# Consolidated Financial Results for the FY2016 (IFRS)

12 May 2017

| | | | |
|---|---|---|---|
| Company name: | Sosei Group Corporation | | Listing: Tokyo Stock Exchange |
| Security code: | 4565 | URL: http://www.sosei.com/ | |
| Representative: | Peter Bains<br>Representative Executive Officer, CEO | | |
| Contact person: | Harumi Banse<br>Corporate Communication, Manager | | Tel: +81-3-5210-3290 |

Scheduled date of general shareholders meeting 22 June 2017 Scheduled date of dividend payments: －
Scheduled date of security report filing 23 June 2017
Supplementary materials for financial results: Yes
Financial results briefing session: Yes (for institutional investors and analysts)

(Rounded down to nearest million yen)

1. Consolidated results for the FY2016 (from 1 April 2016 to 31 March 2017)

(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 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | % | | % | | % | | % | | % | | % |
| FY2016 | 18,901 | 131.9 | 12,389 | － | 12,483 | － | 9,152 | － | 9,311 | － | 4,634 | － |
| FY2015 | 8,151 | 122.0 | 1,075 | 3.1 | (3,297) | － | (1,547) | － | (1,432) | － | (4,400) | － |

| | 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 | | | |
| FY2016 | 551.18 | 549.24 | 36.2 | 26.2 | 65.5 |
| FY2015 | (93.60) | (93.60) | (7.6) | (6.9) | 13.2 |

Note: Investment loss under equity method: 229 million yen for FY2016; and - million yen for FY2015

(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 | % | |
| FY2016 | 48,087 | 28,359 | 28,354 | 59.0 | 1,676.19 |
| FY2015 | 47,354 | 23,269 | 23,142 | 48.9 | 1,373.03 |

(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 |
|---|---|---|---|---|
| | Millions of yen | Millions of yen | Millions of yen | Millions of yen |
| FY2016 | 12,856 | (2,327) | (6,310) | 13,899 |
| FY2015 | 4,471 | (337) | 863 | 10,068 |

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 | End Q4 | Total | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| FY2015 | ― | 0.00 | ― | 0.00 | 0.00 | ― | ― | ― |
| FY2016 | ― | 0.00 | ― | 0.00 | 0.00 | ― | ― | ― |
| FY2017 (E) | ― | 0.00 | ― | 0.00 | 0.00 | | ― | |

3. Forecast for the FY2017 (from 1 April 1 2017 to 31 March 2018)

The Group's current revenues are increasingly dependent on milestone payments received from out licensing agreements. With these programs, the development strategies and schedules are determined by our partner companies and accordingly it is difficult for us to forecast if and when milestones will be earned and there can also be wide differences in revenues between financial years The Allergan agreement that was signed in April 2016 was exceptional in terms of the size of the upfront milestone that we received and as a result we anticipate a significant decline in revenues in the current financial year.

In the short to medium term, we expect to see an increase in R&D investment, consistent with our strategy as we advance our proprietary pipeline and scale of our discovery capability. We also intend to expand our capacity and capability in both our translational medicine and clinical development functions to support our proprietary pipeline as it advances towards the clinic.

Because of the increasingly diverse and global nature of our business, the Group has significant exposure to currency fluctuations relative to our reporting currency. Financial agreements in our industry are usually written in USD and all of our current revenue generating contracts are in this currency. Additionally, with the location of our main R&D activities in the UK, our cost base is very heavily sterling weighted. Whilst we endeavour to cover foreign currency transactions, we cannot hedge translation risk and hence our financial statements as reported are exposed to movements in the value of the pound, which may affect our reported financial results.

In summary, given that we are unlikely to repeat the revenue seen last year, and with increased investment in expanding and extending our capabilities and as our proprietary pipeline advances we anticipate that, whilst we are expecting to be profitable for the year ending 31 March 2018, it will likely be at a much more modest scale than in the prior year. This outcome is still very dependent on the progress of our partnered development candidates which will drive the timing of our next milestone payments. It is also dependent on movements in exchange rates.

* 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

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) | FY2016 | 16,916,184 shares | FY2015 | 16,855,284 shares |
| 2) Number of treasury shares at financial year end | FY2016 | − shares | FY2015 | − shares |
| 3) Average number of shares issued during financial year | FY2016 | 16,893,424 shares | FY2015 | 15,302,675 shares |

*These (consolidated) financial results are outside the scope of audit.

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

1. The financial forecast is based on judgments and estimates that have been prepared on the basis of information available as at the time of disclosure of this material and assumptions about uncertain factors that could affect the forecasts of business results made as at the time of disclosure of this material. The actual business results may differ materially from the forecasts due to various factors in the future. For forecast premises and usage notes for earnings forecasts, please refer to “1. Summary of Operating Results, (4) Earnings forecast”.

