Consolidated Financial Results for the First Quarter FY2018 (IFRS)

August 9, 2018

Company name:	Sosei Group Corporation		Listing: Tokyo Stock Exchange
Security code:	4565	URL: http://www.sosei.com/	
Representative:	Peter Bains Representative Executive Officer, CEO		
Contact person:	Chris Cargill Interim CFO		Tel: +81-3-5210-3290

Scheduled date of Quarterly Securities Report filing	August 9, 2018	Scheduled date of dividend payments:	—
Supplementary materials for financial results:	No		
Financial results briefing session:	No		

(Rounded to nearest million yen)

1. Consolidated results for the three-month period ended June 30, 2018 (from April 1, 2018 to June 30, 2018)
   (1) Consolidated operating results (cumulative) (Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net profit before income taxes		Net profit		Net profit attributable to owners of the parent company		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Three-month period ended June 30, 2018	835	(70.0)	(1,783)	—	(1,943)	—	(1,568)	—	(1,568)	—	(2,297)	—
Three-month period ended June 30, 2017	2,784	(81.5)	731	(94.4)	349	(97.4)	291	(97.4)	292	(97.4)	1,433	(75.8)

	Earnings per share – basic	Earnings per share – diluted
	Yen	Yen
Three-month period ended June 30, 2018	(20.57)	(20.57)
Three-month period ended June 30, 2017	4.32	4.30

(Note) Effective July 1, 2018, the Company executed a stock split at a ratio of 4 shares per common share. Earnings per share has been calculated as if the stock split had occurred at the beginning of the previous consolidated fiscal year.

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of the parent company	Ratio of equity attributable to owners of the parent company to total assets
	Million yen	Million yen	Million yen	%
At June 30, 2018	65,514	46,469	46,465	70.9
At March 31, 2018	69,486	48,886	48,882	70.3

2. Dividends

	Dividends per share				
	End Q1	End Q2	End Q3	End Q4	Total
	Yen	Yen	Yen	Yen	Yen
FY2017	—	0.00	—	0.00	0.00
FY2018	0.00				
FY2018 (E)		—	—	0.00	0.00

(Note) There is no change in dividends forecast from the previous disclosure.
The record date for the interim dividend for the FY2018 is June 30, 2018 (End Q1).

3. Forecast for the FY2018 (from April 1, 2018 to December 31, 2018)

The Group's revenues are reliant on (i) upfront payments related to new partnerships, and (ii) major milestone payments[1] from existing discovery and development partnerships. It is important to note that the Group does not control the development of drug candidates that the Group has out-licensed to its partners.

[1] The Group classifies "major milestone payments" in (ii) as any single payment greater than or equal to USD 5 million.

The Group will continue to receive royalty-related revenues from Novartis on sales of COPD products Ultibro® and Seebri®.

The Group's forecast for the nine-month period to 31 December 2018 has improved as a result of enhanced in-house pipeline management and phasing of R&D spend:

- Forecast cash R&D expenses in the range of JPY 7,000 to JPY 7,600 million (previously JPY 7,600 to JPY 8,100 million).
- Forecast cash G&A expenses in the range of JPY 2,000 to JPY 2,500 million (unchanged).
- Forecast loss (on a cash earnings basis) has improved to be in the range of JPY 6,500 to JPY 7,600 million (previously JPY 7,000 to JPY 8,100 million).
- We do not expect to receive upfront payments related to new partnerships (unchanged).
- We reiterate that we do not expect to receive major milestone payments from existing discovery and development partnerships (unchanged).

The Group expects an improved outlook for the financial year ending December 31, 2019:

- We expect to receive upfront payments related to new partnerships.
- We expect to receive major milestone payments from existing discovery and development partnerships.
- The Group has a strong cash runway into 2020 to fund its drug development activities.

