revenue. Under IFRS, a portion of government subsidies granted in relation to acquisition of property, plant and equipment is deferred, to be recognized as revenue over the useful life of the relevant assets.

(f) Deferred tax liabilities

Under J-GAAP, deferred tax liabilities are presented in current liabilities. Under IFRS, however, they are presented in non-current liabilities.

(g) Other financial liabilities

Under J-GAAP, preferred stocks are recognized as minority interest. Under IFRS, they are recognized as other financial liabilities.

(h) Trade and other payables

Accounts payable – trade, accounts payable – other, and accrued expenses under J-GAAP are presented as trade and other payables under IFRS.

Liabilities related to unused paid leave are recognized in trade and other payables.

(i) Capital surplus

Stock acquisition rights under J-GAAP are presented in capital surplus under IFRS.

(j) Retained earnings

(thousands of yen)

Items	Amount
Adjustments on property, plant and equipment (refer to note (a))	12,886
Adjustment on intangible assets (refer to note (b))	12,197
Adjustments on deferred income (refer to note (e))	(13,817)
Adjustments on unused portion of paid vacation (refer to note (h))	(19,870)
Adjustments on foreign currency translation adjustments (refer to note (k))	1,181,650
Total	1,173,046

(k) Foreign currency translation adjustments

The Group has elected to apply the IFRS No. 1 exception, and accumulated currency translation adjustments in relation to foreign operations as of the transition date, which are presented in accumulated other comprehensive income under J-GAAP, are presented in retained earnings.

2) Reconciliation of Equity as of Previous Fiscal Year End (March 31, 2013)

In preparing the consolidated statements of financial position for the previous fiscal year under IFRS, the Group has adjusted the amounts reported in the consolidated financial statements under J-GAAP as follows:

(thousands of yen)

J-GAAP		Reclassification	Differences in recognition and measurement	IFRS		
Presentation under J-GAAP	Amount			Amount	Notes	Presentation under IFRS
Property, plant and equipment (net)	54,961		18,606	73,568	(a)	Property, plant and equipment
Goodwill	3,837,905		1,588,098	5,426,003	(b)	Goodwill
Other (intangible assets)	252,404		207,575	459,980	(c)	Intangible assets
Other (investment and other assets)	34,782		6,468	41,251	(d)	Other non-current assets
Total fixed assets	4,180,053	―	1,820,749	6,000,803		Total non-current assets
Cash and cash equivalents	2,537,527			2,537,527		Cash and cash equivalents
Accounts receivable	43,572			43,572		Trade and other receivables
Other (current assets)	33,632			33,632		Other current assets
Total current assets	2,614,733	―	―	2,614,733		Total current assets
Total assets	6,794,786	―	1,820,749	8,615,536		Total assets
			16,762	16,762	(e)	Deferred income
			338,540	338,540	(f)	Other financial liabilities
			6,888	6,888	(a)	Other non-current liabilities
Total fixed liabilities	―	―	362,191	362,191		Total non-current liabilities
Accounts payable – trade	161,785	103,984		265,770	(g)	Trade and other payables
Accounts payable – other	59,869	(59,869)		―	(g)	
Accrued expenses	25,168	(44,115)	18,946	―	(g)	
			3,446	3,446	(e)	Deferred income
Income tax payables	8,987			8,987		Income tax payable
Other	27,148			27,148		Other current liabilities
Total current liabilities	282,959	―	22,393	305,353		Total current liabilities
Total liabilities	282,959	―	384,584	667,544		Total liabilities
Capital stock	17,059,203			17,059,203		Capital stock
Capital surplus	18,979,943	236,238	31,175	19,247,356	(h)	Capital surplus
Retained earnings	(31,228,973)		2,768,412	(28,460,561)	(i)	Retained earnings
Foreign currency translation adjustments	1,283,642		(1,181,650)	101,992	(j)	Other components of equity
Stock acquisition rights	236,238	(236,238)		―	(h)	
Total net assets (attributable to owners of the parent company)	6,330,053	―	1,617,938	7,947,991		Equity attributable to owners of the parent company
Minority interests	181,773	―	(181,773)	―	(f)	Non-controlling interests
Total net assets	6,511,827	―	1,436,164	7,947,991		Total equity
Total liabilities and net assets	6,794,786	―	1,820,749	8,615,536		Total liabilities and equity

