Consolidated Financial Results for the Third Quarter FY2016 (IFRS)

February 10, 2017

Company name:	Sosei Group Corporation	Listing: Tokyo Stock Exchange
Security code:	4565 URL: http://www.sosei.com/	
Representative:	Peter Bains Representative Executive Officer, CEO	
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Scheduled date of security report filing:	10 February 2017	Scheduled date of dividend payments:	−
Supplementary materials for financial results:	None		
Financial results briefing session:	None		

(Rounded down to nearest million yen)

1. Consolidated results for the nine-month ended December 31, 2016 (from April 1, 2016 to December 31, 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	
		%		%		%		%		%		%
Nine-month period ended December 31, 2016	17,118	121.1	12,633	346.6	13,281	522.4	10,048	380.6	10,206	370.9	6,241	186.4
Nine-month period ended December 31, 2015	7,741	713.7	2,828	−	2,133	456.4	2,090	697.4	2,167	726.6	2,179	223.8

	Net income per share – basic	Net income per share – diluted
	Yen	Yen
Nine-month period ended December 31, 2016	604.44	602.12
Nine-month period ended December 31, 2015	146.50	145.23

(Note) The consolidated financial statement for the nine-month period ended December 31, 2015 has been retroactively adjusted due to provisional accounting treatment for 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	%
As of December 31, 2016	52,496	29,867	29,862	56.9
As of March 31, 2016	47,354	23,269	23,142	48.9

2. Dividends

	Dividends per share				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2016	−	0.00	−	0.00	0.00
Fiscal year ending March 31,2017	−	0.00	−		
Fiscal year ending March 31, 2017(Est.)				0.00	0.00

(Note) Revision to the latest dividend forecasts: None

3. Forecast for fiscal year ending March 31, 2017 (from April 1, 2016 to March 31, 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
Fiscal year ending March 31, 2017	19,426	138.3	12,431	−	−	−	−	−	−

(Note) Revision to the latest financial forecasts: Yes

* 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)	As of December 31, 2016	16,914,684 shares	As of March 31, 2015	16,855,284 shares
2) Number of treasury shares at the end of financial period	As of December 31, 2016	－ shares	As of March 31, 2015	－ shares
3) Average number of shares issued during financial period (cumulative total)	As of December 31, 2016	16,886,384 shares	As of December 31, 2015	14,795,198 shares

* Implementation status of financial audit
The review 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.

○ 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 the consolidated cumulative third quarter, the Group’s UK subsidiary Heptares Therapeutics Ltd. (“Heptares”) signed a collaborative license deal with Allergan Pharmaceuticals International Ltd. (“Allergan”), a wholly-owned subsidiary of global pharmaceutical company Allergan plc.

In addition, research and development has progressed steadily with AstraZeneca initiating Phase I clinical trials of a novel immuno-oncology candidate in the previous financial year, while Sosei K.K. completed its Phase III clinical trials of treatments for Oropharyngeal Candidiasis in Japan.

The Group recorded the following consolidated cumulative financial results for the nine-month period ended December 31, 2016.

Consolidated operating results

(JPY Million)

	Nine-month ended December 31, 2015	Nine-month ended December 31, 2016	Change
Revenue	7,741	17,118	9,377
Gross profit	7,741	17,118	9,377
Operating income (loss)	2,828	12,633	9,804
Net income (loss)	2,090	10,048	7,957

(Note) The consolidated financial statement for the nine-month ended December 31, 2015 has been retroactively adjusted due to provisional accounting treatment of the corporate acquisition in February 2015.

Revenue and gross profit

Revenue totalled 17,118 million yen, an increase of 9,377 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 Heptares’ pipeline.