* Notes

(1) Changes in the number of significant subsidiaries for the nine-month period ended June 30, 2018 (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: Yes

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 period end (including treasury shares)	At June 30, 2018	76,219,936 shares	At March 31, 2018	76,219,936 shares
2) Number of treasury shares at period end	At June 30, 2018	104 shares	At March 31, 2018	104 shares
3) Average number of shares in issue in period	Three-months ended June 30, 2018	76,219,832 shares	Three-months ended June 30, 2017	67,678,812 shares

(Note) As of July 1, 2018, the Company has executed a stock split at a ratio of 4 shares per common share. "Number of shares issued at period end ", "Number of treasury shares at period end " and " Average number of shares in issue in period "are calculated assuming that the stock split was made at the beginning of the previous consolidated fiscal year.

* Quarterly consolidated financial results reports are not subject to audit.

* 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 judgements 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

The Group is a clinical-stage biotechnology company. Our vision is to become Japan's first global biotechnology champion, by discovering and developing highly innovative medicines targeting G Protein-Coupled Receptors ("GPCRs").

During the three months ended June 30, 2018 ("Q1 FY18") (from April 1, 2018 to June 30, 2018), the Group continued to advance its proprietary StaR® ("stabilized receptor") technology and Structure-based Drug Design ("SBDD") platform.

Our balanced business model progressed across all areas; (i) partnerships with major global pharmaceutical companies, (ii) collaborations in R&D with innovative biotechnology companies, and (iii) in-house proprietary drug development.

As of June 30, 2018, the Group had 13 programs ongoing in discovery, with 5 in preclinical development, and 4 currently in clinical trials (including the Phase 2a "MATILDA" study for dementia with Lewy bodies ("DLB") in Japan).

In the area of **partnerships with major global pharmaceutical companies**, our next-generation cancer immunotherapy candidate, AZD4635, and our novel symptomatic treatment for Alzheimer's disease, HTL0018318, continued to progress well through patient-based clinical studies.

On April 18, 2018, the Group together with its partner AstraZeneca UK Limited ("AstraZeneca") announced new data demonstrating that AZD4635 induces anti-tumor immunity alone and in combination with anti-PD-L1 immunotherapies in preclinical models. AZD4635 is a potent and selective, orally available, small molecule adenosine A2a receptor antagonist. AZD4635 was discovered by Sosei's wholly-owned subsidiary Heptares Therapeutics ("Heptares"), and AstraZeneca licensed exclusive global rights to the molecule in 2015. The clinical potential of AZD4635 is being thoroughly investigated by AstraZeneca and the following studies are ongoing:

- Phase 1b study assessing safety, tolerability, pharmacokinetics and biological activity in patients with solid malignancies (NCT#02740985); and
- Phase 1b/2 study assessing safety, tolerability and anti-tumor activity of novel combination therapies in patients with advanced epidermal growth factor receptor ("EGFRm") mutated non-small cell lung cancer ("NSCLC") (NCT#03381274).

In the area of **collaborations in R&D with innovative biotechnology companies**, the Group's programs also continued to advance efficiently.

On May 24, 2018, the Group provided an update on its collaboration with PeptiDream. The collaboration, which began in 2017, aims to discover, develop and commercialize novel peptide therapeutics targeting Protease activated receptor 2 ("PAR2"), a GPCR with an important role in inflammatory disease. The combination of Sosei's proprietary StaR® technology, providing a purified and stable receptor, and PeptiDream's proprietary Peptide Discovery Platform System ("PDPS") has allowed for rapid identification of high affinity and selective peptide antagonists against PAR2. The peptides are undergoing further characterization and optimization, with the intention of advancing the most promising leads towards clinical development. As per the terms of the agreement, Sosei and PeptiDream jointly conduct and share the costs of the discovery and development program and will co-own any resulting products.

In the area of **in-house proprietary drug development**, the Group continued to make the necessary investments in our pipeline as we advanced multiple candidates towards clinical studies.

