Consolidated Financial Results for the Second Quarter FY2016 (IFRS)

14 November 2016

Company name:	Sosei Group Corporation		Listing: Tokyo Stock Exchange
Security code:	4565	URL: http://www.sosei.com/	
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Scheduled date of security report filing: 14 November 2016 Scheduled date of dividend payments: —
Supplementary materials for financial results: Available
Financial results briefing session: Available (for analysts)

(Rounded down to nearest million yen)

1. Consolidated results for Q2 FY2016 (from 1 April 2016 to 30 September 2016)

(1) Consolidated operating results (cumulative) (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	%
Q2 FY2016	14,947	488.3	11,360	—	12,383	—	10,027~~9,8 65~~	—	10,151~~9,9 89~~	—	3,241~~3,827~~	—
Q2 FY2015	2,540	349.2	(753)	—	(1,418)	—	(1,175)	—	(1,128)	—	(557)	—

	Net income per share – basic	Net income per share – diluted
	Yen	Yen
Q2 FY2016	601.35~~591.75~~	598.40~~575.98~~
Q2 FY2015	(80.71)	(80.71)

(Note) The consolidated financial statement for Q2 FY2015 has been retroactively adjusted due to provisional accounting treatment of the corporate acquisition in February 2015.

(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
	Million yen	Million yen	Million yen	%
Q2 FY2016	48,035	26,763~~27,349~~	26,756~~27,342~~	55.7~~56.9~~
FY2015	47,354	23,269	23,142	48.9

2. Dividends

	Dividends per share				
	End Q1	End Q2	End Q3	Year end	Total
	Yen	Yen	Yen	Yen	Yen
FY2015	—	0.00	—	0.00	0.00
FY2016	—	0.00			
FY2016 (E)			—	0.00	0.00

(Note) Revision to the latest dividend forecasts: None

3. Forecast for the FY2016 (from 1 April 2016 to 31 March 2017)

(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		Net basic earnings per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2016	27,925	242.6	17,096	—	14,901	—	13,064	—	775.07

(Note) Revision to the latest financial forecasts: None

* Notes

(1) Changes in the number of significant subsidiaries in this consolidated cumulative quarter (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 the end of financial period (including treasury shares)	Q2 FY2016	16,896,184 shares	FY2015	16,855,284 shares
2) Number of treasury shares at the end of financial period	Q2 FY2016	－ shares	FY2015	－ shares
3) Average number of shares issued during financial period (cumulative total)	Q2 FY2016	16,880,446 shares	Q2 FY2015	13,979,479 shares

* Implementation status of financial audit

The audit procedures of the financial statements 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

(Note concerning forward-looking statements)

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. The actual business results may differ materially from the forecasts due to various factors.

(Method of obtaining supplementary materials for financial results and contents of financial results briefing session)

The Company is scheduled to hold an online conference for analysts on November 14, 2016 (Monday).

The materials and audio content of the briefing will be posted on the Company's website promptly after the conference, along with materials to be used on that day.

○ Contents of Attached Materials

1．Analysis of Operating Results and Financial Position

1) Analysis of operating results

I. Current term operating results

The Group aims to become a global biotechnology company anchored in Japan with a focus on global research and development and licensing activities.

In Q1 FY2016, the Group's UK subsidiary Heptares Therapeutics Ltd. ("Heptares") was very successful, signing collaborative pipeline deals with big pharma companies including Allergan plc's wholly-owned subsidiary Allergan Pharmaceuticals International Ltd. ("Allergan").

In addition, with the initiation of Phase 1 clinical trials of a novel immuno-oncology candidate licensed by Heptares to AstraZeneca last year, research and development was steadily conducted as Phase III clinical trials of treatments for Oropharyngeal Candidiasis in Japan were completed in this period with respect to pharmaceutical development.

The Group recorded the following consolidated cumulative financial results for Q2 FY2016.

Consolidated operating results

(JPY Million)

	Cumulative Q2 FY2015	Cumulative Q2 FY2016	Change
Revenue	2,540	14,947	12,406
Gross profit	2,540	14,947	12,406
Operating income (loss)	(753)	11,360	12,114
Net income (loss)	(1,175)	10,0279,865	11,20211,040

(Note) The consolidated financial statement for Q2 FY2015 has been retroactively adjusted due to provisional accounting treatment of the corporate acquisition in February 2015.

