Consolidated Financial Results for the Second Period FY2018 (IFRS)

November 8, 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 Executive Vice President, CFO		Tel: +81-3-5210-3290
Scheduled date of security report filing		November 8, 2018	Scheduled date of dividend payments: -
Supplementary materials for financial results:		Yes	
Financial results briefing session:		Yes (for institutional investors and analysts)	

(Rounded down to nearest million yen)

1. Consolidated results for the six-month ended September 30, 2018 (from April 1, 2018 to September 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	%
Six-month period ended September 30, 2018	1,803	(66.1)	(3,753)	—	(4,142)	—	(3,327)	—	(3,327)	—	(3,280)	—
Six-month period ended September 30, 2017	5,314	(66.5)	1,444	(88.2)	(534)	—	(678)	—	(678)	—	1,651	(49.1)

	Earnings per share - basic	Earnings per share - diluted
	Yen	Yen
Six-month period ended September 30, 2018	(43.64)	(43.64)
Six-month period ended September 30, 2017	(10.01)	(10.01)

(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 September 30, 2018	63,405	45,623	45,619	71.9
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
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 nine-month period 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 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 a more focused approach to in-house pipeline investment, and decreased R&D expenditure (primarily related to the voluntary suspension of development activities with HTL0018318):

- Forecast cash R&D expenses in the range of JPY 6,400 to JPY 6,900 million (previously JPY 7,000 to JPY 7,600 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 5,800 to JPY 6,300 million (previously JPY 6,500 to JPY 7,600 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).

While the six month period under review was dominated by September's update on HTL0018318, we have made good progress in strengthening our wider business and are well-positioned to capitalize on a number of strategic opportunities. Our highly productive platform has generated multiple new exciting candidates, and we are now taking steps to increase partnered out-licensing and development joint ventures.

The Group expects an improved outlook for the financial year ending December 31, 2019, as we target a more sustainable balance of resources and capital in order to prioritize the pursuit of profitability

- Forecast cash R&D expenses in the range of JPY 4,320 to JPY 4,860 million
- Forecast cash G&A expenses in the range of JPY 1,620 to JPY 2,160 million
- We expect to receive upfront payments related to new partnerships.
- We expect to receive major milestone payments from existing discovery and development partnerships.
- We will continue to take a more focused approach to in-house pipeline investment and will look to strongly manage our cost base.
- The Group has a strong cash runway into 2020 to fund its drug development activities and is proactively seeking to extend the cash runway into 2021.

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

[2] The assumed FX rate of USD:JPY 108

* Notes

(1) Changes in the number of significant subsidiaries for the six-month period ended September 30, 2017 (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 September 30, 2018	76,298,336	shares	At March 31, 2018	76,219,936	shares
2) Number of treasury shares at period end	At September 30, 2018	104	shares	At March 31, 2018	104	shares
3) Average number of shares issued for the six-month period	Six-month period ended September 30, 2018	76,233,998	shares	Six-month period ended September 30, 2017	67,769,420	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 reviews.

* 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 8, 2017 (same day).

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

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 six month period ended September 30, 2018 (from April 1, 2018 to September 30, 2018), the Group continued to advance its proprietary StaR® ("stabilized receptor") technology, Structure-based Drug Design ("SBDD") platform, and in-house development pipeline.

While the six month period under review was dominated by September's unexpected update on HTL0018318, we have made excellent progress in strengthening our wider business and are well-positioned to capitalize on a number of strategic opportunities.

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 September 30, 2018, the Group had 15 programs ongoing in discovery, with 5 in preclinical development, and 6[1] currently in clinical trials.

In the area of partnerships with major global pharmaceutical companies, our next-generation cancer immunotherapy candidate, AZD4635 continued to progress 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 the Group'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 Ib study assessing safety, tolerability, pharmacokinetics and biological activity in patients with solid malignancies (NCT#02740985); and
- Phase Ib/II 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).