2. The Group will hold a web conference for analysts on 12 May 2017 (Friday). We will publish a recording of the event and put the materials used on the day on our website following the web conference.

○ Contents of Attached Materials

## 1. Summary of operating results

### (1) Current term operating results

The Group is a global biotechnology company originating from Japan, which is currently focused on pharmaceutical research and development. Over the meddle-to-long term, we aim to become a fully integrated biotechnology company incorporating all aspects of the integrated biotechnology model from discovery, through research and development and extending through to commercialization.

In the fiscal year under review, revenue totaled 18,901 million yen, an increase of 131.9% compared to the previous fiscal year. Operating income totaled 12,389 million yen. Net income before income taxes amounted to 12,483 million yen, and net income was 9,152 million yen. Net income attributable to parent company shareholders amounted to 9,311 million yen.

**Information by business segment is as follows.**

a) Domestic pharmaceutical business

Revenue in the domestic pharmaceutical business segment in the fiscal year was 102 million yen, a decrease of 94 million yen from the same period of the previous financial year. The Operating Loss in this segment was 794 million yen, a decrease of 257 million yen from the comparative period of last year.

b) Overseas pharmaceutical business

Revenue in the overseas pharmaceutical business segment in the fiscal year was 18,797 million yen, an increase of 10,843 million yen from the previous financial year. Operating income totaled 12,801 million yen, an increase of 11,136 million yen.

<u>Revenue</u>

Milestone-related revenue in the fiscal year under review amounted to 15,620 million yen. This was an increase of 9,786 million yen compared to the previous fiscal year (an increase of 167.8%, an increase of 215.7% on a constant currency basis). The increase is primarily attributable to an upfront milestone of USD 125 million received under a licensing agreement concluded by our wholly owned subsidiary Heptares Therapeutics ("Heptares"), with Allergan Pharmaceuticals International Limited. ("Allergan") in April 2016. The agreement gives Allergan exclusive global rights to a broad portfolio of novel subtype-selective muscarinic receptor agonists in development for the treatment of major neurological disorders, including Alzheimer's disease.

Under the terms of the agreement, Heptares is eligible to receive contingent milestone payments of up to approximately USD 665 million associated with the successful Phase I, II and III clinical development and launch of the first three licensed compounds for multiple indications and up to approximately USD 2,575 million associated with achieving certain annual sales thresholds during the several years following launch, as well as tiered royalties reaching double digits on net sales.

In August 2015, we entered into an agreement with Astra Zeneca to develop novel immuno-oncology treatments for a range of cancers. In June 2016, a USD10 million milestone, was received from AstraZeneca related to the first subject being dosed with the immuno-oncology candidate AZD4635 (HTL1071) in a Phase I clinical study. Under the agreement AstraZeneca gained exclusive global rights to develop, manufacture and commercialize the adenosine $A_{2A}$ receptor antagonist, AZD4635 (HTL1071), a small molecule immuno-oncology candidate, and potential additional $A_{2A}$ receptor-blocking compounds across a range of cancers, including in combination with its existing portfolio of immunotherapies.

In April 2017, post the close of the financial year, we received a USD 12 million milestone payment due to the successful completion of a preclinical study that demonstrated a clear effect of AZD4635 (HTL1071) in reversing adenosine-mediated T-cell suppression and enhancing anti-tumor immunity and, subject to successful completion of development and commercialization milestones, we are also eligible to receive more than USD 500 million, as well as up to low double-digit tiered royalties on net sales

In March 2017, we entered into a drug discovery and licensing agreement with Daiichi Sankyo Company, Limited (Daiichi Sankyo) focused on a single G protein-coupled receptor (GPCR) that plays a crucial role in relieving pain. Under the terms of the agreement, we will assume a role to discover novel, small-molecules focusing on a single GPCR nominated by Daiichi Sankyo and Daiichi Sankyo will receive exclusive global rights to develop, manufacture and commercialize the said molecules discovered by, Heptares.

In return, we received an upfront payment of USD 4 million and we will receive research funding of approximately USD 8 million and we are eligible to receive additional research, development and commercialization milestone payments. In addition, we will be eligible to receive royalties on net sales of new products resulting from the alliance.

Revenue related to royalties in the fiscal year under review increased by 792 million yen compared to the previous fiscal year (an increase of 37.3%; increase of 51.7% on a constant currency basis), and totaled 2,918 million yen. Most of this royalty revenue is related to the sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis, our licensing partner. Sales of Ultibro® Breezhaler® as reported by Novartis on 25 January 2017 were USD 363 million for the calendar year 2016 (comment: it is 40% increase). Adjusting for currency, Novartis reported underlying sales growth of 38 %. Sales of Seebri® Breezhaler® as reported by Novartis for the calendar year were USD 149 million (comment: it is 1% decrease), or a 2% increase adjusting for currency. Revenue was also registered from a milestone payment of USD 5 million received due to the annual combined sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis surpassing USD 500 million.