Revenue and gross profit

Revenue in this consolidated cumulative quarter, totalled 14,947 million yen, an increase of 12,406 million yen compared to the previous financial year. This was mainly due to receipt of upfront payments and milestone payments associated with the licensing of the Heptares' pipeline.

Operating income

In this consolidated cumulative quarter, the Group recorded operating income of 11,360 million yen, an increase of 12,114 million yen from the comparative period of the previous financial year. This is mainly due to increased revenue and gross profit (referred above).

Net income

In this consolidated cumulative quarter, the Group recorded net income of 10,0279,865 million yen, an increase of 11,20211,040 million yen from the comparative period of the previous financial year. This was mainly because operating income and financial revenue increased, and there were income tax expenses.

Breakdown of research and development; selling, general and administrative expenses

(JPY Million)

	Cumulative Q2 FY2015	Cumulative Q2 FY2016	Change
Research and development expenses	1,896	1,627	(269)
Selling, general and administrative expenses	1,440	2,069	628
Personnel expenses	468	815	347
Outsourcing expenses	283	561	277
Other	688	692	3

(Note) The consolidated financial statement for Q2 FY2015 has been retroactively adjusted due to provisional accounting treatment of the corporate acquisition in February 2015.

Research and development expenses; selling, general and administrative expenses

R&D expenses in the second cumulative quarter decreased by 269 million yen from the previous financial year, and totalled 1,627 million yen. This is mainly due to the stronger yen during the second cumulative quarter. Selling, general and administrative expenses increased by 628 million yen from the previous financial year, and totalled 2,069 million yen. This is mainly because there were a number of costs incurred by expanding Heptares' pipeline.

Finance income

Finance income in the second cumulative quarter totalled 1,185 million yen. This is mainly due to the fact that the weak British pound has impacted fair value adjustments of foreign currency-denominated assets to GBP at the consolidated subsidiary in the UK, incurring 1,176 million yen foreign exchange gains.

Income tax expenses

Income tax expenses in the second cumulative quarter totalled 3,218~~2,518~~ million yen. This is mainly attributable to the pre-tax profit of Heptares, ~~and~~ Sosei R&D Ltd and Sosei Group Corporation.

Information by business segment is as follows.

a) Domestic pharmaceutical business

Revenue in the domestic pharmaceutical business segment in the second cumulative quarter was 60 million yen, a decrease of 26 million yen from the same period of the previous financial year. This is due to decreased royalties recorded from NorLevo®. Operating loss in this segment totalled 375 million yen, a decrease of 135 million yen from the comparative period of last year.

b) Overseas pharmaceutical business

Revenue in the overseas pharmaceutical business segment in the second cumulative quarter was 14,886 million yen, an increase of 12,432 million yen from the same period of the previous financial year. This was mainly due to receipt of upfront payments and milestone payments associated with the licensing of the Heptares' pipeline.

Operating income in the second cumulative quarter was 11,844 million yen, an increase of 12,373 million yen from the comparative period of last year.

II. Cash Flow

(JPY Million)

	Cumulative Q2 FY2015	Cumulative Q2 FY2016	Change
Cash flows from operating activities	1,650	13,459	11,778
Cash flows from investing activities	(134)	(258)	(124)
Cash flows from financing activities	(1,555)	(5,058)	(3,502)

(Note) The consolidated financial statement for Q2 FY2015 has been retroactively adjusted due to provisional accounting treatment of the corporate acquisition in February 2015.

Cash flows from operating activities

Cash flows from operating activities in this cumulative quarter amounted to 13,429 million yen, due mainly to the licensing of the Heptares' pipeline and other factors.

Cash flows from investing activities

Cash utilised in investing activities in this cumulative quarter was 258 million yen, due to spending 110 million yen to acquire tangible fixed assets, and R&D expenses of 141 million yen that were recorded as an asset.

Cash flows from financing activities

Cash flows used in financing activities in this cumulative quarter were 5,058 million yen, mainly due to a 4,105 million yen settlement of contingent consideration and 1,000 million yen repayment of short-term interest bearing debt and other factors.

III. Research and development

In the second cumulative quarter the Group made progress with the StaR® technology-based pipeline of Heptares. As a result, research and development costs were 1,627 million yen (decrease of 269 million yen from the comparative period of the previous year). The research and development expenses of the domestic and overseas pharmaceutical segments were 267 million yen and 1,360 million yen respectively. Part of research and development costs is recorded as an intangible asset.