On September 18, 2018, the Group together with Allergan, its license partner for HTL0018318, announced that it had decided to voluntarily suspend clinical development activities with HTL0018318 pending the investigation of an unexpected toxicology finding in an animal study involving non-human primates. The voluntary suspension is not based on any human findings. Patient safety is of the utmost importance to the Group and Allergan. Scientists from both the Group and Allergan are investigating these findings which remain of unknown cause. The investigations will delay the start of planned Phase II study in patients with AD by at least six months.

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 the Group'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, the Group and PeptiDream jointly conduct and share the costs of the discovery and development program and will co-own any resulting products.

[1] Includes AZD4635 for multiple solid malignancies, AZD4635 for EGFRm NSCLC, HTL0016878 for neurobehavioral symptoms of Alzheimer's disease, HTL0018318 for Alzheimer's disease (voluntarily suspended), HTL0018318 for dementia with Lewy bodies (voluntarily suspended), and QVM149 for Asthma

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 IIa MATILDA study assessing the safety, tolerability, and efficacy of novel muscarinic M1 receptor agonist HTL0018318 in patients with DLB. However, patient recruitment has been stopped due to the aforementioned voluntarily suspension of clinical development activities with HTL0018318.

On September 25, 2018, the Group announced that it received approval in Japan for ORAVI® Mucoadhesive Tablets 50mg. ORAVI® is a novel formulation of the Japanese pharmacopeia miconazole (antifungal agent), the once-daily treatment mucoadhesive tablet to treat oropharyngeal candidiasis ("OPC") in patients. ORAVI® applies Lauriad™ proprietary technology for extended delivery of high concentrations of miconazole directly to the infected site in the mouth. The Group has granted an exclusive license to Fujifilm Group for the commercialization of ORAVI® in Japan. The Group will receive a milestone payment of JPY 200 million (approximately USD 2 million equivalent) from the company for approval and is entitled to receive royalties on sales in Japan, plus additional payments based on the achievement of further sales-based milestones.

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

On September 19, 2018, the Group announced that its strategic minority investment company, MiNA Therapeutics ("MiNA"), provided an update from its ongoing Phase I study of small activating RNA ("saRNA") candidate MTL-CEBPA in advanced liver cancer patients. It was reported that there had been observations of tumor responses in three patients when administered approved liver cancer therapies subsequent to treatment with MTL-CEBPA. These observations were anecdotal, and not part of the OUTREACH study data. The observations are very interesting and may support the potential of MTL-CEBPA to enhance the benefit of other oncology drugs to modulate the tumor immune microenvironment. As a result of the observations, MiNA has committed to investigating these findings in further clinical development. Enrolment is expected to begin in Q4 2018 evaluating MTL-CEBPA in combination with sorafenib, a tyrosine kinase inhibitor. Enrolment has been completed evaluating MTL-CEBPA as a single agent.

As of September 30, 2018, the Group had a total of 169 employees (an increase of 25 employees vs. the prior corresponding period).

As a result of the above activities, the Group reported the following financial results for six month period ended September 30, 2018. Revenue of JPY 1,803 million (a decrease of JPY 3,511 million vs. the prior corresponding period), an operating loss of JPY 3,753 million (a decrease of JPY 5,197 million vs. the prior corresponding period), a net loss before income taxes of JPY 4,142 million (a decrease of JPY 3,608 million vs. the prior corresponding period), a net loss of JPY 3,327 million (a decrease of JPY 2,649 million vs. the prior corresponding period) and a net loss attributable to owners of the parent company of JPY 3,327 million (a decrease of JPY 2,649 million vs. the prior corresponding period).

Subsequent to September 30, 2018, the following events occurred:

- On October 18, 2018, the Group announced that it did not exercise its exclusive option to acquire further equity in MiNA (Holdings) Limited, the parent company of MiNA. The Group's decision was based on: (1) an evaluation of the investment opportunity including a rigorous analysis of interim data from MiNA's Phase I/IIa OUTREACH study of MTL-CEPBA as a single agent in advanced liver cancer patients; and (2) the prioritization of resources directed towards other opportunities across our partnered and in-house GPCR-targeted drug candidate portfolio, which we believe have more value creation potential. MiNA's decision to evaluate MTL-CEBPA in combination with sorafenib represents the most promising clinical strategy and the Group remains a highly supportive shareholder with a significant 25.6% shareholding.
- On November 1, 2018, the Group announced that Mr Chris Cargill was appointed to Executive Vice President and Chief Financial Officer.

