Consolidated Financial Results for the Second Quarter FY2014 (financial year ending 31 March 2015) (IFRS)

11 November 2014

Company name: Sosei Group Corporation — Listing: Tokyo Stock Exchange
Security code: 4565 — URL http://www.sosei.com/
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Scheduled date of security report filing: 13 November 2014 — Scheduled date of dividend payments: —

Supplementary materials for financial results: Yes
Financial results briefing session: Yes (for institutional investors and analysts (in Japanese only))

(Rounded down to nearest million yen)

1. Consolidated results for Q2 FY2014 (1 April 2014 - 30 September 2014)

(1) Consolidated operating results (Percentages are shown as year-on-year changes)

	Revenue		Operating income		Net income before income taxes		Net income		Net income attributable to owners of the parent company		Total comprehensive income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Million yen	%
Q2 FY2014	565	(64.4)	(85)	—	75	(91.6)	28	(96.8)	28	(96.8)	178	(80.8)
Q2 FY2013	1,589	—	894	—	895	—	894	—	894	—	930	—

	Net income per share – basic	Net income per share – diluted
	Yen	Yen
Q2 FY2014	2.06	2.04
Q2 FY2013	74.87	73.78

(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 30 September 2014	15,049	14,547	14,547	96.7
As of 31 March 2014	14,582	14,354	14,354	98.4

2. Dividends

	Annual dividends				
	End of Q1	End of Q2	End of Q3	Year end	Total
	Yen	Yen	Yen	Yen	Yen
Q2 FY2013	—	0.00	—	0.00	0.00
Q2 FY2014	—	0.00			
FY2014 (E)			—	0.00	0.00

(Note) Revision to the latest dividend forecasts: None

3. Earnings forecast for FY2014 (1 April 2014 - 31 March 2015)

(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		Ratio of net income to equity attributable to owners of the parent company
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2014	3,300	59.4	2,000	164.4	2,000	171.1	2,000	31.0	145.46

(Note) Revision to the latest financial forecasts: None

* Notes
(1) Changes in the number of significant subsidiaries in this 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: 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 financial year end (including treasury shares)	Q2 FY2014	13,759,400 shares	FY2013	13,749,200 shares
2) Number of treasury shares at financial year end	Q2 FY2014	－ shares	FY2013	－ shares
3) Average number of shares issued during financial year	Q2 FY2014	13,749,984 shares	Q2 FY2013	11,945,649 shares

* Implementation status of financial audit
The audit procedures of the financial statements pursuant to the Financial Instruments and Exchange Law have been completed.

* Explanation regarding the appropriate use of forecasts of business results and other points to be noted
Explanation regarding the appropriate use of forecasts of business results
The financial forecast is based on judgments and estimates that have been prepared on the basis of information available as of the time of disclosure of this material and assumptions about uncertainties that could affect the forecasts of business results made as of the time of disclosure of this material. The actual business results may differ materially from the forecasts due to various factors in the future.

Supplementary materials for financial results and briefing session
The Company currently plans to hold a web conference for analysts on 11 November 2014. The audio recording of the conference (in Japanese only) will be made available on the Company's web page as soon as possible after the conference together with the presentation material.

○ Contents of Attached Materials

1. Analysis of Operating Results and Financial Position

1) Analysis of operating results

(1) Operating results in Q2 FY2014

The Group pursues pharmaceutical research and development mainly through its subsidiaries based in Japan and the UK. The main source of its revenue comes from the development milestones and royalties from the licensees and the sales from its pharmaceutical products.

The Group recorded the following consolidated financial results for Q2 FY2014.

Consolidated operating results

(millions of yen)

	Q2 FY2013	Q2 FY2014	Increase/(decrease) vs. PY
Revenue	1,589	565	(1,024)
Gross profit	1,417	519	(897)
Operating income (loss)	894	(85)	(979)
Net income	894	28	(866)

PY = previous year

Revenue and gross profit

Revenue in this quarter totaled 565 million yen, a decrease of 64.4% compared to the same period of the previous financial year. Although an increase of royalties from Seebri® (NVA237) and Ultibro® (QVA149) was recorded in this quarter, the decline of revenue compared to the previous quarter is due to the milestone payments for Seebri® and Ultibro® that were received in the same period of the previous year, and were not expected in this quarter.

Operating income

In this quarter the Group recorded operating loss of 85 million yen. The decrease of 979 million yen from the comparative period of the previous financial year is primarily due to decrease in revenue.