On June 18, 2018, the Group received all necessary approvals to begin its Phase 2a MATILDA study assessing the safety, tolerability, and efficacy of novel muscarinic M1 receptor agonist HTL0018318 in patients with DLB. This important approval will enable the first clinical sites for the study to open for patient enrolment. The Phase 2a trial will enroll approximately 172 DLB patients and will use a randomized, double-blinded, placebo-controlled, dose-ranging design. The primary objective of the study is to evaluate the safety and tolerability of HTL0018318 versus placebo, and the secondary objective is to assess the efficacy (cognition and neuropsychiatric symptoms) of HTL0018318 versus placebo over a 12-week treatment duration. The trial is expected to run through to mid-2020. The study can be accessed on clinicaltrials.jp under the JapicCTI-No. 183989 .

The Group's other in-house proprietary drug development programs continued to progress well.

On June 4, 2018, the Group announced that Chris Cargill was appointed to the role of Interim CFO following the resignation of Andrew Oakley. This change was approved by the Board of Directors and went into effect on June 4, 2018.

As of June 30, 2018, the Group had a total of 158 employees (an increase of 14 employees vs. Q1 FY17).

As a result of the above activities, the Group reported the following financial results for Q1 FY18. Revenue of JPY 835 million (a decrease of JPY 1,949 million vs. Q1 FY17), an operating loss of JPY 1,783 million (a decrease of JPY 2,514 million vs. Q1 FY17), a net loss before income taxes of JPY 1,943 million (a decrease of JPY 2,292 million vs. Q1 FY17), a net loss of JPY 1,568 million (a decrease of JPY 1,859 million vs. Q1 FY17) and a net loss attributable to owners of the parent company of JPY 1,568 million (a decrease of JPY 1,860 million vs. Q1 FY17).

The Group operates as a single business segment and, therefore, segmental information has been omitted. Further explanation of the Group's financial performance is detailed below.

Revenue

Revenue related to royalties in the Q1 FY18 period under review totaled JPY 626 million (an increase of JPY 40 million vs. Q1 FY17). The majority of the Group's royalty revenue relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis.[2]

On July 18, 2018, our partner Novartis reported total Q2 2018 sales for its Ultibro® Breezhaler® and Seebri® Breezhaler® products of USD 155 million (an increase of USD 20 million). The breakdown of Novartis' Q2 2018 sales by product was as follows:

- Ultibro® Breezhaler® (USD 116 million, an increase of USD 17 million or +11% cc) a LABA/LAMA, grew double digit, driven by positive FLAME and CLAIM study results as well as the GOLD Strategy 2018 Report and further supported by the recently published SUNSET study results.
- Seebri® Breezhaler® (USD 39 million, an increase of USD 3 million or +2% cc) an inhaled LAMA, was stable.

Ultibro® Breezhaler® remains the number one LABA/LAMA across Europe. Furthermore, in its Q2 2018 results presentation, Novartis confirmed its commitment to respiratory products that contain the Group's out-licensed compound *glycopyrronium bromide*. Novartis disclosed its planned filing of QVM149 for Asthma in 2019, ahead of an expected commercial launch in 2020, and the Group is eligible to receive further royalties on sales of this product.

Revenue related to milestones in the Q1 FY18 period under review totaled JPY 101 million (a decrease of JPY 1,915 million vs. Q1 FY17). Q1 FY17 contained major milestone payments from AstraZeneca (USD 12 million) and Teva Pharmaceutical Industries Ltd ("Teva") (USD 5 million). Therefore, the main reason for the decline in revenues related to milestones in Q1 FY18 was due to the absence of any upfront payments related to new partnerships, and the absence of any major milestone payments from existing discovery and development partnerships. Both of these reasons were previously disclosed in the Group's forecasts at the FY2017 full year results on May 10, 2018. The Group classifies a "major milestone payment" as any single payment greater than or equal to approximately USD 5 million.