Operating income

The Group recorded operating income of 12,633 million yen, an increase of 9,804 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

The Group recorded net income of 10,048 million yen, an increase of 7,957 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)

	Nine-month ended December 31, 2015	Nine-month ended December 31, 2016	Change
Research and development expenses	2,737	2,328	(408)
Selling, general and administrative expenses	2,230	2,753	523
Personnel expenses	646	1,017	370
Outsourcing expenses	542	726	184
Other	1,042	1,009	(32)

(Note) The consolidated financial statement for the nine-month ended December 31, 2015 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 third cumulative quarter decreased by 408 million yen from the previous financial year, and totalled 2,328 million yen. This is mainly due to the stronger yen during the third cumulative quarter. Selling, general and administrative expenses increased by 523 million yen from the previous financial year, and totalled 2,753 million yen. The increase was driven by the expansion of pipeline within our UK operations as well as an increase in stock based compensation related to employee incentive programmes.

Finance income

Finance income in the third cumulative quarter totalled 1,721 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 1,688 million yen foreign exchange gains.

Finance costs

Finance costs in the third cumulative quarter totalled 1,013 million yen. This is mainly due to fluctuation in the estimates of contingent consideration.

Income tax expenses

Income tax expenses totalled 3,232 million yen. This is mainly attributable to the pre-tax profit of Heptares, 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 third cumulative quarter was 82 million yen, a decrease of 57 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 658 million yen, a decrease of 304 million yen from the comparative period of last year.

b) Overseas pharmaceutical business

Revenue in the overseas pharmaceutical business segment in the third cumulative quarter was 17,035 million yen, an increase of 9,434 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 third cumulative quarter was 12,742 million yen, an increase of 9,668 million yen from the comparative period of last year.

II. Cash Flow

(JPY Million)

	Nine-month ended December 31, 2015	Nine-month ended December 31, 2016	Change
Cash flows from operating activities	5,179	12,132	6,952
Cash flows from investing activities	(235)	(2,031)	(1,795)
Cash flows from financing activities	1,614	(4,886)	(6,500)

(Note) The consolidated financial statement for the nine-month ended December 31, 2015 has been retroactively adjusted due to provisional accounting treatment of the corporate acquisition in February 2015.

Cash flows from operating activities

Cash flows used in operating activities in this cumulative quarter amounted to 12,132 million yen, due mainly to the licensing of the Heptares' pipeline and other factors.

Cash flows from investing activities

Cash utilised in investing activities were 2,031 million yen, of which 1,188 million yen was spent to acquire consolidated subsidiaries and 500 million yen was spent to acquire shares of affiliated companies, and R&D expenses of 152 million yen were recorded as an asset.

Cash flows from financing activities

Cash flows used in financing activities were 4,886 million yen, mainly due to a 4,105 million yen settlement of contingent consideration and 1,500 million yen repayment of short-term interest bearing debt as well as income of 660 million yen from proceeds from payments from limited liability partners and other factors.

III. Research and development

For the nine-month period ended December 31, 2016, the Group made progress with the StaR® technology-based pipeline for which Heptares reached a partnership with a global pharmaceutical company and its in-house pipeline. Research and development costs were 2,328 million yen, a decrease of 408 million yen from the comparative period of the previous year due to the stronger yen. The research and development expenses of the domestic and overseas pharmaceutical segments were 436 million yen and 1,892 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"), 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 of JIT-2001 (cardiovascular diseases) and JIT-1007 (orphan diseases) and basic research for development of JIT-2005 (metabolic disease) are underway.

Jitsubo conducted a third-party allocation of new shares worth a total of 2,500 million yen, and as a result of this, Sosei's ownership of Jitsubo became 43.7% and Jitsubo changed from being a subsidiary to become an affiliate company accounted for by the equity method on November 18, 2016.

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, Ultibron 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).

Following the announcement on December 21, 2016 by Novartis, Sunovion Pharmaceuticals Inc. assumes US commercialization rights for Utibron Neohaler and Seebri Neohaler. Novartis will continue to bring Ultibro Breezhaler and Seebri Breezhaler to patients with COPD outside of the US.

Under the terms of the Novartis Licence Agreement, Sosei receives royalties on the net sales of Ultibro® / Utibron™ and Seebri®.