Net income

In this quarter the Group recorded net income of 28 million yen. A decrease of net income of 866 million yen from the comparative period of the previous financial year is primarily due to decrease in revenue.

Research and development expenses and the breakdown of selling, general and administrative expenses

(millions of yen)

	Q2 FY2013	Q2 FY2014	Increase/(decrease) vs. PY
Research and development expenses	117	140	23
Selling, general and administrative expenses:	406	465	58
Personnel expenses	210	218	8
Outsourcing expenses	104	147	42
Other	91	99	8

PY = previous year

Research and development expenses; selling, general and administrative expenses

R&D expenses in the second quarter increased 23 million yen from the same period of the previous year, and totaled 140 million yen. Selling, general and administrative expenses increased by 58 million yen from the previous year, and totaled 465 million yen. The increase is mainly due to incurred expenses for the implementation of IFRS and maintenance of patents.

Operating results by business segment are as follows.

Domestic pharmaceutical business

Revenue in the domestic pharmaceutical business segment in the second quarter was 68 million yen, a decrease of 196 million yen from the same period of previous financial year. This was mainly due to transfer of the approved marketing authorization for NorLevo. As a result, income from NorLevo is no longer received as sales revenue, but as royalties from sales.

Operating loss of 186 million yen was recorded for this segment, an increase of loss of 64 million yen compared to the same period of the previous year.

Overseas pharmaceutical business

Revenue of 497 million yen was recorded in this quarter for the overseas pharmaceutical business segment. Although an increase of royalties from Seebri®*(NVA237) and Ultibro®*(QVA149) was recorded in this quarter, the decrease of 827 million yen from the comparative period of previous financial year was attributable primarily to the milestone payments for Seebri® and Ultibro® that were received in the same period of the previous year, and were not expected in this quarter. The segment generated operating income of 132 million yen, a 984 million yen decrease compared to the same period in the previous year.

** Ultibro® Breezhaler® (EU) / Ultibro® Inhalation Capsules (Japan) and Seebri® Breezhaler® 50mcg (EU) /Seebri® Inhalation Capsules 50 mcg (Japan) are the registered trademarks of Novartis Pharma AG ("Novartis").*

(2) Cash Flow

(millions of yen)

	Q2 FY2013	Q2 FY2014	Increase/(decrease) vs. PY
Cash flows provided by (used in) operating activities	(368)	239	608
Cash flows provided by (used in) investing activities	(115)	(146)	(30)
Cash flows provided by (used in) financing activities	45	14	(31)

Cash flows provided by operating activities

Cash flows from operating activities in this quarter amounted to 239 million yen, mainly due to having received advance payments of 300 million yen.

Cash flows used in investing activities

Cash flows used in investing activities in this quarter were 146 million yen, mainly due to incurred capitalized R&D expenses of 139 million yen that were recorded as an asset.

Cash flows provided by financing activities

Cash flows from operating activities in this quarter amounted to 14 million yen, mainly due to issuance of new shares through the exercise of stock options.

(3) Research and development

In the second quarter the Group made progress with the ongoing Phase III trial of SO-1105 (oropharyngeal candidiasis), and toward the practical implementation of Activus nanoparticle technology. Research and development costs in this quarter were 140 million yen (increase of 19.8% from the comparative period of the previous year). NVA237 and QVA149 have been developed by Novartis International AG ("Novartis"), thus R&D costs for the two products have not been incurred. Part of research and development costs is recorded as an intangible asset.

a) Progress with the main products under development for the domestic pharmaceutical business is as follows.

■SO-1105 ***Oropharyngeal Candidiasis: Phase III ongoing***

SO-1105 is an antifungal agent, administered as a muco-adhesive buccal tablet for the treatment of oropharyngeal candidiasis in immunocompromised patients. Oropharyngeal candidiasis is an inflammatory mucous membrane disease afflicting the oral cavity and pharynx. It is caused by infection due mainly to a fungus known as *Candida albicans*, and it is commonly found in patients suffering from chronic diseases such as diabetes and immunocompromised patients such as those suffering from HIV infection.

This drug was originally developed by a French company BioAlliance Pharma (now Onxeo), and it has been approved for marketing in 24 European countries, the U.S., and Korea since first obtaining approval in October 2006 in France. The Group believes that this product can also contribute to patient compliance in Japan and thus obtained the exclusive development and marketing rights for SO-1105 in Japan from BioAlliance in May 2011.