- [2] Glycopyrronium bromide and certain use and formulation intellectual property were exclusively licensed to Novartis in April 2005 by Sosei and Vectura. In the US, these products are available at different doses or regimens under the names Utibron™ Neohaler® and Seebri™ Neohaler® and Sunovion Pharmaceuticals Inc. has assumed, as of December 21, 2016, US commercialization rights for them. Seebri™ Neohaler® was launched in October 2017 by Sunovion Pharmaceuticals Inc.

Research and development

Cash research and development ("R&D") expenses in the Q1 FY18 period under review totaled JPY 1,826 million (increased JPY 749 million vs. Q1 FY17). The main reason for the increase in R&D expenses was due to increased spending related to our Phase 2a MATILDA study for DLB in Japan, together with continued investment in our in-house drug development programs during Q1 FY18. In Q1 FY18, 97% of R&D spend related to our UK operations. The Group's guidance for cash R&D expenditure has improved as a result of enhanced pipeline management and phasing of R&D spend. For the nine-month period to December 31, 2018, we now forecast cash R&D expenditure to be in the range of between JPY 7,000 million to JPY 7,600 million (USD 65 to USD 70 million).

General and administrative expenses

Cash general and administrative ("G&A") expenses in the Q1 FY18 period under review totaled JPY 508 million (a decrease of JPY 212 million vs. Q1 FY17). The Group's guidance for cash G&A expenditure remains unchanged. For the nine-month period to December 31, 2018, we forecast cash G&A expenditure to be in the range of between JPY 2,000 million to JPY 2,500 million (USD 18 million to USD 23 million).

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 in the Q1 FY18 period under review were JPY 342 million (an increase of JPY 15 million vs. Q1 FY17). In total, amortization amounted to JPY 230 million (an increase of JPY 13 million vs. Q1 FY17). Depreciation expense for Q1 FY18 totaled JPY 37 million (an increase of JPY 11 million vs. Q1 FY17). Stock-based compensation expense for the period was JPY 75 million (a decrease of JPY 10 million vs. Q1 FY17).

Operating loss

Operating loss in the Q1 FY18 period under review totaled JPY 1,783 million (relative to operating income of JPY 731 million in the previous corresponding period). The main reason for the operating loss was due to the decrease in revenue (for the reasons stated above), and the increase in R&D expense (for the reasons stated above) during Q1 FY18, relative to the previous corresponding period.

Finance costs

Finance costs in the Q1 FY18 period under review totaled JPY 155 million (a decrease of JPY 127 million vs. Q1 FY17). The main reason for the decrease was due to foreign exchange cost reduction as a result of more stable JPY, USD and GBP rates during Q1 FY18 relative to the previous corresponding period. Finance costs also includes contingent consideration charges which remained stable vs. Q1 FY17. As a reminder to the Group's shareholders, the contingent consideration charge relates to additional purchase consideration to be paid to the former shareholders of Heptares. The contingent consideration charge represents the re-measurement of the estimated liability due in the future to the former shareholders of Heptares. At June 30, 2018, the Group has to date paid USD 66 million in milestones, out of the total potential milestone amount payable of USD 220 million.

Net loss

The net loss in the Q1 FY18 period under review totaled JPY 1,568 million (relative to net income of JPY 291 million in the previous corresponding period). The main reason for the operating loss was due to the decrease in revenue (for the reasons stated above), and the increase in R&D expense (for the reasons stated above) during Q1 FY18, relative to the previous corresponding period.

(2) Analysis of financial position

1) Assets, liabilities and equity

Assets

Total assets at June 30, 2018 decreased by JPY 3,972 million from the end of the previous fiscal year, totaling JPY 65,514 million. The main reason for this decrease was a decrease of JPY 3,239 million in cash and cash equivalents associated with operating cash flow expenditure, as well as debt repayments of JPY 750 million in Q1 FY18.