Progress with the main products under development in each segment is as follows.

a) Domestic pharmaceutical business

In-licensing

With regard to the progress of the main product and development candidate in the domestic pharmaceutical business, Sosei Co., Ltd., the Group's subsidiary ("Sosei"), has completed Phase III clinical trials for verifying efficacy and safety of SO-1105 (indicated for Oropharyngeal Candidiasis) meeting the primary endpoints in such clinical trials. Sosei is currently preparing to apply for approval of SO-1105. Sosei has already signed an exclusive domestic commercialisation agreement with FUJIFILM Pharma Co., Ltd.

Research and development based on platform technologies

Activus Pharma, a Group subsidiary, owns APNT (Activus Pure Nanoparticle Technology), which enables the generation of nanoparticles from poorly soluble compounds 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.
Pre-clinical trials are underway for two development candidates with APNT applications: APP13002 (infectious eye diseases) and APP13007 (inflammatory eye diseases).

Jitsubo, a Group subsidiary, owns Molecular Hiving™ that enables monitoring of the peptide synthesis process, which leads to production of peptides of higher quality compared to those produced by conventional methods. It also owns Peptune™, novel peptide molecule modification technology that improves the efficacy and safety, as well as drug stability of peptide products, by improving their molecular configuration. Pre-clinical trials are underway for two generic development candidates with Molecular Hiving™ applications: JIT-2001 (cardiovascular diseases) and JIT-1007 (orphan diseases).

b) Overseas pharmaceutical business

Pipeline and Products

■Ultibro® Breezhaler®: Launched by Novartis in the EU, Japan, etc.

Ultibro® Breezhaler® (indacaterol maleate/glycopyrronium bromide); brand names: Ultibro® Breezhaler® (EU), Ultibro® Inhalation Capsules (Japan); "Ultibro") is a 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 chronic obstructive pulmonary disease (COPD). Ultibro is a once-daily LABA/LAMA approved as first-in-class in over 90 countries including EU, Japan, Canada, Mexico and Australia and launched in over 40 countries including Germany, Japan and Canada.

In the US, Ultibro was approved in October 2015 as a twice-daily inhaled, fixed-dose combination of indacaterol 27.5 mcg and glycopyrrolate 15.6 mcg, for the long-term maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema, and under the brand name Utibron™ Neohaler®.

■Seebri® Breezhaler®: Launched by Novartis in the EU, Japan, etc

Seebri® Breezhaler®(glycopyrronium bromide; brand names: Seebri® Breezhaler® (EU), Seebri® Inhalation Capsules 50mcg (Japan); "Seebri"), is a 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 has been approved in over 90 countries across Europe, Japan, Canada, Latin America, Asia, Australia and the Middle East.

In the US, Seebri was approved in October 2015 as a twice-daily inhaled monotherapy for the long-term maintenance treatment of airflow obstruction in patients with COPD, including chronic bronchitis and/or emphysema, under the brand name Seebri™ Neohaler® (glycopyrrolate 15.6 mcg).

** Seebri®, Ultibro®, Breezhaler® and Neohaler® are registered trademarks of Novartis AG.*

Seebri™ and Utibron™ are trademarks of Novartis AG.

Research and development based on platform technologies

■ StaR® technology: GPCR structure based drug discovery technology

Heptares StaR® technology is the first in the world that is able to produce GPCRs with improved thermostability. GPCRs (G protein-coupled receptors) are proteins found embedded in the cell membrane. They act as a bridge between the interior and exterior environment of the cell. As such, they can transfer information in the form of biochemical signals, and play a role in many physiological and biological processes, including taste, vision, smell, autonomic nervous system function, behaviour, immunity etc. GPCRs are, therefore, the most important target molecules in medicine. However, when removed from the cell membrane, the molecular structure grows unstable and unclear, thus it has been difficult to perform structure-based discovery research. StaR® technology advances structural analysis of GPCRs and enables powerful and highly selective drug discovery based on molecular structure design that, to date, has been very difficult or impossible to do with confidence. Heptares has a broad and well-stocked pipeline targeting neurological, immuno-oncology, metabolic and rare disease areas. In research and development, Heptares is advancing multiple pipeline products starting with its Muscarinic M1 receptor agonist. The company is also actively engaged in partnerships harnessing its platform technology, and licensing of its in-house pipeline.