In February 2014, the Group signed an exclusive domestic commercialization agreement with FUJIFILM Pharma Co., Ltd.

The ongoing Phase III clinical trial for efficacy and safety of this product is expected to complete by the end of the current financial year.

■APNT (Activus Pure Nanoparticle Technology): ***Nanoparticle technology***

APNT is the technology differentiable from existing technology in that it enables pulverizing poorly soluble compounds to nano-sized crystal particles 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. Since 2013, basic patents have been granted in Japan and overseas, and the Group intends to further strengthen technology platforms in order to obtain patents for individual products. In addition to state support from the New Energy and Industrial Technology Organization (NEDO), the Group collaborates with TOA Pharmaceuticals Co., Ltd., a company that has extensive experience and expertise in the manufacturing and sale of pharmaceutical products, and its subsidiary Nitto Medic Co., Ltd., in order to commercialize this technology to make drugs available to patients.

In February 2014, the Group announced the initiation of pre-clinical trials for two candidates for development with APNT applications (APP13002 and APP13007). These two candidates are poorly soluble and the Group believes its nanoparticle technology will enable formulations free of solubilization agents. Also, based on the re-profiling model, the candidates' active ingredients are pharmaceutical compounds with more than 10 years of proven clinical use, which helps reduce development risk.

Details regarding these candidates are as follows.

・**APP13002** *Infectious Eye Diseases: Pre-clinical trial*

APP13002 is a new product for infectious eye diseases such as cornea and conjunctivitis. The Group strategically intends to develop the product for the domestic market. Presently, the domestic market for infectious eye diseases as a whole is estimated at 20 billion yen.

・**APP13007** *Inflammatory Eye Diseases: Pre-clinical trial*

APP13007 is an ophthalmic solution for inflammatory eye diseases caused by various factors such as inflammations after cataract or Lasik eye surgery, allergic inflammations or inflammations caused by improper use of contact lenses etc. The Group plans to conduct the trials outside of Japan. Inflammatory eye diseases world-wide market as a whole is estimated at 70 billion yen.

In addition to the two products mentioned above, the Group continues research and development regarding new drugs for posterior segment disorders, and, in particular, retinal diseases such as diabetic retinopathy and age-related macular degeneration. The Group intends to conduct further research to establish intellectual property rights while optimizing formulations to achieve high efficacy. According to the Japan Ophthalmologists Association, there are currently 1.67 million visually impaired patients in Japan, and the resulting social costs are estimated at 8,800 billion yen. Two posterior segment disorders, namely diabetic retinopathy and age-related maculopathy, account for more than 30 percent of diseases that cause vision impairment. The Group believes that the establishment of this technology will enable the development of groundbreaking ophthalmic solutions, and this will make highly useful drugs available and contribute significantly to reducing the number of visually impaired people.

While being mindful of the efficient use of funds based on collaboration with peer companies, the Group continues its drive to secure manufacturing facilities and equipment and enable progress in R&D. It also works to make further progress with projects other than those mentioned above and further enhancement of technology platform related to nanoparticles and formulations.

■Regenerative-medicine related business

RMF1 (Regenerative-medicine fund)

In June 2013, the Group founded Sosei Corporate Venture Capital ("Sosei CVC") with the aim of managing a regenerative medicine fund, Sosei RMF1 ("RMF1"), to support pharmaceutical venture companies engaging in regenerative-medicine-related R&D in Japan (such as tissue engineering and cell regeneration medicine, and development of related equipment).

Sosei CVC is a general partner of RMF1 and is currently in negotiations with limited partner candidates that include financial

institutions and corporations. The fund aims to raise 2 billion yen during its first round of fundraising. SMBC Venture Capital Co., Ltd., a group company of Sumitomo Mitsui Banking Corporation, has agreed to invest in the fund. The Group plans to invest 200 million yen in the fund.

Regenerative medicine is a growth domain with promising technologies originating in Japan. The management of RMF1 is in line with the Group's fundamental strategy of searching for new seeds using limited resource.

b) Progress made in the development of major products relating to overseas pharmaceutical business is set out below.

■NVA237 ***COPD: Launched in the EU, Japan, etc. ; Phase III in the US**** NVA237 (glycopyrronium bromide; brand names: Seebri® Breezhaler® (EU), Seebri® Inhalation Capsules 50mcg (Japan); "Seebri"), is a novel, once-daily inhaled long-acting muscarinic antagonist (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 70 countries across Europe, Japan, Canada, Latin America, Asia, Australia and the Middle East and launched in more than 30 countries including Germany, Japan and other major markets.