Research and development expenses

The fiscal year under review saw the start of activities designed to scale up our discovery capability and expand our clinical development capacity. This investment should significantly increase the number of new drug candidates, from one to up to three per annum that we can identify and develop, utilizing Heptares' unique StaR® structure-based drug design technology. Additionally, as we look to advance our own proprietary portfolio ('Wave 2'), we have strengthened our clinical development and translational medicine capabilities so that we are able to progress our proprietary development drug candidates into Phase I clinical trials and then into Phase II and Phase III trials.

Research and development expenses incurred by Heptares in the fiscal year under review have been substantially impacted by exchange rate fluctuations caused by the weakness of the British pound. The average yen/GBP exchange rate pre the Brexit vote was 155.17 yen. Post the Brexit vote the exchange rate for the remainder of the year averaged 141.60 yen. As a result, research and development expenses, excluding non-cash costs, in the fiscal year under review decreased by 698 million yen compared to the previous fiscal year (decrease of 17.8%; an increase of 1.6% on a constant currency basis), and totaled 3,218 million yen. In the year under review, 68% of our total cost base was related to Heptares in the UK. In November 2016, Jitsubo became an affiliated company, rather than a subsidiary company, and consequently the results of Jitsubo are only included in the consolidated financial results of the group for the period up to November 2016.

A portion of research and development expenses incurred by the Group under agreements with our R&D partners are borne by our partners, and the reimbursements that we receive have been deducted from our research and development expenses. These reimbursements relate either to the partnered assets ('Wave 1') or to the technology agreements with a multiple number of partners. During the year, we continued to make good progress with all key research and development collaborations. On a comparative basis, the Allergan collaboration made a significant impact on R&D expenses in the fiscal year as Allergan took over the financial responsibility for the muscarinic programs. In the prior fiscal year, we had made a significant investment in the muscarinic programs.

In December 2016, the group paid 12 million Swiss Francs to acquire G7 Therapeutics, which has now been renamed as Heptares Zurich. Given that we only consolidated the results of Heptares Zurich for approximately one quarter of the fiscal year the impact on R&D expenditure for the year under review was limited.

Selling, general and administrative expenses

Selling, general and administrative expenses, excluding non-cash costs, in the fiscal year under review increased by 279 million yen compared to the previous fiscal year, and totaled 3,572 million yen. This represented an increase of 8.5% on a as reported basis and 25.0% on a constant currency basis. A proportion of the increase in SG&A relates to advice received in relation to the licensing agreement with Allergan.

Non-cash expenses

Non-cash expenses primarily consist of depreciation on property, plant and equipment, amortization of intangible assets and stock-based compensation expense. Non-cash expenses were 1,279 million yen in the fiscal year under review compared to 1,063 million yen in the previous fiscal year. The main component of non-cash expenses is the amortization of intangible assets resulting from the acquisition of Heptares. This was 798 million yen compared to 803 million yen in the prior year. Depreciation expense for the year totaled 108 million year compared to 122 million for the comparative period. The stock-based compensation expense for the year was 372 million yen for this year compared to 137 million yen for the prior year. As we continue on our path towards becoming a global Biotech company, the Group has identified the need to ensure that its employees' compensation is sector competitive to both attract and retain the required talent. A part of this requirement for competitive compensation may include a new annual stock based compensation plan. This will also ensure that employee compensation is aligned to the interests of our shareholders. The proposed plan benchmarks favorably in terms of impact on dilution and the P&L to peer global biotech companies.

Other income

Other income totaled 659 million yen increased by 510 million yen. This increase was partly related to R&D grants in Heptares (218 million yen, compared to 145 million yen for the prior year), and an equity profit from Jitsubo which moved to being an affiliated company as previously described, resulting in it being accounted for using the equity method (417 million yen).

Other expenses

Other expenses totaled 380 million yen, an increase of 369 million yen. This increase is due to the impairment loss (373 million yen) of fixed assets in Heptares at acquisition.

Operating income

Operating income in the fiscal year under review increased by 11,313 million yen and totaled 12,389 million yen. The increase is primarily attributable to the upfront milestone received from Allergen.

Finance income

Finance income in this financial year totaled 1,521 million yen. This is mainly due to the weakening of the British pound relative to our reporting currency and its effect of the value of foreign currency denominated assets in our UK operations.

Finance costs

Finance costs in the fiscal year under review totaled 479 million yen. Of this amount 287 million yen is due to the fluctuation in the fair value of contingent consideration related to the acquisition of Heptares and 192 million yen of the remaining amount is predominantly the interest expense on interest bearing debt related to the acquisition of Heptares.