Progress in this first cumulative quarter is as follows.

- **R&D and commercialization partnership with Allergan for novel treatments in Alzheimer's and other neurological disorders**

  On 7 April 2016, Heptares and Allergan Pharmaceuticals International Ltd. ("Allergan") signed an R&D and commercialization agreement to license 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 agreements, Heptares will receive an upfront payment of USD 125 million and is eligible to receive contingent milestone payments of up to approximately USD 665 million associated with the successful Phase 1, 2 and 3 clinical development and launch of the first three licensed compounds for multiple indications and up to approximately USD 2.5 billion associated with achieving certain annual sales thresholds during the several years following launch. In addition, Heptares is eligible to receive up to double-digit tiered royalties on net sales of all product resulting from the partnership. Allergan is also committing up to USD 50 million to a research and development program to be conducted jointly by Allergan and Heptares aimed at advancing multiple candidates through Phase 2 clinical studies. Allergan will be responsible for the development of licensed compounds upon initiation of Phase 2b studies and for subsequent manufacturing and commercialization of the products.

- **Initiation of Phase 1 clinical study of novel immuno-oncology candidate in development with AstraZeneca**

In August 2015, Heptares and AstraZeneca entered an agreement to develop novel immuno-oncology treatments for a range of cancers. AstraZeneca gains exclusive global rights to develop, manufacture and commercialize the adenosine A_{2A} receptor antagonist, 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. Heptares will receive near-term milestone payments based on agreed pre-clinical and/or clinical events. The first subject has been dosed with immuno-oncology candidate HTL1071 (AZD4635) in a Phase 1 clinical study, triggering a USD 10 million payment from partner AstraZeneca to Heptares.
Subject to successful completion of development and commercialization milestones, Heptares is also eligible to receive more than USD 500 million, as well as up to double-digit tiered royalties on net sales.

2) Analysis of financial position

Total assets at the end of the second quarter increased by 681 million yen, totalling 48,035 million yen.

Cash and cash equivalents at the end of the second quarter increased by 5,612 million yen and amounted to 15,680 million yen. The current asset to total asset ratio was 35.4%, and cash and cash equivalents to current assets ratio was 92.2%.

Total liabilities as of the end of this quarter amounted to 21,242~~20,685~~ million yen, a decrease of 2,842~~3,398~~ million yen from the end of previous financial year that mainly resulted from contingent consideration related to corporate acquisition of 4,238 million yen and a 1,000 million yen repayment of interest-bearing debt. However, an income tax payables increase of 2,967~~2,275~~ million yen was a factor behind the increase in total liabilities.

Total equity for the second quarter was 26,763~~27,349~~ million yen, an increase of 3,493~~4,080~~ million yen from the end of previous financial year. The main reason is an increase in retained earnings due to increase in income this quarter. Ratio of equity attributable to owners of the parent company to total assets increased by 6.9~~7.8~~ points to 55.7~~56.9~~%.

3) Earnings forecast

No changes have been made from the earnings forecast announced in “Consolidated Financial Results for FY2015 (IFRS)” on 13 May 2016.

2. Matters related to summary information (notes)

1) Changes in the number of significant subsidiaries in this cumulative quarter

Not applicable.

2) Changes in accounting policies and changes in accounting estimates

Accounting policies applied to the summary quarterly consolidated financial statement are the same as those applied in the previous fiscal year.

Income tax expenses are calculated based on the estimated annual effective tax rate.

3. Consolidated Financial Statements (IFRS)

1) Consolidated statement of financial position

(JPY Million)