Liabilities

Total liabilities at June 30, 2018 were JPY 19,045 million, a decrease of JPY 1,555 million from the end of the previous fiscal year. This is mainly due to the decrease of JPY 735 million of interest-bearing liabilities, a decrease in trade and other payables of JPY 398 million, and a decrease in deferred tax liabilities of JPY 370 million.

Equity

Total equity at June 30, 2018 was JPY 46,469 million, a decrease of JPY 2,417 million from the end of the previous fiscal year. This was primarily due to the net loss of JPY 1,568 million. The ratio of equity attributable to owners of the parent company to total assets was 70.9%, an increase of 0.6% from the end of the previous fiscal year.

2) Cash flows

Cash and cash equivalents at June 30, 2018 decreased by JPY 3,239 million from the beginning of the year and amounted to JPY 25,042 million.

Cash flows from operating activities

Net cash used in operating activities for the three-month period ended June 30, 2018 amounted to JPY 1,398 million. This was predominantly due to the operating loss recorded for the period arising from the Group’s increased investment in Research and Development.

Cash flows from investing activities

Net cash used in investing activities for the three-month period ended June 30, 2018 amounted to JPY 971 million. This was primarily due to the acquisition of fixed assets totaling JPY 899 million.

Cash flows from financing activities

Net cash used in financing activities for the three-month period ended June 30, 2018 was JPY 850 million. This was primarily due to repayments of long-term interest-bearing debt of JPY 750 million.

(3) Earnings forecast

The Group's revenues are reliant on (i) upfront payments related to new partnerships, and (ii) major milestone payments[3] from existing discovery and development partnerships. It is important to note that the Group does not control the development of drug candidates that the Group has out-licensed to its partners.

The Group will continue to receive royalty-related revenues from Novartis on sales of COPD products Ultibro® and Seebri®.

The Group's forecast for the nine-month period to December 31, 2018 has improved as a result of enhanced in-house pipeline management and phasing of R&D spend:

- Forecast cash R&D expenses in the range of JPY 7,000 to JPY 7,600 million (previously JPY 7,600 to JPY 8,100 million).
- Forecast cash G&A expenses in the range of JPY 2,000 to JPY 2,500 million (unchanged).
- Forecast loss (on a cash earnings basis) has improved to be in the range of JPY 6,500 to JPY 7,600 million (previously JPY 7,000 to JPY 8,100 million).
- We do not expect to receive upfront payments related to new partnerships (unchanged).
- We reiterate that we do not expect to receive major milestone payments from existing discovery and development partnerships (unchanged).

The Group expects an improved outlook for the financial year ending December 31, 2019:

- We expect to receive upfront payments related to new partnerships.
- We expect to receive major milestone payments from existing discovery and development partnerships.
- The Group has a strong cash runway into 2020 to fund its drug development activities.

[3] The Group classifies "major milestone payments" in (ii) as any single payment greater than or equal to USD 5 million.

2. Interim condensed consolidated financial statements and primary notes (IFRS)

1) Interim condensed consolidated statement of financial position

	June 30, 2018 ¥m	March 31, 2018 ¥m
Assets		
Non-current assets		
Property, plant and equipment	**1,969**	1,156
Goodwill	**14,425**	14,685
Intangible assets	**15,126**	16,670
Investments accounted for using the equity method	**4,194**	4,424
Deferred tax assets	**6**	6
Other financial assets	**1,741**	1,619
Other non-current assets	**7**	10
Total non-current assets	**37,468**	38,570
Current assets		
Trade and other receivables	**866**	753
Income tax receivable	**1,363**	1,057
Other current assets	**775**	825
Cash and cash equivalents	**25,042**	28,281
Total current assets	**28,046**	30,916
Total assets	**65,514**	69,486
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	**2,707**	3,077
Contingent consideration in business combinations	**4,655**	4,634
Interest-bearing debt	**5,443**	6,178
Other financial liabilities	**1,063**	1,073
Other non-current liabilities	**45**	43
Total non-current liabilities	**13,913**	15,005
Current liabilities		
Trade and other payables	**2,013**	2,411
Income taxes payable	**2**	39
Interest-bearing debt	**2,995**	2,995
Other current liabilities	**122**	150
Total current liabilities	**5,132**	5,595
Total liabilities	**19,045**	20,600