The contingent consideration is the consideration to be paid to former shareholders of Heptares if certain financial conditions are met, and the fluctuation in fair value in connection with contingent consideration is recorded as an expense. In the previous financial year, 3,816 million yen was recorded as an expense which related to the upfront payment we were expecting to receive from Allergan in the financial year under review. In the current year, 287 million yen has been recorded as an expense in relation to the change on the fair value of the contingent consideration. This relates to the milestone payment received from AstraZeneca.

Income tax expenses

Income tax expense in this financial year totaled 3,331 million yen. This compares to an Income Tax Benefit recorded in the prior year. This is mainly due to both of our UK subsidiaries being in taxable positions for the year under review.

Net income

Net income in this financial year totaled 9,152 million yen, an increase of 10,699 million yen from the previous financial year where a loss was incurred. The main factors behind the increase were the upfront milestone received from Allergan, the impact of the marked decrease in Sterling and the very significant contingent consideration expense related to the Allergan upfront milestone that was recorded in the prior financial year.

Net income per share

Net income per share in this financial year totaled 551.18 yen, a significant increase from the net loss per share of 93.60 yen recorded in the previous financial year. The average number of shares outstanding during financial period was 16,893,424, an increase from 15,302,675 shares in the previous financial year.

### (2) Summary of financial position

Assets

Total assets at the end of this financial year amounted to 48,087 million yen, an increase of 732 million yen from the end of previous financial year. This is mainly due to an increase in cash and cash equivalents due to receipt of upfront payment from Allergan, an increase in trade and other receivables and asset capitalization as a result of Jitsubo change in status to an affiliate company and accounted for by the equity method. These were partially offset by a decrease in goodwill and intangible assets due to the amortization of intangible assets and exchange rate fluctuations and reversal of deferred tax assets due to taxable income in the UK operations.

Liabilities

Total liabilities at the end of this financial year amounted to 19,728 million yen, a decrease of 4,356 million yen from the end of previous financial year. This is mainly due to the payment of contingent consideration to the former shareholders of Heptares and the repayment of interest bearing debt.

Equity

Total equity at the end of this financial year amounted to 28,359 million yen, an increase of 5,089 million yen from the end of previous financial year.

### (3) Summary of cash flows

Cash and cash equivalents at the end of this financial year amounted to 13,899 million yen, an increase of 3,830 million yen from the previous financial year.

Cash flow from operating activities

Cash flow from operating activities in this financial year resulted in an inflow of 12,856 million yen (increase of 187.5% driven primarily the increase in profitability. Additional benefit was seen from favourable foreign exchange gains and working capital movements.

Cash flow from investing activities

Cash flow from investing activities in this financial year resulted in an outflow of 2,327 million yen (increase of 589.1%). This is mainly due to the 1,188 million yen (CHF 12 million) acquisition of Heptares Zurich (formerly G7 Therapeutics) and a 500 million yen increase in our investment of Jitsubo.

Cash flow from financing activities

Cash flow from financing activities in this financial year resulted in an outflow of 6,310 million yen. This is mainly due to repayment of interest bearing debt (2,000 million yen) and settlement of contingent consideration paid to the former shareholders of Heptares (5,032 million yen).

(4) **Earnings forecast**

Sosei Group, through its wholly owned subsidiary, Heptares, has established a product pipeline with first/best in class potential for the treatment of a range of diseases such as Alzheimer's disease, schizophrenia, cancer, migraine, addiction, metabolic disease, by utilizing Heptares' innovative GPCR structure-based drug design platform technology.

We have partnered both products and product candidates with the world's leading pharmaceutical companies and secured a long-term sustainable revenue stream from royalties received from Novartis under the license agreement regarding the development and commercialization of the products intended for the treatment of COPD.

More importantly, we have entered into development and commercialization partnerships with Allergan, AstraZeneca and Teva, and will be entitled to receive progress-dependent development and commercialisation milestones, and royalties on the net sales generated by our partners. At the same time, we have actively invested into the expansion of our proprietary pipeline and the promotion of the development of novel drug candidates.

As explained, the Group's current revenues are increasingly dependent on milestone payments received from out licensing agreements and accordingly there can be wide variances in the amount of revenues we may receive in each financial year.

A clear Group priority is to build a proprietary pipeline of novel first in class or best in class molecules. Our current proprietary pipeline consists of discovery stage candidates which will over time progress into Pre-Clinical development ahead of their move into full clinical development. Employing our 'mixed model' approach, we intend to take some of these programs through full development ourselves and to commercialise under the Sosei banner. With these programs, whilst we will commercialise in some geographic territories, we may potentially defray development costs through 3rd party commercial partnerships in other territories. With other programs, we will look to partner once we have generated sufficient data to enable a value optimising licensing partnership to be established.