Also, as the total annual sales of these COPD products have exceeded USD500 million in a calendar year, Sosei is entitled to receive a one-off milestone payment of USD5 million. This sales milestone has been recorded in the third cumulative fiscal quarter.

* *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.

On December 14, 2016, Heptares acquired all shares of Heptares Therapeutics Zurich AG (formerly G7 Therapeutics AG), which has proprietary techniques for stabilizing GPCRs (called SaBRE and CHESS), for CHF 12 million (approximately 1,366 million yen) and made it its subsidiary for the purpose of broadening and strengthening Heptares' intellectual property and platform for structure-based drug design and development focused on GPCRs, a superfamily of receptors linked to a wide range of human diseases. Although SaBRE and CHESS techniques developed by Heptares Therapeutics Zurich AG are different from the StaR® technology developed by Heptares, the two platforms are highly complementary. The combination of Heptares' and Heptares Therapeutics Zurich AG's drug discovery platforms is expected to improve Heptares' R&D productivity by enabling the generation of stabilized GPCRs and high-quality GPCR structural analysis, and ultimately enhance Heptares Therapeutics Zurich AG's proprietary pipeline.

Progress in this third cumulative quarter is as follows.

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

  On April 7, 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 I, II and III 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 II clinical studies. Allergan will be responsible for the development of licensed compounds upon initiation of Phase IIb studies and for subsequent manufacturing and commercialization of the products.

- **Initiation of Phase I 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 I 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.

- **Heptares and Jitsubo Initiate Collaboration to Develop Novel GPCR-targeting Peptide Candidates**

  Heptares and Jitsubo commenced collaboration to develop novel peptide candidates designed to target a GPCR implicated in severe gastrointestinal disorders. This represents the first strategic collaboration between Sosei Group companies, highlighting the complementary platforms at Sosei Group's disposal for the discovery and development of a sustainable pipeline of innovative therapeutics targeting diseases with unmet need. In this collaboration, the target GPCR plays an important role in several gastrointestinal indications and is currently in the research phase.

2) Analysis of financial position

Total assets at the end of the third quarter increased by 5,142 million yen, totalling 52,496 million yen.
Cash and cash equivalents at the end of the third quarter increased by 5,372 million yen and amounted to 15,441 million yen. The current asset to total asset ratio was 32.9%, and cash and cash equivalents to current assets ratio was 89.4%.

Total liabilities as of the end of this quarter amounted to 22,629 million yen, a decrease of 1,455 million yen from the end of previous financial year that mainly resulted from contingent consideration related to corporate acquisition of 4,105 million yen and a 1,500 million yen repayment of interest-bearing debt. However, financial liabilities of 660 million yen and an income tax payables increase of 3,248 million yen were factors behind the increase in total liabilities.

Total equity for the third quarter was 29,867 million yen, an increase of 6,598 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 8.0 points to 56.9%.

3) Earnings forecast

The earnings forecast for the FY2016 published on May 13 2016 has been revised. For more information, please refer to "Notice

Concerning Forecast Revision for the FY2016" that have been released today.

2. Matters related to summary information (notes)

1) Changes in the number of significant subsidiaries in this consolidated 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)

	Nine-month ended December 31, 2016	Fiscal year ended March 31, 2016
Assets		
Non-current assets		
Property, plant and equipment	304	270
Goodwill	15,394	15,426
Intangible assets	16,527	19,313
Investments accounted for by the equity method	1,493	–
Deferred tax assets	1,465	1,658
Other non-current assets	47	49
Total non-current assets	35,232	36,718
Current assets		
Trade and other receivables	799	97
Other current assets	1,022	469
Cash and cash equivalents	15,441	10,068
Total current assets	17,263	10,635
Total assets	52,496	47,354
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred income	–	21
Deferred tax liabilities	3,014	3,688
Contingent consideration related to corporate acquisition	5,807	9,994
Interest-bearing liabilities	5,396	6,847
Other financial liabilities	636	–
Other non-current liabilities	196	74
Total non-current liabilities	15,051	20,626
Current liabilities		
Trade and other payables	2,186	1,335
Deferred income	14	20
Income tax payables	3,318	70
Interest-bearing liabilities	1,990	1,990
Other current liabilities	67	42
Total current liabilities	7,577	3,458
Total liabilities	22,629	24,084
Equity		
Capital stock	26,002	25,955
Capital surplus	14,535	14,263
Retained earnings	(3,977)	(14,184)
Other components of equity	(6,698)	(2,891)
Equity attributable to owners of the parent company	29,862	23,142
Non-controlling interests	4	126
Total equity	29,867	23,269
Total liabilities and equity	52,496	47,354