The US submission for NVA237 is expected in Q4 2014.

It has been confirmed that as a result of portfolio prioritization efforts Novartis had decided not to initiate the standalone development of NVA237 as a treatment for uncontrolled asthma.

<For reference>
Seebri sales in Q3 2014 as announced by Novartis on 28 October 2014.

(USD million)

	Q3 2014	Q3 2013	Change (%)	9M 2014	9M 2013	Change (%)
Seebri® Breezhaler®	37	15	147	104	33	215

9M= nine months from January to September

Under the terms of agreement with Novartis, Sosei is entitled to receive royalties on global net sales of both Seebri and Ultibro Breezhaler. Royalties are recognized following the quarter in which the products are sold.

■QVA149 ***COPD: Launched in the EU, Japan, etc.; Phase III in the US**** QVA149 (indacaterol maleate/glycopyrronium bromide; brand names: Ultibro® Breezhaler® (EU), Ultibro® Inhalation Capsules (Japan); "Ultibro") is a novel, 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 COPD. Ultibro is a once-daily LABA/LAMA approved as first-in-class in over 50 countries including EU, Japan, Canada, Mexico and Australia and launched in 21 countries including Germany, Japan and Canada. By combining the efficacy benefits and safety profiles of both LABA and LAMA, Ultibro is expected to set a new standard of care in COPD.

Ultibro has been submitted for review in China end of July 2014, and the US submission is expected in Q4 2014.

<For reference>
Ultibro sales in Q3 2014 as announced by Novartis on 28 October 2014.

(USD million)

	Q3 2014	Q3 2013	Change (%)	9M 2014	9M 2013	Change (%)
Ultibro® Breezhaler®	31	0	nm	67	0	nm

nm= not meaningful
9M= nine months from January to September

Under the terms of agreement with Novartis, Sosei is entitled to receive royalties on global net sales of both Seebri and Ultibro. Royalties are recognized following the quarter in which the products are sold.

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2) Analysis of financial position

Total assets at the end of the second quarter increased by 467 million yen totaling 15,049 million yen.

Cash and cash equivalents at the end of the second quarter increased by 377 million yen and amounted to 7,592 million yen. The current asset to total asset ratio was 51.6%, and cash and cash equivalents to current assets ratio was 97.8%.

Total liabilities as of the end of this quarter amounted to 501 million yen, an increase of 274 million yen from the end of previous financial year, mainly due to recorded 300 million yen of advance payments.

Total equity for the second quarter was 14,547 million yen, an increase of 192 million yen from the end of previous financial year as a result of increased cash and cash equivalents of 377 million yen. Ratio of equity attributable to owners of the parent company to total assets decreased by 1.7 points to 96.7%.

3) Earnings forecast

No changes have been made from the earning forecast announced in "Consolidated Financial Results for FY2013 (IFRS)" on 25 June 2014.

2. Matters related to summary information (notes)

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

Not applicable

2) Changes in accounting policies, changes in accounting estimates

Apart from the items shown in the below table, accounting polices applied in this quarter are the same as those applied in the previous fiscal year.

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

Changes in accounting policies

The following accounting standards are adopted from this quarter.

IFRS		Newly established / Revised
IAS 32	Financial instruments: Presentation	Clarified the conditions under which financial assets and financial liabilities may be offset
IFRIC 21	Levies	Clarified accounting methods for levies
IFRS 10 IFRS 12 IAS 27	Investment entities	Established accounting methods for investments of investing entities (the requirement that such entities measure investments in subsidiaries at fair value though profit or loss instead of consolidating them)

The above standards have no material impact on the Group's financial statements.

3. Consolidated Financial Statements (IFRS)

1) Consolidated statement of financial position

(thousands of yen)