Our decisions as to which development candidates to partner and when to partner them and which development candidates to self-commercialise will be partially based on the cost, complexity and risk of the development pathway and costs and complexities of market commercialisation and partially on the need to balance long term value creation for shareholders against short term funding. We are very much focused, over the next few years, on developing a business model which, at the operational level, is self-funding.

Post the close of the financial year, we have announced that the Group has entered into an investment and exclusive option agreement to potentially acquire MiNA Therapeutics ("MiNA"), a pioneer in the emerging field on RNA therapeutics. The agreement is consistent with Sosei's stated inorganic growth strategy, which is focused on identifying innovative clinical-stage assets that have the potential to be developed rapidly and in addition could be commercialised by Sosei in select markets. This inorganic strategy is complementary to Sosei's organic strategy which is focussed on advancing a growing pipeline of preclinical and clinical novel drug candidates originating from our Heptares Therapeutics subsidiary.

The Group has made an initial strategic investment of GBP 35 million into MiNA Therapeutics in return for a 25.6% equity share and an exclusive option to potentially acquire MiNA Therapeutics. Exercise of the options will be based on the achievement of clinical milestones of MiNA's lead clinical-stage asset MTL-CEBPA for treating patients with advanced liver cancer (hepatocellular carcinoma, HCC). MTL-CEBPA is currently under evaluation in OUTREACH, a first-in-human Phase 1 study in patients with HCC, a disease with clear unmet medical needs based on the low response rates, high recurrence rates and sub optimal safety profiles of existing treatments. We expect to see results from OUTREACH during 2018.

The initial investment in MINA was financed through an extension to the group's existing debt facility at the same terms as the existing facility. The impact on operational results for the March 2018 financial year are expected to be minimal.

We believe that MiNA represents an exciting and potentially high value opportunity for Sosei Group to accelerate its pipeline development and to compliment the Heptares platform and pipeline.

.

## 2. Basic policy for the selection of accounting standards

The Group has applied International Financial Reporting Standards since the year ended March 2014.

# 3. Consolidated Financial Statements (IFRS)

## 1) Consolidated statement of financial position

(JPY Million)

| | Cumulative FY2016 (31 March 2017) | Cumulative FY2015 (31 March 2016) |
|---|---|---|
| Assets | | |
| Non-current assets | | |
| Property, plant and equipment | 422 | 270 |
| Goodwill | 14,154 | 15,426 |
| Intangible assets | 16,970 | 19,313 |
| Investments accounted for by the equity method | 605 | — |
| Deferred tax assets | 4 | 1,658 |
| Other non-current assets | 108 | 49 |
| Total non-current assets | 32,266 | 36,718 |
| Current assets | | |
| Trade and other receivables | 1,382 | 97 |
| Other current assets | 538 | 469 |
| Cash and cash equivalents | 13,899 | 10,068 |
| Total current assets | 15,821 | 10,635 |
| Total assets | 48,087 | 47,354 |
| | | |
| Liabilities and Equity | | |
| Liabilities | | |
| Non-current liabilities | | |
| Deferred income | — | 21 |
| Deferred tax liabilities | 3,175 | 3,688 |
| Contingent consideration related to corporate acquisition | 5,230 | 9,994 |
| Interest-bearing liabilities | 4,910 | 6,847 |
| Other financial liabilities | 625 | — |
| Other non-current liabilities | 175 | 74 |
| Total non-current liabilities | 14,116 | 20,626 |
| Current liabilities | | |
| Trade and other payables | 1,547 | 1,335 |
| Deferred income | 4 | 20 |
| Income tax payables | 1,991 | 70 |
| Interest-bearing liabilities | 1,990 | 1,990 |
| Other current liabilities | 77 | 42 |
| Total current liabilities | 5,611 | 3,458 |
| Total liabilities | 19,728 | 24,084 |
| Equity | | |
| Capital stock | 26,004 | 25,955 |
| Capital surplus | 14,632 | 14,263 |
| Retained earnings | (4,873) | (14,184) |
| Other components of equity | (7,409) | (2,891) |
| Equity attributable to owners of the parent company | 28,354 | 23,142 |
| Non-controlling interests | 4 | 126 |
| Total equity | 28,359 | 23,269 |
| Total liabilities and equity | 48,087 | 47,354 |