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 six month period under review totaled JPY 1,211 million (a decrease of JPY 65 million vs. the prior corresponding period). The majority of the Group's royalty revenue relates to sales of Ultibro® Breezhaler® and Seebri® Breezhaler® by Novartis[2]. The very slight decrease was due to the inclusion in the six month period under review of Novartis contract-related deductions.

On October 18, 2018, our partner Novartis reported total (calendar) Q3 2018 sales for its Ultibro® Breezhaler® and Seebri® Breezhaler® products of USD 144 million (an increase of USD 6 million). The breakdown of Novartis' (calendar) Q3 2018 sales by product was as follows:

- Ultibro® Breezhaler® USD 110 million (+11% compared to Q3 2017[3]) an inhaled 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 34 million (-3% compared to Q3 2017[4]) an inhaled LAMA, declined slightly due to competition in Europe.

Ultibro® Breezhaler® remains the number one LABA/LAMA across Europe. Furthermore, in its (calendar) Q3 2018 results presentation, Novartis confirmed its commitment to respiratory products that contain the Group's out-licensed compound glycopyrronium bromide. Novartis confirmed that enrollment of the Phase III IRIDIUM, PALLADIUM and QUARTZ studies of QVM149 for asthma have been completed. The filing of QVM149 is planned for 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 six month period under review totaled JPY 310 million (a decrease of JPY 3,416 million vs. the prior corresponding period). The prior corresponding period contained major milestone payments from Allergan (USD 15 million), 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 the six month period under review 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. This was 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.

[3] At constant currency rates

[4] At constant currency rates

Research and development expenses

Cash research and development ("R&D") expenses in the six month period under review totaled 4,116 million yen (an increase of JPY 1,945 million vs. the prior corresponding period). The main reason for the increase in R&D expense was due to increased preparatory spending related to our Phase IIa MATILDA study for DLB in Japan (entered voluntary hold on 18 September 2018), together with continued investment in our in-house drug development programs, platform and translational science capabilities. In the period under review, 98% of R&D spend related to our UK operations. The Group's guidance for cash R&D expenditure improved as a result of a more focused approach to in-house pipeline investment, and decreased R&D spend (primarily related to the voluntary suspension of the Phase IIa MATILDA study for DLB patients in Japan).

General and administrative expenses

Cash general and administrative ("G&A") expenses in the six month period under review totaled JPY 896 million (a decrease of JPY 475 million vs. the prior corresponding period). As a result of September's unexpected update on HTL0018318, we will be increasingly prudent with regard to G&A expenditure.

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 six month period under review were JPY 657 million (a decrease of JPY 100 million vs. the prior corresponding period). In total, amortization amounted to JPY 443 million (an increase of JPY 4 million vs. the prior corresponding period). Depreciation expense for the six month period under review totaled JPY 85 million (an increase of JPY 28 million vs. the prior corresponding period). Stock-based compensation expense for the period was JPY 129 million (a decrease of JPY 132 million vs. the prior corresponding period). The main reason for the decrease in stock-based compensation is due to the changed phasing of long-term incentive plan awards, which have been delayed in order to align with the Group's shift to a new fiscal December year end.

Operating loss

Operating loss in the six month period under review totaled JPY 3,753 million (an increase of JPY 5,197 million vs. the prior 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 the six month period under review vs. the prior corresponding period.