	Q2 FY2014 (30 September 2014)	FY2013 (31 March 2014)
Assets		
Non-current assets		
Property, plant and equipment	58,390	59,602
Goodwill	5,426,003	5,426,003
Intangible assets	860,144	722,286
Deferred tax assets	901,726	869,093
Other non-current assets	41,913	40,923
Total non-current assets	7,288,177	7,117,908
Current assets		
Trade and other receivables	52,500	99,767
Other current assets	116,302	149,669
Cash and cash equivalents	7,592,559	7,214,934
Total current assets	7,761,361	7,464,371
Total assets	15,049,539	14,582,280
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Deferred income	11,592	13,315
Other non-current liabilities	6,900	6,900
Total non-current liabilities	18,492	20,215
Current liabilities		
Trade and other payables	408,330	156,067
Deferred income	3,446	3,446
Income tax payables	51,907	24,774
Other current liabilities	19,738	22,777
Total current liabilities	483,422	207,066
Total liabilities	501,915	227,282
Equity		
Capital stock	19,465,550	19,453,732
Capital surplus	7,772,478	21,573,914
Retained earnings	(13,102,125)	(26,934,383)
Other components of equity	411,721	261,735
Equity attributable to owners of the parent company	14,547,624	14,354,998
Non-controlling interests	—	—
Total equity	14,547,624	14,354,998
Total liabilities and equity	15,049,539	14,582,280

2) Consolidated statement of comprehensive income

(thousands of yen)

	Q2 FY2014 (1 April 2014 -30 September 2014)	Q2 FY2013 (1 April 2013 - 30 September 2013)
Revenue	565,590	1,589,948
Cost of sales	45,744	172,319
Gross profit	519,846	1,417,628
Research and development expenses	140,995	117,710
Selling, general and administrative expenses	465,851	406,928
Other income	1,755	1,727
Other expenses	18	—
Operating income (loss)	(85,263)	894,717
Finance income	160,750	1,481
Finance costs	—	274
Net income before income taxes	75,487	895,924
Income tax expenses	47,207	1,554
Net income	28,280	894,370
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	149,985	36,298
Total items that may be reclassified subsequently to profit or loss	149,985	36,298
Total other comprehensive income	149,985	36,298
Comprehensive income	178,265	930,668
Net income for the year attributable to:		
Owners of the parent company	28,280	894,370
Non-controlling interests	—	—
Net income	28,280	894,370
Comprehensive income for the year attributable to:		
Owners of the parent company	178,265	930,668
Non-controlling interests	—	—
Comprehensive income	178,265	930,668
Net income per share (yen)		
Basic	2.06	74.87
Diluted	2.04	73.78

3) Consolidated statement of changes in equity

Q2 FY2013 (1 April 2013 – 30 September 2013)

(thousands of yen)

	Capital stock	Capital surplus	Retained earnings	Other components of equity		Equity attributable to owners of the parent company
				Foreign currency translation adjustments	Other components of equity, total	
Balance as of 1 April 2013	17,059,203	19,247,356	(28,460,561)	101,992	101,992	7,947,991
Net income	—	—	894,370	—	—	894,370
Foreign currency translation adjustments	—	—	—	36,298	36,298	36,298
Total comprehensive income	—	—	894,370	36,298	36,298	930,668
Issuance of new shares	38,119	7,799	—	—	—	45,919
Total business transactions with owners	38,119	7,799	—	—	—	45,919
Balance as of 30 Sept 2013	17,097,322	19,255,156	(27,566,190)	138,290	138,290	8,924,579

	Non-controlling interests	Total equity
Balance as of 1 April 2013	—	7,947,991
Net income	—	894,370
Foreign currency translation adjustments	—	36,298
Total comprehensive income	—	930,668
Issuance of new shares	—	45,919
Total business transactions with owners	—	45,919
Balance as of 30 Sept 2013	—	8,924,579

Q2 FY2014 (1 April 2014 – 30 September 2014)

(thousands of yen)

	Capital stock	Capital surplus	Retained earnings	Other components of equity		Equity attributable to owners of the parent company
				Foreign currency translation adjustments	Other components of equity, total	
Balance as of 1 April 2014	19,453,732	21,573,914	(26,934,383)	261,735	261,735	14,354,998
Net income	—	—	28,280	—	—	28,280
Foreign currency translation adjustments	—	—	—	149,985	149,985	149,985
Total comprehensive income	—	—	28,280	149,985	149,985	178,265
Issuance of new shares	11,817	2,542	—	—	—	14,360
Items reclassified from capital surplus to retained earnings	—	(13,803,978)	13,803,978	—	—	—
Total business transactions with owners	11,817	(13,801,436)	13,803,978	—	—	14,360
Balance as of 30 Sept 2014	19,465,550	7,772,478	(13,102,125)	411,721	411,721	14,547,624