**2) Consolidated statement of comprehensive income**

(JPY Million)

| | FY2016 (1 April 2016 - 31 March 2017) | FY2015 (1 April 2015 - 31 March 2016) |
|---|---|---|
| Revenue | 18,901 | 8,151 |
| Cost of sales | — | 4 |
| Gross profit | 18,901 | 8,147 |
| Research and development expenses | 3,218 | 3,916 |
| Selling, general and administrative expenses | 3,572 | 3,293 |
| Other income | 659 | 149 |
| Other expenses | 380 | 11 |
| Operating income (loss) | 12,389 | 1,075 |
| Finance income | 1,521 | 4 |
| Finance costs | 479 | 4,377 |
| Share of profit (loss) of associates accounted for using equity method | 229 | — |
| Impairment loss from investment accounted for using equity method | 718 | — |
| Income (loss) before income taxes | 12,483 | (3,297) |
| Income tax expenses | 3,331 | (1,750) |
| Net income (loss) | 9,152 | (1,547) |
| | | |
| Other comprehensive income | | |
| Items that may be reclassified subsequently to profit or loss | | |
| Exchange differences on translating foreign operations | (4,518) | (2,853) |
| Total items that may be reclassified subsequently to profit or loss | (4,518) | (2,853) |
| Total other comprehensive income | (4,518) | (2,853) |
| Comprehensive income | 4,634 | (4,400) |
| | | |
| Net income (loss) for the year attributable to: | | |
| Owners of the parent company | 9,311 | (1,432) |
| Non-controlling interests | (158) | (114) |
| Net income (loss) | 9,152 | (1,547) |
| | | |
| Comprehensive income for the year attributable to: | | |
| Owners of the parent company | 4,793 | (4,285) |
| Non-controlling interests | (158) | (114) |
| Comprehensive income | 4,634 | (4,400) |
| Net income per share (yen) | | |
| Basic net income (loss) | 551.18 | (93.60) |
| Diluted net income (loss) | 549.24 | (93.60) |

### 3) Consolidated statement of changes in equity

| | Capital stock | Capital surplus | Retained earnings | Other components of equity<br>Foreign currency translation adjustments on overseas operations | Equity attributable to owners of the parent company |
|---|---|---|---|---|---|
| Balance as of 1 April 2015 | 19,478 | 7,774 | (12,614) | (38) | 14,600 |
| Net income | ― | ― | (1,432) | ― | (1,432) |
| Foreign currency translation adjustments | ― | ― | ― | (2,853) | (2,853) |
| Total comprehensive income for the year | ― | ― | (1,432) | (2,853) | (4,285) |
| Surplus dividend | ― | ― | (137) | ― | (137) |
| Issuance of new shares | 6,477 | 6,350 | ― | ― | 12,828 |
| Stock based compensation expense | ― | 137 | ― | ― | 137 |
| Total business transactions with owners | 6,477 | 6,488 | (137) | ― | 12,828 |
| Balance as of 31 March 2016 | 25,955 | 14,263 | (14,184) | (2,891) | 23,142 |
| Net income | ― | ― | 9,311 | ― | 9,311 |
| Foreign currency translation adjustments | ― | ― | ― | (4,518) | (4,518) |
| Total comprehensive income for the year | ― | ― | 9,311 | (4,518) | 4,793 |
| Stock based compensation expense | 49 | 6 | ― | ― | 55 |
| Issuance of new shares | ― | 372 | ― | ― | 372 |
| Changes in interest in controlled subsidiary | ― | 1 | ― | ― | 1 |
| Changes due to change in scope of consolidation | ― | (11) | ― | ― | (11) |
| Total business transactions with owners | 49 | 369 | ― | ― | 418 |
| Balance as of 31 March 2017 | 26,004 | 14,632 | (4,873) | (7,409) | 28,354 |

| | Non-controlling interests | Total equity |
|---|---|---|
| Balance as of 1 April 2015 | 241 | 14,842 |
| Net income | (114) | (1,547) |
| Foreign currency translation adjustments | ― | (2,853) |
| Total comprehensive income for the year | (114) | (4,400) |
| Surplus dividend | ― | (137) |
| Issuance of new shares | ― | 12,828 |
| Stock based compensation expense | ― | 137 |
| Total business transactions with owners | ― | 12,828 |
| Balance as of 31 March 2016 | 126 | 23,269 |
| Net income | (158) | 9,152 |
| Foreign currency translation adjustments | ― | (4,518) |
| Total comprehensive income for the year | (158) | 4,634 |
| Stock based compensation expense | ― | 55 |
| Issuance of new shares | ― | 372 |
| Changes in interest in controlled subsidiary | 4 | 6 |
| Changes due to change in scope of consolidation | 32 | 20 |
| Total business transactions with owners | 36 | 455 |
| Balance as of 31 March 2017 | 4 | 28,359 |