Net Finance costs

Net finance costs in the six month period under review totaled JPY 231 million (a decrease of JPY 1,513 million vs. the prior corresponding period). The main reason for the decrease was due to a contingent consideration credit, in addition to a foreign exchange cost reduction as a result of more stable JPY, USD, and GBP rates during the six month period under review vs. the prior corresponding period. Finance costs also include a JPY 1,112 million write-down related to the fair value of our exclusive option for further investment in MiNA. As a reminder to our valued Shareholders, the contingent consideration charge relates to additional purchase consideration to be paid to the former shareholders of Heptares Therapeutics Limited. The contingent consideration charge represents the re-measurement of the estimated liability due in the future to the former shareholders of Heptares Therapeutics Limited. As at 30 September 2018, the Group has to date paid USD 66 million in milestones, out of the total maximum potential milestone amount payable of USD 220 million.

Net loss

The net loss in the six month period under review totaled JPY 3,327 million (a decrease of JPY 2,649 million vs. the prior 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 the six month period under review vs. the prior corresponding period.

(2) Analysis of financial position

1) Assets, liabilities and equity

Assets

Total assets at September 30, 2018 were JPY 63,405 million (a decrease of JPY 6,081 million vs. the end of the previous fiscal year FY17). The main reason for the decrease was due to a reduction of JPY 6,954 million in cash and cash equivalents associated with operating cash flow expenditure, as well as debt repayments.

Liabilities

Total liabilities at September 30, 2018 were JPY 17,782 million (a decrease of JPY 2,818 million vs. the end of the previous fiscal year FY17). The main reason for the decrease was due to a reduction of JPY 1,423 million in interest-bearing liabilities, a decrease in contingent consideration in business combination of JPY 826 million, and a decrease in trade and other payables of JPY 395 million.

Equity

Total equity at September 30, 2018 was JPY 45,623 million (a decrease of JPY 3,263 million vs. the end of the previous fiscal year FY17). This was primarily due to the net loss of JPY 3,327 million. The ratio of equity attributable to owners of the parent company to total assets was 71.9%, an increase of 1.6% vs. the end of the previous fiscal year FY17.

2) Cash flows

Cash and cash equivalents at September 30, 2018 decreased by JPY 6,954 million from the beginning of the year and amounted to JPY 21,327 million.

Cash flows from operating activities

Net cash used in operating activities for the period under review totaled JPY 3,561 million. This was predominantly due to loss before income taxes recorded for the period arising from the Group's increased investment in R&D.

Cash flows from investing activities

Net cash used in investing activities for the period under review totaled JPY 1,939 million. This was primarily due to the acquisition of fixed assets totaling JPY 1,374 million related to investment in our new R&D facility at Granta Park, Cambridge, United Kingdom.

Cash flows from financing activities

Net cash used in financing activities for the period under review totaled JPY 1,520 million. This was primarily due to repayments of long-term interest-bearing debt of JPY 1,500 million.

(3) Earnings forecast for the nine-month period 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 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 a more focused approach to in-house pipeline investment, and decreased R&D expenditure (primarily related to the voluntary suspension of development activities with HTL0018318):

- Forecast cash R&D expenses in the range of JPY 6,400 to JPY 6,900 million (previously JPY 7,000 to JPY 7,600 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 5,800 to JPY 6,300 million (previously JPY 6,500 to JPY 7,600 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).

While the six month period under review was dominated by September's update on HTL0018318, we have made good progress in strengthening our wider business and are well-positioned to capitalize on a number of strategic opportunities. Our highly productive platform has generated multiple new exciting candidates, and we are now taking steps to increase partnered out-licensing and development joint ventures.

The Group expects an improved outlook for the financial year ending December 31, 2019, as we target a more sustainable balance of resources and capital in order to prioritize the pursuit of profitability

- Forecast cash R&D expenses in the range of JPY 4,320 to JPY 4,860 million
- Forecast cash G&A expenses in the range of JPY 1,620 to JPY 2,160 million
- We expect to receive upfront payments related to new partnerships.
- We expect to receive major milestone payments from existing discovery and development partnerships.
- We will continue to take a more focused approach to in-house pipeline investment and will look to strongly manage our cost base.
- The Group has a strong cash runway into 2020 to fund its drug development activities and is proactively seeking to extend the cash runway into 2021.