Notes to Reconciliation of Equity as of Previous Fiscal Year End (March 31, 2013)

(a) Property, plant and equipment

Under J-GAAP, property, plant and equipment (except for leased assets) were depreciated mainly with the declining-balance method. Under IFRS, the straight-line method is used. Furthermore, under J-GAAP, the estimated asset removal costs are offset against the relevant lease deposits. As there is no such provision in IFRS, the estimated costs are recognized as asset removal obligations in the liabilities.

(b) Goodwill

Under J-GAAP, goodwill is amortized over 10 years using the straight-line method. Under IFRS, goodwill is not amortized and instead is tested for impairment every fiscal year.

(c) Intangible assets

Certain development expenses, which are recognized in profit or loss under J-GAAP, are capitalized as intangible assets under IFRS to the extent that such expenses meet IFRS capitalization requirements.

(d) Other non-current assets

Under J-GAAP, lease deposits are amortized with the straight-line method. There is no such provision in IFRS, and the cumulative amortization is reversed.

(e) Deferred revenue

Under J-GAAP, government subsidies are recognized as revenue. Under IFRS, a portion of government subsidies granted in relation to acquisition of property, plant and equipment is deferred, to be recognized as revenue over the useful life of the relevant assets.

(f) Other financial liabilities

Under J-GAAP, preferred stocks are recognized as minority interest. Under IFRS, they are recognized as other financial liabilities.

(g) Trade and other payables

Accounts payable - trade, accounts payable - other, and accrued expenses under J-GAAP are presented as trade and other payables under IFRS.

Liabilities related to unused paid leave are recognized in trade and other payables.

(h) Capital surplus

Stock acquisition rights under J-GAAP are presented in capital surplus under IFRS. Gain from reversal of stock acquisition rights under J-GAAP is recognized in capital surplus under IFRS.

(i) Retained earnings

(thousands of yen)

Items	Amount
Adjustments on property, plant and equipment (refer to note (a)	18,186
Adjustment on goodwill (refer to note (b))	1,588,098
Adjustments on intangible assets (refer to note (c))	169,034
Adjustments on deferred income (refer to note (e))	(20,208)
Adjustments on unused portion of paid vacation (refer to note (g))	(18,946)
Adjustments on financial liabilities (refer to note (f))	(118,226)
Adjustments on stock acquisition rights (refer to note (h))	(31,175)
Adjustments on foreign currency translation adjustments (j))	1,181,650
Total	2,768,412

(j) Foreign currency translation adjustments

The Group has elected to apply the IFRS No. 1 exception, and accumulated currency translation adjustments in relation to foreign operations as of the transition date, which are presented in accumulated other comprehensive income under J-GAAP, are presented in retained earnings.

3) Reconciliation of comprehensive income for previous fiscal year (from April 1, 2012, to March 31, 2013)

In preparing the consolidated statements of income and comprehensive income for the previous fiscal year under IFRS, the Group has adjusted the amounts reported in the consolidated financial statements under J-GAAP as follows.