	June 30, 2018	March 31, 2018
	¥m	¥m
Equity		
Capital stock	**36,783**	36,783
Capital surplus	**25,680**	25,608
Treasury stock	**(0)**	(0)
Retained earnings	**(9,287)**	(7,527)
Other components of equity	**(6,711)**	(5,982)
Equity attributable to owners of the parent	**46,465**	48,882
Non-controlling interests	**4**	4
Total equity	**46,469**	48,886
Total liabilities and equity	**65,514**	69,486

2) Interim condensed consolidated statement of comprehensive income

	Quarter ended June 30, 2018 ¥m	Quarter ended June 30, 2017 ¥m
Revenue	**835**	2,784
Cost of sales	**-**	-
Gross profit	**835**	2,784
Research and development expenses	**(1,855)**	(1,100)
Selling, general and administrative expenses	**(821)**	(1,024)
Other income	**60**	73
Other expenses	**(2)**	-
Operating (loss) income	**(1,783)**	731
Finance income	**107**	20
Finance costs	**(155)**	(282)
Share of loss of associates accounted for using the equity method	**(112)**	(119)
(Loss) profit before income taxes	**(1,943)**	349
Income tax benefit (expense)	**375**	(57)
Net (loss) profit	**(1,568)**	291
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**(729)**	1,141
Total items that may be reclassified subsequently to profit or loss	**(729)**	1,141
Total other comprehensive income	**(729)**	1,141
Total comprehensive (loss) income for the year	**(2,297)**	1,433
Net (loss) profit attributable to:		
Owners of the parent	**(1,568)**	292
Non-controlling interests	**0**	(0)
	(1,568)	291
Total comprehensive (loss) income for the year attributable to:		
Owners of the parent	**(2,297)**	1,433
Non-controlling interests	**0**	(0)
	(2,297)	1,433
Earnings per share (yen)		
Basic (loss) earnings per share	**(20.57)**	4.32
Diluted (loss) earnings per share	**(20.57)**	4.30

3) Interim condensed consolidated statement of changes in equity

	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Other components of equity: Exchange differences on translating foreign operations ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity ¥m**
Balance at April 30, 2018	**36,783**	**25,608**	(0)	**(7,527)**	**(5,982)**	48,882	**4**	48,886
Changes in accounting policies	–	–	–	(192)	–	**(192)**	–	**(192)**
Balance after restatement	36,783	25,608	(0)	(7,719)	(5,982)	**48,690**	4	**48,694**
Net (loss) profit	–	–	–	(1,568)	–	**(1,568)**	0	**(1,568)**
Exchange differences on translation	–	–	–	–	(729)	**(729)**	–	**(729)**
Total comprehensive income (loss) for the year	–	–	–	(1,568)	(729)	**(2,297)**	0	**(2,297)**
Share-based payments	–	72	–	–	–	**72**	–	**72**
Total transactions with owners	–	72	–	–	–	**72**	–	**72**
Balance at June 30, 2018	**36,783**	**25,680**	**(0)**	**(9,287)**	**(6,711)**	**46,465**	**4**	**46,469**