2) Consolidated statement of comprehensive income

(JPY Million)

	Nine-month ended December 31, 2016 (April 1, 2016 – December 31, 2016)	Nine-month ended December 31, 2015 (April 1, 2015 – December 31, 2015) (Restatement)
Revenue	17,118	7,741
Cost of sales	–	–
Gross profit	17,118	7,741
Research and development expenses	2,328	2,737
Selling, general and administrative expenses	2,753	2,230
Other income	597	67
Other expenses	0	11
Operating income (loss)	12,633	2,828
Finance income	1,721	1
Finance costs	1,013	696
Share of profit (loss) of associates accounted for using equity method	(60)	–
Income (loss) before income taxes for quarter	13,281	2,133
Income tax expenses	3,232	43
Net income (loss) for quarter	10,048	2,090
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	(3,806)	88
Total items that may be reclassified subsequently to profit or loss	(3,806)	88
Total other comprehensive income	(3,806)	88
Comprehensive income for quarter	6,241	2,179
Net income (loss) for the year attributable to:		
Owners of the parent company	10,206	2,167
Non-controlling interests	(158)	(76)
Net income (loss) for quarter	10,048	2,090
Comprehensive income for the year attributable to:		
Owners of the parent company	6,399	2,255
Non-controlling interests	(158)	(76)
Comprehensive income for quarter	6,241	2,179
Net income per share (yen)		
Basic net income (loss)	604.44	146.50
Diluted net income (loss)	602.12	145.23

3) Consolidated statement of changes in equity

Nine-month ended December 31, 2016 (April 1, 2016 – December 31, 2016)

	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	—	—	10,206	—	10,206
Foreign currency translation adjustments	—	—	—	(3,806)	(3,806)
Total comprehensive income for quarter	—	—	10,206	(3,806)	6,399
Issuance of new shares	46	6	—	—	52
Stock-based compensation expense	—	276	—	—	276
Changes in interest in controlled subsidiary	—	1	—	—	1
Changes due to change in scope of consolidation	—	(11)	—	—	(11)
Total business transactions with owners	46	272	—	—	319
Balance as of 31 December 2016	26,002	14,535	(3,977)	(6,698)	29,862

	Non-controlling interests	Total equity
Balance as of 1 April 2016	126	23,269
Net income (loss) for quarter	(158)	10,048
Foreign currency translation adjustments	—	(3,806)
Total comprehensive income	(158)	6,241
Issuance of new shares	—	52
Stock-based compensation expense	—	276
Changes in interest in controlled subsidiary	4	6
Changes due to change in scope of consolidation	32	20
Total business transactions with owners	36	355
Balance as of 31 December 2016	4	29,867

Nine-month ended December 31, 2015 (April 1, 2015 – December 31, 2015)

	Capital stock	Capital surplus	Retained earnings (Restatement)	Other components of equity	Equity attributable to owners of the parent company (Restatement)
				Foreign currency translation adjustments on overseas operations (Restatement)	
Balance as of April 1, 2015	19,478	7,774	(12,614)	(38)	14,600
Net income (loss) for quarter	—	—	2,167	—	2,167
Foreign currency translation adjustments	—	—	—	88	88
Total comprehensive income for quarter	—	—	2,167	88	2,255
Issuance of new shares	6,447	6,344	—	—	12,792
Dividends	—	—	(137)	—	(137)
Total business transactions with owners	6,447	6,344	(137)	—	12,654
Balance as of December 31, 2015	25,925	14,119	(10,584)	50	29,511