	Q2 FY2016 (30 September 2016)	Cumulative FY2015 (31 March 2016)
Assets		
Non-current assets		
Property, plant and equipment	318	270
Goodwill	13,574	15,426
Intangible assets	15,733	19,313
Deferred tax assets	1,342	1,658
Other non-current assets	50	49
Total non-current assets	31,019	36,718
Current assets		
Trade and other receivables	116	97
Other current assets	1,219	469
Cash and cash equivalents	15,680	10,068
Total current assets	17,016	10,635
Total assets	48,035	47,354
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred income	–	21
Deferred tax liabilities	2,922~~3,058~~	3,688
Contingent consideration related to corporate acquisition	5,003	9,994
Interest-bearing liabilities	5,880	6,847
Other non-current liabilities	224	74
Total non-current liabilities	14,031~~14,166~~	20,626
Current liabilities		
Trade and other payables	2,092	1,335
Deferred income	30	20
Income tax payables	3,037~~2,345~~	70
Interest-bearing liabilities	1,990	1,990
Other current liabilities	60	42
Total current liabilities	7,211~~6,519~~	3,458
Total liabilities	21,242~~20,685~~	24,084
Equity		
Capital stock	25,991	25,955
Capital surplus	14,475	14,263
Retained earnings	(4,033~~4,195~~)	(14,184)
Other components of equity	(9,677~~8,928~~)	(2,891)
Equity attributable to owners of the parent company	26,756~~27,342~~	23,142
Non-controlling interests	6	126
Total equity	26,763~~27,349~~	23,269
Total liabilities and equity	48,035	47,354

2) Consolidated statement of comprehensive income

(JPY Million)

	Cumulative Q2 FY2016 (1 April 2016 – 30 September2016)	Cumulative Q2 FY2015 (1 April 2015 – 30 September2015) (Restatement)*
Revenue	14,947	2,540
Cost of sales	–	–
Gross profit	14,947	2,540
Research and development expenses	1,627	1,896
Selling, general and administrative expenses	2,069	1,440
Other income	110	53
Other expenses	0	11
Operating income (loss)	11,360	(753)
Finance income	1,185	1
Finance costs	162	666
Income (loss) before income taxes for quarter	12,383	(1,418)
Income tax expenses	3,218~~2,518~~	(243)
Net income(loss) for quarter	10,027~~9,865~~	(1,175)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	(6,037)	617
Total items that may be reclassified subsequently to profit or loss	(6,037)	617
Total other comprehensive income	(6,037)	617
Comprehensive income for quarter	3,241~~3,827~~	(557)
Net income(loss) for the year attributable to:		
Owners of the parent company	10,151~~9,989~~	(1,128)
Non-controlling interests	(123)	(47)
Net income (loss) for quarter	10,027~~9,865~~	(1,175)
Comprehensive income for the year attributable to:		
Owners of the parent company	3,365~~3,951~~	(510)
Non-controlling interests	(123)	(47)
Comprehensive income for quarter	3,241~~3,827~~	(557)
Net income per share (yen)		
Basic net income (loss)	601.35~~591.75~~	(80.71)
Diluted net income (loss)	598.40~~575.98~~	(80.71)

3) Consolidated statement of changes in equity

Cumulative Q2 FY2016 (1 April 2016 – 30 September 2016)

(JPY Million)

	Capital stock	Capital surplus	Retained earnings	Other components of equity	Equity attributable to owners of the parent company
				Foreign currency translation adjustments on overseas operations	
Balance as of 1 April 2016	25,955	14,263	(14,184)	(2,891)	23,142
Net income (loss) for quarter	–	–	10,1519,989	–	10,1519,989
Foreign currency translation adjustments	–	–	–	(6,037)	(6,037)
Total comprehensive income for quarter	–	–	10,1519,989	(6,037)	3,3653,951
Issuance of new shares	35	5	–	–	40
Deficit compensation	–	205	–	–	205
Changes in interest in controlled subsidiary	–	1	–	–	1
Total business transactions with owners	35	212	–	–	248
Balance as of 30 September2016	25,991	14,475	(4,0334,195)	(8,928)	26,75627,342

	Non-controlling interests	Total equity
Balance as of 1 April 2016	126	23,269
Net income (loss) for quarter	(123)	10,0279,865
Foreign currency translation adjustments	–	(6,037)
Total comprehensive income	(123)	3,2413,827
Issuance of new shares	–	40
Deficit compensation	–	205
Changes in interest in controlled subsidiary	4	6
Total business transactions with owners	4	252
Balance as of 30 September 2016	6	26,76327,349

Cumulative Q2 FY2015 (1 April 2015 – 30 September2015)

(JPY Million)

				Other components of equity	
	Capital stock	Capital surplus	Retained earnings (Restatement)*	Foreign currency translation adjustments on overseas operations (Restatement)*	Equity attributable to owners of the parent company (Restatement)*
Balance as of 1 April 2015	19,478	7,774	(12,614)	(38)	14,600
Net income (loss) for quarter	—	—	(1,128)	—	(1,128)
Foreign currency translation adjustments	—	—	—	617	617
Total comprehensive income for quarter	—	—	(1,128)	617	(510)
Issuance of new shares	4,416	4,350	—	—	8,767
Dividends			(137)		(137)
Total business transactions with owners	4,416	4,350	(137)	—	8,629
Balance as of 30 September2015	23,894	12,125	(13,880)	579	22,719