	Capital stock ¥m	Capital surplus ¥m	Treasury stock ¥m	Retained earnings ¥m	Exchange differences on translating foreign operations ¥m	**Equity attributable to owners of the parent ¥m**	Non-controlling interests ¥m	**Total equity ¥m**
Balance at April 30, 2017	**26,004**	**14,632**	–	**(4,873)**	**(7,409)**	**28,354**	**4**	**28,359**
Net profit (loss)	–	–	–	292	–	**292**	(0)	**291**
Exchange differences on translation	–	–	–	–	1,141	**1,141**	–	**1,141**
Total comprehensive income (loss) for the year	–	–	–	292	1,141	**1,433**	(0)	**1,433**
Issuance of new shares	8	1	–	–	–	**9**	–	**9**
Share-based payments	–	85	–	–	–	**85**	–	**85**
Total transactions with owners	8	87	–	–	–	**95**	–	**95**
Balance at June 30, 2017	**26,013**	**14,719**	–	**(4,580)**	**(6,268)**	**29,883**	**4**	**29,887**

4) Interim condensed consolidated statement of cash flow

	Quarter ended June 30, 2018 ¥m	Quarter ended June 30, 2017 ¥m
Cash flows from operating activities		
(Loss) Profit before income taxes	**(1,943)**	349
Adjustments for:		
Depreciation and amortization	**267**	230
Share-based payments	**75**	85
Grant income	**(50)**	(72)
Net foreign exchange (gain) loss	**(7)**	199
Share of loss of associates accounted for using the equity method	**112**	119
Interest expenses	**58**	56
Changes in fair value of contingent consideration	**(72)**	21
Decrease (increase) in other accounts receivables	**58**	(212)
(Increase) in trade and other receivables	**(101)**	(507)
Increase (decrease) in trade payables	**206**	(188)
Other	**52**	31
Subtotal	**(1,345)**	113
Interest and dividends received	**4**	0
Interest paid	**(35)**	(35)
Grants received	**-**	62
Income taxes paid	**(22)**	(348)
Net cash (used in) operating activities	**(1,398)**	(207)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(899)**	(80)
Payments related to the capitalized development costs	**-**	(29)
Payments for acquisition of shares of associates	**-**	(3,973)
Payments for investment securities	**(60)**	-
Purchases of other financial assets	**-**	(1,083)
Other	**(12)**	(1)
Net cash (used in) investing activities	**(971)**	(5,168)

	Quarter ended June 30, 2018 ¥m	Quarter ended June 30, 2017 ¥m
Cash flows from financing activities		
Proceeds from long-term interest-bearing debt	**-**	4,890
Repayments of long-term interest-bearing debt	**(750)**	(500)
Payment for settlement of contingent consideration	**(98)**	-
Proceeds from issuance of common stock	**-**	9
Other	**(2)**	-
Net cash (used in) provided by financing activities	**(850)**	4,399
Effects of exchange rate changes on cash and cash equivalents	**(20)**	59
Net decrease in cash and cash equivalents	**(3,239)**	(916)
Cash and cash equivalents at the beginning of the year	**28,281**	13,899
Cash and cash equivalents at the end of the year	**25,042**	12,983

5) Notes of interim condensed consolidated financial statements

5.1 Notes related to going concern assumptions

Not applicable.

5.2 Change in accounting policy

The significant accounting policies applied to the Group's interim condensed consolidated financial statements for the three month period ended 30 June 2018 are consistent with those applied to the consolidated financial statements for the year ended March 31, 2018, except for amendments to IFRS 9 *Financial Instruments* and the implementation of IFRS 15 *Revenue from Contracts with Customers*, which became effective for the Group from 1 April 2018.

IFRS		**Summary of change**
IFRS 9	Financial Instruments	Amendment to the classification, measurement and recognition of financial instruments
IFRS 15	Revenue from Contracts with Customers	Introduces a new revenue recognition framework based on the satisfaction of performance obligations together with new disclosure requirements. The new standard requires companies to follow a 5 step approach to revenue recognition: • Identify the contract • Identify performance obligations in the contract • Determine the transaction price • Allocate the transaction price to the performance obligations in the contract • Recognise revenue when (or as) the entity satisfies a performance obligation

In addition, income tax expenses for the three-month period ended June 30, 2018, were calculated based on the estimated annual effective tax rate.