	Non-controlling interests	Total equity
Balance as of 1 April 2014	—	14,354,998
Net income	—	28,280
Foreign currency translation adjustments	—	149,985
Total comprehensive income	—	178,265
Issuance of new shares	—	14,360
Items reclassified from capital surplus to retained earnings	—	—
Total business transactions with owners	—	14,360
Balance as of 30 Sept 2014	—	14,547,624

4) Consolidated statement of cash flows

(thousands of yen)

	Q2 FY2014 (1 April 2014 - 30 September 2014)	Q2 FY2013 (1 April 2013 - 30 September 2013)
Cash flows provided by (used in) operating activities		
Net income before income taxes	75,487	895,924
Depreciation and amortization	10,645	10,270
Foreign exchange losses (gains)	(151,525)	(133,476)
Decrease (increase) in accounts receivable – other	51,829	―
Decrease (increase) in accounts receivable – trade	47,269	(1,169,191)
Increase (decrease) in accounts payable – trade	(43,091)	50,482
Increase (decrease) in accrued expenses	(1,613)	(4,832)
Increase (decrease) in advance payments	300,000	―
Other	(40,219)	(16,091)
Subtotal	248,781	(366,915)
Interests and dividends received	4,675	1,433
Income taxes paid	(13,862)	(3,109)
Net cash provided by (used in) operating activities	239,594	(368,591)
Cash flows provided by (used in) investing activities		
Purchases of property, plant and equipment	(5,575)	(7,766)
Capitalized development costs	(139,618)	(108,087)
Other	(990)	―
Net cash provided by (used in) investing activities	(146,183)	(115,854)
Cash flows provided by (used in) financing activities		
Proceeds from issuance of common stock	14,360	45,919
Net cash provided by (used in) financing activities	14,360	45,919
Effect of exchange rate changes on cash and cash equivalents	269,853	127,306
Increase (decrease) in cash and cash equivalents	377,624	(311,219)
Cash and cash equivalents at the beginning of year	7,214,934	2,537,527
Cash and cash equivalents at the end of this quarter	7,592,559	2,226,308

5) Notes related to going concern assumptions

Not applicable.

6) Notes related to significant changes of shareholders' equity

In order to enable flexible implementation of capital policies and payment of dividends to shareholders in the future, the Group reduced capital reserve in this quarter and appropriated it to other capital surplus pursuant to stipulations in Article 448 Section 1 of the Companies Act, and subsequently covered the deficit in retained earnings brought forward pursuant to stipulations of Article 452 of the Companies Act. As a result, capital reserve in this quarter was reduced by 13,803,978 thousand yen and retained earnings increased by the same amount.

7) Notes related to segments information

(1) Overview of reportable segments

The Group's reportable segments are components of business activities for which discrete financial information is available, and such information is regularly reviewed by the Group's board of directors in order to make decisions about the allocation of the resources and assess performance. The Group has adopted the holding company structure, and the holding company is responsible for management and administration of the entire Group. The Group has two reportable segments (namely, domestic pharmaceutical business and overseas pharmaceutical business), based on the legal entities that are the current profit management units. The domestic pharmaceutical business segment mainly imports products from overseas for sale both in Japan and overseas. The overseas pharmaceutical business segment mainly introduces and develops pharmaceuticals for out-licensing.

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

Reportable segments	Company name	Main products
Domestic pharmaceutical business	・Sosei Co., Ltd. ・Activus Pharma Co., Ltd.	・SO-1105　・NorLevo® ・APP13002　・APP13007
Overseas pharmaceutical business	・Sosei R&D Ltd.	・Seebri®　・Ultibro®

(2) Information regarding profit and loss, and other information

The information to be reported is shown below. The same accounting principles that were applied for FY2013 financial statements are applied here as well.

Q2 FY2013 (1 April 2013 - 30 September 2013)

(thousands of yen)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	265,271	1,324,677	1,589,948	―	1,589,948
Revenue between segments	―	―	―	―	―
Total	265,271	1,324,677	1,598,948	―	1,589,948
Operating income (or loss)	(121,105)	1,116,282	995,177	(100,459)	894,717
Finance income/costs (net)					1,207
Net income before income taxes					895,924

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

Q2 FY2014 (1 April 2014 - 30 September 2014)

(thousands of yen)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	68,524	497,066	565,590	—	565,590
Revenue between segments	—	—	—	—	—
Total	68,524	497,066	565,590	—	565,590
Operating income (or loss)	(186,050)	132,126	(53,923)	(31,339)	(85,263)
Finance income/costs (net)					160,750
Net income before income taxes					75,487

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