	Non-controlling interests	Total equity
Balance as of 1 April 2015	241	14,842
Net income (loss) for quarter	(47)	(1,175)
Foreign currency translation adjustments	—	617
Total comprehensive income for quarter	(47)	(557)
Issuance of new shares	—	8,767
Dividends	—	(137)
Total business transactions with owners	—	8,629
Balance as of 30 September2015	194	22,914

4) Consolidated quarterly statement of cash flow

(JPY Million)

	Cumulative Q2 FY2016 (1 April 2016 –30 September2016)	Cumulative Q2 FY2015 (1 April 2015 – 30 September2015) (Restatement)*
Cash flows from operating activities		
Net income before income taxes (loss)	12,383	(1,418)
Depreciation and amortization	456	479
Stock-based compensation expense	205	–
Subsidy income	(109)	(48)
Foreign exchange loss (gains)	770	(95)
Interest expense	102	319
Fluctuation in fair value in connection with contingent consideration	59	288
Decrease (increase) in accounts receivable	(813)	(269)
Decrease (increase) in accounts receivable – trade	(83)	2,552
Decrease (increase) in accounts payable – trade	322	(300)
Other	96	391
Subtotal	13,390	1,899
Interests and dividends received	8	1
Payments of interest	(69)	(230)
Subsidies received	97	–
Corporate income tax refund	3	2
Income taxes paid	(2)	(21)
Net cash from operating activities	13,429	1,650
Cash flows from investing activities		
Purchases of property, plant and equipment	(110)	(70)
Capitalized development costs	(141)	(81)
Other	(6)	18
Net cash used in investing activities	(258)	(134)
Cash flows from financing activities		
Repayment of short-term interest-bearing debt	(1,000)	(20,000)
Proceeds from borrowings of long-term interest-bearing debt	–	9,800
Settlement of contingent consideration	(4,105)	–
Proceeds from issuance of common stock	40	8,767
Dividend payments	–	(123)
Net cash from financing activities	(5,058)	(1,555)
Effect of exchange rate changes on cash and cash equivalents	(2,500)	(12)
Increase (decrease) in cash and cash equivalents	5,612	(51)
Cash and cash equivalents at the beginning of year	10,068	5,573
Cash and cash equivalents at the end of quarter	15,680	5,522

5) Notes related to going concern assumptions

Not applicable.

6) Segment information

I. 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. Both segments develop pharmaceutical products and their main business is outlicensing.

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

Reportable segments	Company name	Main pipelines
Domestic pharmaceutical business	・Sosei Co., Ltd. ・Activus Pharma Co., Ltd. ・Jitsubo Ltd.	・SO-1105 ・APP13002 ・APP13007 ・JIT-2001 ・JIT-1007 ・JIT-2005
Overseas pharmaceutical business	・Sosei R&D Ltd. ・Heptares Therapeutics Ltd.	・Seebri® ・Ultibro® ・Muscarinic M_1, M_4, and M_1/M_4 agonist ・CGRP antagonists ・Adenosine A_{2a} antagonist

II. Revenue, profit and loss 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 consolidated financial statements in the previous financial year.

Cumulative Q2 FY2016 (1 April 2016 to 30 September2016)

(JPY Million)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	60	14,886	14,947	–	14,947
Revenue between segments	–	–	–	–	–
Total	60	14,886	14,947	–	14,947
Operating income (loss)	(375)	11,844	11,468	(107)	11,360
Finance income/costs (net)					1,022
Net income (loss) before income taxes					12,383

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

Cumulative Q2 FY2015 (1 April 2015 to 30 September2015)

(JPY Million)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	86	2,454	2,540	–	2,540
Revenue between segments	0	–	0	(0)	–
Total	87	2,454	2,541	(0)	2,540
Operating income (loss)	(239)	(529)	(768)	15	(753)
Finance income/costs (net)					(665)
Net income (loss) before income taxes					(1,418)

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

The consolidated financial statement for Q2 FY2015 has been retroactively adjusted due to provisional accounting treatment of the corporate acquisition in February 2015.