(thousands of yen)

J-GAAP		Reclassification	Differences in recognition and measurement	IFRS		
Presentation under J-GAAP	Amount			Amount	Notes	Presentation under IFRS
Revenue	1,958,996			1,958,996		Revenue
Cost of sales	325,749			325,749		Cost of sales
Gross profit	1,633,247	–	–	1,633,247		Gross profit
Selling, general and administrative expenses	2,586,682	(385,695)	(1,594,321)	606,665	(a)	Selling, general and administrative expenses
		385,695	(156,837)	228,857	(a)	Research and development expenses
		(53,501)	(2,778)	56,279	(b)	Other income
		360		360	(c)	Other expenses
Operating income	(953,434)	53,140	1,753,937	853,643		Operating income
(Non-operating income)						
Interest income	1,216	101,409		102,625	(d)	Finance income
Foreign exchange gain	96,812	(96,812)		–	(d)	
Gain on sales of securities	4,596	(4,596)		–	(d)	
Subsidy income	62,625	(53,455)	(9,169)	–	(b)	
Other	45	(45)		–	(b)	
(Extraordinary income)						
Gain on reversal of stock acquisition rights	31,175		(31,175)	–	(e)	
(Extraordinary loss)						
Loss on sales and retirement of non-current assets	360	(360)		–	(c)	
Net income before income taxes and minority interests	(757,323)	–	1,713,591	956,268		Net income before income taxes
Income taxes – current	7,759			7,759		Income tax expenses
Net income before minority interests	(765,082)			–		
Gain attributable to minority interests	(118,226)		118,226	–	(f)	
Net income	(646,856)	–	1,595,365	948,509		Net income
						(Net income for the year attributable to)
				948,509		Owners of the parent company
				–	(f)	Non-controlling interests
(Other comprehensive income)						(Other comprehensive income)
Net unrealized gains (losses) on available-for-sale securities	(1,419)			(1,419)		Available-for-sale financial assets measured at fair value
Foreign currency translation adjustments	101,992			101,992		Exchange differences on translating foreign operations
Total other comprehensive income	100,573	–	–	100,573		Total other comprehensive income
Comprehensive income	(664,509)		1,713,591	1,049,082		Total comprehensive income
(Breakdown)						(Comprehensive income attributable to)
Comprehensive income attributable to owners of the parent company	(546,283)		1,595,365	1,049,082		Owners of the parent company
Comprehensive income attributable to minority interests	(118,226)		118,226	–		Non-controlling interests

Notes to reconciliation of comprehensive income for previous fiscal year (from April 1, 2012, to March 31, 2013)

(a) Selling, general and administrative expenses

Major components are as follows.

Under J-GAAP, property, plant and equipment (except for leased assets) are depreciated mainly with the declining-balance method. Under IFRS, the straight-line method is used.

Under J-GAAP, goodwill is amortized over 10 years using the straight-line method. Under IFRS, goodwill is not amortized and instead is tested for impairment every fiscal year.

Certain development expenses, which are recognized in profit or loss under J-GAAP, are capitalized as intangible assets under IFRS to the extent that such expenses meet IFRS requirements.

(b) Other income

Subsidy revenue and other under J-GAAP are presented in other revenue under IFRS. Under J-GAAP, government subsidies are recognized as revenue. Under IFRS, a portion of government subsidies granted in relation to acquisition of property, plant and equipment is deferred, to be recognized as revenue over the useful life of the relevant assets.

(c) Other expenses

Loss from retirement of non-current assets under J-GAAP is presented in other expenses.

(d) Financial income

Interest income, foreign exchange gain, and gain on sale of securities under J-GAAP are presented in financial income.

(e) Gain from reversal of stock acquisition rights

Gain from reversal of stock acquisition rights under J-GAAP is not recognized under IFRS. Instead, this is recognized in capital surplus.

(f) Minority interest

Preferred stocks, which are recognized as minority interest under J-GAAP, are recognized as other financial liabilities under IFRS. As a result, no minority interest is recognized under IFRS, together with non-controlling interest.

4) Reconciliation of consolidated cash flow for previous fiscal year (from April 1, 2012, to March 31, 2013)

Under J-GAAP, cash outlays in relation to development expenses are classified as cash flow from operating activities. Under IFRS, however, cash outlays in relation to capitalized development expenses are classified as cash flow from investing activities. Accordingly, cash flow from investing activities decreased by 156,387,000 yen and cash flow from operating activities increased by the same amount.