	Non-controlling interests	Total equity (Restatement)
Balance as of April 1, 2015	241	14,842
Net income (loss) for quarter	(76)	2,090
Foreign currency translation adjustments	—	88
Total comprehensive income for quarter	(76)	2,179
Issuance of new shares	—	12,792
Dividends	—	(137)
Total business transactions with owners	—	12,654
Balance as of December 31, 2015	164	29,676

4) Consolidated statement of cash flow

(JPY Million)

	Nine-month ended December 31, 2016 (April 1, 2016 – December 31,2016)	Nine -month ended December 31, 2015 (April 1, 2015 – December 31, 2015) (Restatement)
Cash flows from operating activities		
Net income before income taxes (loss)	13,281	2,133
Depreciation and amortization	677	716
Stock-based compensation expense	276	–
Subsidy income	(158)	(63)
Foreign exchange loss (gains)	(1,545)	65
Gain on change in equity	(417)	–
Share of (profit) loss of associates accounted for using equity method	60	–
Interest expense	149	380
Fluctuation in fair value in connection with contingent consideration	864	252
Decrease (increase) in accounts receivable	(629)	(143)
Decrease (increase) in accounts receivable – trade	(605)	2,094
Decrease (increase) in accounts payable – trade	209	(342)
Other	(78)	(130)
Subtotal	12,083	4,963
Interests and dividends received	9	1
Payments of interest	(100)	(271)
Subsidies received	131	13
Corporate income tax refund	12	508
Income taxes paid	(4)	(36)
Net cash from operating activities	12,132	5,179
Cash flows from investing activities		
Purchases of property, plant and equipment	(161)	(92)
Capitalized development costs	(152)	(140)
Acquisition of consolidated subsidiaries	(1,188)	–
Purchase of shares of affiliated companies	(500)	–
Other	(28)	(2)
Net cash used in investing activities	(2,031)	(235)
Cash flows from financing activities		
Repayment of short-term interest-bearing debt	(1,500)	(20,500)
Proceeds from borrowings of long-term interest-bearing debt	–	9,800
Settlement of contingent consideration	(4,105)	(343)
Proceeds from issuance of common stock	52	12,792
Proceeds from payments from limited liability partners	660	–
Dividend payments	(0)	(135)
Other	6	–
Net cash from financing activities	(4,886)	1,614
Effect of exchange rate changes on cash and cash equivalents	157	(192)
Increase (decrease) in cash and cash equivalents	5,372	6,365
Cash and cash equivalents at the beginning of year	10,068	5,573
Cash and cash equivalents at the end of quarter	15,441	11,939

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 out-licensing.

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 pipelines
Domestic pharmaceutical business	・Sosei Co. Ltd. ・Activus Pharma Co. Ltd. ・Jitsubo Ltd.	・SO-1105 ・APP13002 ・APP13007 ・JIT-2001 ・JIT-1007
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.

Nine-month ended December 31, 2016 (April 1, 2016 to December 31, 2016)

(JPY Million)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	82	17,035	17,118	0	17,118
Revenue between segments	－	－	－	－	－
Total	82	17,035	17,118	0	17,118
Operating income (loss)	(658)	12,742	12,084	549	12,633
Finance income/costs (net)					708
Share of profit (loss) of associates accounted for using equity method					(60)
Net income (loss) before income taxes					13,281

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

Nine-month ended December 31, 2015 (April 1, 2015 to December 31, 2015)

(JPY Million)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	139	7,601	7,741	－	7,741
Revenue between segments	0	－	0	(0)	－
Total	140	7,601	7,741	(0)	7,741
Operating income (loss)	(354)	3,074	2,720	108	2,828
Finance income/costs (net)					(694)
Net income (loss) before income taxes					2,133

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

The consolidated financial statement for the nine-month ended December 31, 2015 has been retroactively adjusted due to provisional accounting treatment of the corporate acquisition in February 2015.