**4) Consolidated statement of cash flow**

(JPY Million)

| - | FY2016<br>(1 April 2016 - 31 March 2017) | FY2015<br>(1 April 2015 - 31 March 2016) |
|---|---|---|
| Cash flows from operating activities | | |
| Net income before income taxes | 12,488 | (3,297) |
| Stock-based compensation expense | 923 | 926 |
| Depreciation and amortization | 372 | 137 |
| Subsidy income | (218) | (145) |
| Foreign exchange losses (gains) | (1,271) | 219 |
| Gain on change in equity | (417) | — |
| Share of (profit) loss of associates accounted for using equity method | 229 | — |
| Impairment loss | 373 | |
| Impairment loss from investment accounted for using equity method | 718 | |
| Interest expense | 192 | 438 |
| Changes in fair value related to the contingent consideration | 287 | 3,816 |
| Increase (decrease) in advances received-OpeCF | 216 | (26) |
| Decrease (increase) in accounts receivable | (801) | (102) |
| Decrease (increase) in accounts receivable ted for | (608) | 2,414 |
| Increase (decrease) in accounts payable with co | 352 | 162 |
| Other | (64) | (280) |
| Subtotal | 12,772 | 4,261 |
| Interest and dividends received | 9 | 4 |
| Payments of interest | (129) | (311) |
| Proceeds from subsidy | 201 | 77 |
| Income tax refunded | 12 | 493 |
| Income tax paid | (10) | (53) |
| Cash flows from operating activities | 12,856 | 4,471 |
| Cash flows from investing activities | | |
| Purchases of property, plant and equipment | (332) | (130) |
| Capitalized development costs | (211) | (199) |
| Payments for acquisition of control over consolidated subsidiaries | (1,188) | — |
| Payments for purchase of shares of affiliated companies | (500) | — |
| Other | (95) | (7) |
| Net cash used in investing activities | (2,327) | (337) |
| Cash flows from financing activities | | |
| Net increase (decrease) from short-term interest-bearing debt | (2,000) | (21,000) |
| Proceeds from borrowing long-term interest-bearing debt | — | 9,800 |
| Settlement of contingent consideration | (5,032) | (686) |
| Proceeds from issuance of common stock | 55 | 12,884 |
| Proceeds from payments from limited liability partners | 660 | — |
| Dividend payments | — | (135) |
| Other | 6 | — |
| Net cash from financing activities | (6,310) | 863 |
| Effect of exchange rate changes on cash and cash equivalents | (387) | (501) |
| Increase (decrease) in cash and cash equivalents | 3,830 | 4,495 |
| Cash and cash equivalents at the beginning of year | 10,068 | 5,573 |
| Cash and cash equivalents at the end of year | 13,899 | 10,068 |

**5) Notes on Consolidated Financial Statements**

Notes related to going concern assumptions

Not applicable.

Change in accounting policy

The significant accounting policies the Group will apply to consolidated financial statements are identical to the accounting policies applied to consolidated financial statements in the previous financial year.

Segment 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 location of the legal entities that are the current profit management units. Both segments develop pharmaceutical products. Since Jitsubo, which had been classified into the domestic pharmaceutical business, became a company accounted for by the equity method on November 18, 2016, Jitsubo will be disconnected from the domestic pharmaceutical business segment in the future.

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

| Reportable segments | Company name | Main Development Candidates |
|---|---|---|
| Domestic pharmaceutical business | ・Sosei Co. Ltd.<br>・Activus Pharma Co. Ltd.<br>・Jitsubo Ltd. | ・SO-1105<br>・APP13002 ・APP13007<br>・JIT-2001 ・JIT-1007 |
| Overseas pharmaceutical business | ・Sosei R&D Ltd.<br>・Heptares Therapeutics Ltd. | ・Seebri® ・Ultibro®<br>・Muscarinic $M_1$, $M_4$, and $M_1$/$M_4$ agonist<br>・CGRP antagonists<br>・Adenosine $A_{2A}$ antagonist |

(2) Revenue, profit and loss and other financial information of reportable segments

Revenue, profit and loss and other financial information for each reportable segment are as shown below. The accounting policies the Group will apply to each segment are identical to the accounting policies applied to the consolidated financial statements in the previous financial year.

FY2015 (1 April 2015 to 31 March 2016)

(JPY Million)

| | Reportable segments | | | Adjustments | Consolidated |
|---|---|---|---|---|---|
| | Domestic pharmaceuticals | Overseas pharmaceuticals | Total | | |
| Revenue from third parties | 197 | 7,954 | 8,151 | － | 8,151 |
| Revenue between segments | 0 | － | 0 | (0) | － |
| Total | 197 | 7,954 | 8,152 | (0) | 8,151 |
| Operating income or loss | (537) | 1,665 | 1,128 | (52) | 1,075 |
| Finance income/costs (net) | | | | | (4,373) |
| Net income before income taxes | | | | | (3,297) |
| Other items | | | | | |
| Depreciation and amortization | 36 | 886 | 923 | 2 | 926 |

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

FY2016 (1 April 2016 to 31 March 2017)