The Group enters into research and license agreements with customers for which it receives upfront payments, development milestone payments, research related payments, sales related milestones and sales royalties. Under IFRS 15 revenue is recognised as follows:

- Upfront payments are recognized when the related performance obligations are satisfied. This is normally when the license is granted.
- Development milestone payments are recognized when it is certain that the milestone events agreed between the parties will be achieved.
- Any upfront or milestone receipts that are not recognised in this way because the performance obligations have not been satisfied at a point in time are recorded as deferred income and recognized over time in accordance with the fulfilment of the performance obligations.
- Research related revenue is recognised over time in line with the performance of the agreed research activity.
- Sales related milestones and sales royalties are recorded in line with the achievement of the underlying product sales.

In adopting IFRS 15 the Group has applied the modified retrospective approach, with a cumulative adjustment to decrease equity by JPY 192 million with a corresponding decrease in deferred revenue of JPY 468 million (included in trade and other payables), a decrease in intangible assets of JPY 923 million and a decrease in deferred tax liabilities of JPY 263 million. In accordance with the requirements of the Standard, where the modified retrospective approach is adopted, prior year results are not restated. No adjustments were required to be made to prior year results upon adopting the amendments to IFRS 9.

5.3 Changes in accounting estimates

Not applicable.

5.4 Operating segments

The Group operates a single business segment being the pharmaceutical business.

5.5 *Earnings per share*

If the stock split on July 1, 2018 had occurred at the beginning of the previous fiscal year, the basic (loss) earnings per share and the diluted (loss) earnings per share for the fiscal year ended June 30, 2018 and 2017 would have been as follows:

Basic (loss) earnings per share

The following table shows basic earnings per share and explains the basis for the calculation.

	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017
Net (loss) profit attributable to owners of the parent (¥m)	**(1,568)**	292
Weighted-average number of common shares outstanding (Shares)	**76,219,832**	67,678,812
Basic (loss) earnings per share (¥)	**(20.57)**	4.32

Diluted (loss) earnings per share

The following table shows diluted (loss) earnings per share and the basis for the calculation.

	Three-month period ended June 30, 2018	Three-month period ended June 30, 2017
Net (loss) profit	**(1,568)**	292
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	–	–
Net (loss) profit used in the calculation of diluted earnings per share (¥m)	**(1,568)**	292
Weighted-average number of common shares outstanding (Shares)	**76,219,832**	67,678,812
Increases in number of common shares used in the calculation of diluted earnings per share (Shares)	—	—
Increases in number of common shares due to the exercise of stock options (Shares)	—	195,376
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**76,219,832**	67,874,188
Diluted (loss) earnings per share (¥)	**(20.57)**	4.30

In the three-month period ended June 30, 2018 there is no dilutive effect from potential common shares as partial conversion of stock options reduced the loss per share.

5.6 Significant subsequent events

Share split

With effect from 1 July, 2010 the company conducted a stock split to improve liquidity by reducing the amount per trading unit of investment in Sosei shares. Each share of common stock owned by shareholders recorded on the last Register of Shareholders as of the record date (30 June 2018) was split into four shares. This raised the total number of issued shares from 19,054,984 shares to 76,219,936 shares. The impact on stock options was as follows:

Stock option series	**Exercise price before adjustment** **¥**	**Exercise price after adjustment** **¥**
26th Series	648	162
27th Series	648	162
29th Series	4,130	1,033
30th Series	4,130	1,033
31st Series	1	1
32nd Series	12,340	3,085
33rd Series	12,340	3,085
34th Series	10,746	2,687
35th Series	10,746	2,687

Accompanying the stock split, the Company revised its Articles of Incorporation to increase the total number of authorized shares in proportion to the stock split ratio with effect on 1 July 2018. This raised the total number of shares it was authorized to issue from 37,344,000 shares to 149,376,000 shares.

The impact on earnings per share of the stock split is referred to “5.5. Earnings per share” .