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

[6] The assumed FX rate of USD:JPY 108

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

1) Interim condensed consolidated statement of financial position

	September 30, 2018	March 31, 2018
	¥m	¥m
Assets		
Non-current assets		
Property, plant and equipment	**2,558**	1,156
Goodwill	**14,679**	14,685
Intangible assets	**15,673**	16,670
Investments accounted for using the equity method	**4,254**	4,424
Deferred tax assets	**6**	6
Other financial assets	**1,200**	1,619
Other non-current assets	**297**	10
Total non-current assets	**38,667**	38,570
Current assets		
Trade and other receivables	**935**	753
Income tax receivable	**1,788**	1,057
Other current assets	**688**	825
Cash and cash equivalents	**21,327**	28,281
Total current assets	**24,738**	30,916
Total assets	**63,405**	69,486
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred tax liabilities	**2,748**	3,077
Contingent consideration in business combinations	**3,808**	4,634
Interest-bearing debt	**4,756**	6,178
Other financial liabilities	**1,051**	1,073
Other non-current liabilities	**102**	43
Total non-current liabilities	**12,465**	15,005
Current liabilities		
Trade and other payables	**2,016**	2,411
Income taxes payable	**23**	39
Interest-bearing debt	**2,994**	2,995
Other current liabilities	**284**	150
Total current liabilities	**5,317**	5,595
Total liabilities	**17,782**	20,600
Equity		
Capital stock	**36,851**	36,783
Capital surplus	**25,749**	25,608
Treasury stock	**(0)**	(0)
Retained earnings	**(11,046)**	(7,527)
Other components of equity	**(5,935)**	(5,982)
Equity attributable to owners of the parent	**45,619**	48,882
Non-controlling interests	**4**	4
Total equity	**45,623**	48,886
Total liabilities and equity	**63,405**	69,486

2) Interim condensed consolidated statement of comprehensive income

	Six-month period ended September 30, 2018 ¥m	Six-month period ended September 30, 2017 ¥m
Revenue	**1,803**	5,314
Cost of sales	**—**	—
Gross profit	**1,803**	5,314
Research and development expenses	**(4,179)**	(2,221)
Selling, general and administrative expenses	**(1,490)**	(2,078)
Other income	**116**	438
Other expenses	**(3)**	(9)
Operating (loss) income	**(3,753)**	1,444
Finance income	**994**	66
Finance costs	**(1,225)**	(1,810)
Share of loss of associates accounted for using the equity method	**(158)**	(234)
Loss before income taxes	**(4,142)**	(534)
Income tax benefit (expense)	**815**	(144)
Net loss	**(3,327)**	(678)
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**47**	2,329
Total items that may be reclassified subsequently to profit or loss	**47**	2,329
Total other comprehensive income	**47**	2,329
Total comprehensive (loss) income for the year	**(3,280)**	1,651
Net loss attributable to:		
Owners of the parent	**(3,327)**	(678)
Non-controlling interests	**(0)**	(0)
	(3,327)	(678)
Total comprehensive (loss) income for the year attributable to:		
Owners of the parent	**(3,280)**	1,651
Non-controlling interests	**(0)**	(0)
	(3,280)	1,651
Earnings per share (yen)		
Basic loss per share	**(43.64)**	(10.01)
Diluted loss per share	**(43.64)**	(10.01)

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 1, 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	—	—	—	(3,327)	—	**(3,327)**	(0)	**(3,327)**
Exchange differences on translation	—	—	—	—	47	**47**	—	**47**
Total comprehensive (loss) income for the year	—	—	—	(3,327)	47	**(3,280)**	(0)	**(3,280)**
Issuance of new shares	68	12	—	—	—	**80**	—	80
Share-based payments	—	129	—	—	—	**129**	—	**129**
Total transactions with owners	68	141	—	—	—	**209**	—	**209**
Balance at September 30, 2018	**36,851**	**25,749**	(0)	**(11,046)**	**(5,935)**	**45,619**	**4**	**45,623**
Balance at April 1, 2017	26,004	14,632	—	(4,873)	(7,409)	28,354	4	28,359
Net loss	—	—	—	(678)	—	(678)	(0)	(678)
Exchange differences on translation	—	—	—	—	2,329	2,329	—	2,329
Total comprehensive (loss) income for the year	—	—	—	(678)	2,329	1,651	(0)	1,651
Issuance of new shares	129	28	—	—	—	157	—	157
Share-based payments	—	261	—	—	—	261	—	261
Total transactions with owners	129	289	—	—	—	418	—	418
Balance at September 30, 2017	26,133	14,921	—	(5,551)	(5,080)	30,423	4	30,427