(JPY Million)

| | Reportable segments | | | Adjustments | Consolidated |
|---|---|---|---|---|---|
| | Domestic pharmaceuticals | Overseas pharmaceuticals | Total | | |
| Revenue from third parties | 102 | 18,797 | 18,900 | 1 | 18,901 |
| Revenue between segments | — | — | — | — | — |
| Total | 102 | 18,797 | 18,900 | 1 | 18,901 |
| Operating income or loss | (794) | 12,801 | 12,007 | 382 | 12,389 |
| Finance income/costs (net) | | | | | 1,042 |
| Share of (profit) loss of entities accounted for using equity method | | | | | (229) |
| Impairment loss from investment accounted for using equity method | | | | | (718) |
| Net income before income taxes | | | | | 12,483 |
| Other items | | | | | |
| Depreciation and amortization | 34 | 886 | 921 | 1 | 923 |

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

(JPY Million)

| | FY2016 (1 April 2016 - 31 March 2017) | FY2015 (1 April 2015 - 31 March 2016) |
|---|---|---|
| Japan | 559 | 197 |
| Ireland | 13,544 | — |
| Switzerland | 3,363 | 5,096 |
| UK | 968 | 1,319 |
| Israel | 196 | 1,267 |
| Other | 269 | 271 |
| Total | 18,901 | 8,151 |

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

Non-current assets

(JPY Million)

| | FY2016 (31 March 2017) | FY2015 (31 March 2016) |
|---|---|---|
| Japan | 2,190 | 1,960 |
| United Kingdom | 30,071 | 33,099 |
| Total | 32,261 | 35,059 |

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

(5) Information on major customers

Revenues

(JPY Million)

| Name of customer | FY2016<br>(1 April 2016 - 31 March 2017) | FY2015<br>(1 April 2015 - 31 March 2016) | Relevant segment |
|---|---|---|---|
| Allergan | 13,544 | — | Overseas pharmaceutical business |
| Novartis Pharma AG | 3,363 | 5,096 | Overseas pharmaceutical business |
| AstraZeneca | 968 | 1,319 | Overseas pharmaceutical business |
| Teva | 196 | 1,267 | Overseas 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.

| | FY2016<br>(1 April 2016 - 31 March 2017) | FY2015<br>(1 April 2015 - 31 March 2016) |
|---|---|---|
| Net income for the year attributable to owners of the parent company [JPY millions] | 9,797 | (1,432) |
| Weighted average number of common shares outstanding (shares) | 16,893,424 | 15,302,675 |
| | | |
| Basic net income per share [JPY] | 579.97 | (93.60) |

(2) Diluted net income per share

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

This financial year, there is no dilutive effect from latent shares as part conversion of stock options reduced net loss per share.

| | FY2016 (1 April 2016 - 31 March 2017) | FY2015 (1 April 2015 - 31 March 2016) |
|---|---|---|
| Net income for the year attributable to owners of the parent company [JPY millions] | 9,797 | (1,432) |
| Adjusted net income used in the calculation of diluted net income per share [JPY millions] | — | — |
| Net income used in the calculation of diluted net income per share [JPY millions] | 9,797 | (1,432) |
| | | |
| Weighted average number of common shares outstanding [shares] | 16,893,424 | 15,302,675 |
| 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] | 59,604 | — |
| Weighted average number of common shares outstanding used in the calculation of diluted net income per share [shares] | 16,953,028 | 15,302,675 |
| | | |
| Diluted net income per share [JPY] | 577.93 | (93.60) |

(Significant subsequent event)

Important Share Purchase

MiNA (Holdings) Limited ("MiNA")

(a)Summary of Share Purchase

Sosei made investment for a 25.6% equity share of a private UK biopharmaceutical company and pioneer in RNA activation therapeutics (small activating RNAs, saRNAs) through Sosei R&D.

(b) Purpose of Purchase

The agreement is consistent with Sosei's stated inorganic growth strategy, which is focused on identifying innovative clinical-stage assets that have the potential to be developed rapidly and in addition could be commercialised by Sosei in select markets. This inorganic strategy is complementary to Sosei's organic strategy, which is focused on advancing a growing pipeline of novel pre-clinical and clinical drug candidates originating from its Heptares Therapeutics subsidiary.

(c) Summary of MiNA

Company Name: MiNA Therapeutics

Address: 96 Kensington High Street London, W8 4SG, United Kingdom

Representative's name and title: Robert Habib, CEO

Business description: Pioneering novel treatments harnessing gene activation mechanisms through small activating RNA (saRNA) (For further information about MiNA, please visit http://minatx.com/)

Founded: 2008

(d) The Date of share purchase

2 May, 2017

(e) Method of Purchase

Cash in compensation for the shares

(f) Amount of Purchase

5,057 million yen

Note: This agreement is included contingency payment which may be carried out necessary adjustments to consideration for the acquisition. At this timing, we do not identify the amount of asset and liability of MiNA when the Group will acquire.