4) Interim condensed consolidated statement of cash flow

	Six month period ended September 30, 2018 ¥m	Six month period ended September 30, 2017 ¥m
Cash flows from operating activities		
Loss before income taxes	**(4,142)**	(534)
Adjustments for:		
Depreciation and amortization	**529**	484
Share-based payments	**129**	261
Grant income	**(104)**	(109)
Gain on loss of control of the subsidiaries	**—**	(326)
Loss on revaluation of option to purchase shares	**1,112**	—
Net foreign exchange (gain)	**(80)**	(215)
Share of loss of associates accounted for using the equity method	**158**	234
Interest expenses	**112**	127
Change in fair value of contingent consideration	**(922)**	1,333
Decrease (increase) in other accounts receivables	**100**	(370)
(Increase) in trade and other receivables	**(149)**	(901)
(Decrease) increase in trade payables	**(203)**	412
Other	**(99)**	(166)
Subtotal	**(3,559)**	230
Interest and dividends received	**8**	2
Interest paid	**(69)**	(79)
Grants received	**61**	107
Income taxes paid	**(21)**	(348)
Income tax refund	**19**	—
Net cash (used in) operating activities	**(3,561)**	(88)
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1,374)**	(203)
Payments related to capitalized development costs	**—**	(53)
Payments for purchase of shares of associates	**—**	(3,973)
Payments for purchase of investment securities	**(550)**	(140)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	**—**	377
Purchases of other financial assets	**—**	(1,083)
Other	**(15)**	(2)
Net cash (used in) investing activities	**(1,939)**	(5,077)
Cash flows from financing activities		
Proceeds from long-term interest-bearing debt	**—**	4,890
Repayments of long-term interest-bearing debt	**(1,500)**	(1,250)
Payment for settlement of contingent consideration	**(98)**	(550)
Proceeds from issuance of common stock	**81**	156
Other	**(3)**	—
Net cash (used in) provided by financing activities	**(1,520)**	3,246
Effects of exchange rate changes on cash and cash equivalents	**66**	433
Net decrease in cash and cash equivalents	**(6,954)**	(1,486)
Cash and cash equivalents at the beginning of the period	**28,281**	13,899
Cash and cash equivalents at the end of the period	**21,327**	12,413

5) Notes to the 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 six month period ended 30 September 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 six-month period ended September 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 per share and the diluted loss per share for the fiscal year ended June 30, 2018 and 2017 would have been as follows:

Basic earnings per share

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

	Six month period ended September 30, 2018	Six month period ended September 30, 2017
Net (loss) attributable to owners of the parent (¥m)	**(3,327)**	(678)
Weighted-average number of common shares outstanding (Shares)	**76,233,998**	67,769,420
Basic (loss) per share (¥)	**(43.64)**	(10.01)

Diluted earnings per share

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

	Six month period ended September 30, 2018	Six month period ended September 30, 2017
Net (loss)	**(3,327)**	(678)
Adjustment to net profit used in the calculation of diluted earnings per share (¥m)	**-**	-
Net (loss) used in the calculation of diluted earnings per share (¥m)	**(3,327)**	(678)
Weighted-average number of common shares outstanding (Shares)	**76,233,998**	67,769,420
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)	**—**	—
Weighted-average number of common shares outstanding used in the calculation of diluted earnings per share (Shares)	**76,233,998**	67,769,420
Diluted (loss) per share (¥)	**(43.64)**	(10.01)

In the six month periods ended September 30, 2018 and 2017, there is no dilutive effect from potential common shares as partial conversion of stock options reduced the loss per share.