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

12 February 2015

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 February 2015 — Scheduled date of dividend payments: —

Supplementary materials for financial results: None
Financial results briefing session: None

(Rounded down to nearest million yen)

1. Consolidated results for Q3 FY2014 (1 April 2014 – 31 December 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	%
Q3 FY2014	951	(48.2)	16	(98.2)	383	(60.4)	262	(72.8)	262	(72.8)	673	(42.9)
Q3 FY2013	1,838	—	937	—	967	—	965	—	965	—	1,177	—

	Net income per share – basic	Net income per share – diluted
	Yen	Yen
Q3 FY2014	19.06	18.87
Q3 FY2013	80.76	79.62

(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	%
Q3 2014	15,872	15,204	15,057	94.9
FY2013	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
FY2013	—	0.00	—	0.00	0.00
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 the end of financial period (including treasury shares)	Q3 FY2014	13,774,000 shares	FY2013	13,749,200 shares
2) Number of treasury shares at the end of financial period	Q3 FY2014	－ shares	FY2013	－ shares
3) Average number of shares issued during financial period	Q3 FY2014	13,755,548 shares	Q3 FY2013	11,951,542 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 earning forecasts
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.

○ Contents of Attached Materials

1. Analysis of Operating Results and Financial Position

1) Analysis of operating results

(1) Operating results in Q3 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 Q3 FY2014.

Consolidated operating results

(millions of yen)

	Q3 FY2013	Q3 FY2014	Increase/(decrease) vs. PY
Revenue	1,838	951	(886)
Gross profit	1,653	905	(747)
Operating income (loss)	937	16	(920)
Net income	965	262	(702)

PY = previous year

Revenue and gross profit

Revenue in this quarter totaled 951 million yen, as a result of received royalties from Seebri® (NVA237) and Ultibro® (QVA149). A 48.2% decrease of revenue compared to the same period of the previous financial year was 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 income of 16 million yen. A decrease of 920 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 262 million yen. A decrease of net income of 702 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)

	Q3 FY2013	Q3 FY2014	Increase/(decrease) vs. PY
Research and development expenses	197	222	24
Selling, general and administrative expenses:	579	668	89
Personnel expenses	286	300	13
Outsourcing expenses	150	228	77
Other	141	139	(1)

PY = previous year

Research and development expenses; selling, general and administrative expenses

R&D expenses in the third quarter increased 24 million yen from the same period of the previous year, and totaled 222 million yen. Selling, general and administrative expenses increased by 89 million yen from the previous year, and totaled 668 million yen. The increase is mainly due to incurred expenses for the implementation of IFRS and maintenance of patents.

Foreign exchange gains

In this quarter the Group recorded foreign exchange gains of 366 million yen. The exchange gains are primarily the result of foreign exchange valuation of the assets in foreign currency at the end of the third quarter ended 31 December 2014.

Operating results by business segment are as follows.

Domestic pharmaceutical business

Revenue in the domestic pharmaceutical business segment in the third quarter was 107 million yen, a decrease of 321 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.

Subsequently, operating income decreased by 223 million yen to 254 million yen loss, relative to the same period in the previous year.

Overseas pharmaceutical business

Revenue of 843 million yen was recorded in this quarter for the overseas pharmaceutical business segment, as a result of increased royalties from Seebri®*(NVA237) and Ultibro®*(QVA149). A decrease of 564 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 298 million yen, a 793 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)

	Q3 FY2013	Q3 FY2014	Increase/(decrease) vs. PY
Cash flows provided by (used in) operating activities	614	343	(271)
Cash flows provided by (used in) investing activities	(185)	(407)	(222)
Cash flows provided by (used in) financing activities	53	29	(24)

PY= previous year

Cash flows provided by operating activities

Cash flows from operating activities in this quarter amounted to 343 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 407 million yen, mainly due to incurred capitalized R&D expenses of 191 million yen that were recorded as an asset, and 202 million of acquisition related costs.

Cash flows provided by financing activities

Cash flows from operating activities in this quarter amounted to 29 million yen, mainly due to issuance of new shares through the exercise of stock options.

(3) Research and development

In the third quarter, the Group focused its effort on the ongoing Phase III trial of SO-1105 (oropharyngeal candidiasis) and the two preclinical studies of APNT (Activus Pure Nanoparticle Technology) development candidates. In addition, in December 2014 the Group acquired a peptide technology company, Jitsubo Co., Ltd ("Jitsubo"). Upon the acquisition, two generic peptide products have been added to the Group pipeline.

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.

Due to delays in recruitment of patients, the ongoing Phase III clinical trial for efficacy and safety of this product is now scheduled to complete by the end of 2015.

■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 compared to other nano-technologies, 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.

・**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.

■Peptide technologies: Molecular Hiving™ and Peptune™

In December 2014, through the acquisition of Jitsubo, the Group acquired two novel peptide platform technologies.

Jitsubo was established in April 2005 by Professor Kazuhiro Chiba of the United Graduate School of Agricultural Science, Tokyo University of Agriculture and Technology, with the aim of bringing a commercial focus to his scientific findings. The company is focused on development of peptide generic products and identification of new drug candidates based on the novel peptide synthesis technology, Molecular Hiving™, and the molecule modification technology, Peptune™.

・Molecular Hiving™

Molecular Hiving™ is a first revolutionary technology in the past 50 years, with the potential to become the de facto standard as a technology that enables manufacturing of high-quality peptides at low costs. In recent years there has been an increase in peptide-based pharmaceutical products, and blockbuster peptide drugs for osteoporosis and diabetes have reached the market. However, at the same time, as more non-natural constituent amino-acids are being incorporated into peptides, their configuration has become more complex. As a result number of issues that are related to the synthesis of peptides have increased. Moreover, since the majority of peptide products are administered via injections, development of products such as nasal formulations or patches that would improve patients' compliance and decrease the risk of infections is anticipated. However, the improvement of formulation usually requires an increase of active pharmaceutical ingredient which results in an increase of costs when traditional methods for peptide synthesis are used, and eventually places the higher cost burden on patients. Molecular Hiving™, a high-quality but low-cost peptide manufacturing technology, can provide a solution to these challenges.

・Peptune™

Peptune™ is peptide molecule modification technology that improves the efficacy and safety of peptide products, as well as drug stability, by improving the molecular configuration of peptide. Moreover, Peptune™ makes binding of peptides with small-molecules possible, and is therefore expected to enable discovery of novel functional peptides.

Sosei and Jitsubo will together focus on development of generic products of peptide blockbusters that will soon face the patent cliff, development of value-added peptide products with improved formulation, as well as discovery of novel peptide products. Jitsubo's technology together with our other subsidiary Activus' nano technology, are expected to play important role in achievement of our mid-long term strategic goals.

■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. In addition, the Group has applied for the public funding to a government financial institution and the application is now being considered.

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.***

NVA237 (glycopyrronium bromide; brand names: Seebri® Breezhaler® (EU), Seebri® Inhalation Capsules 50mcg (Japan); "Seebri"), is a 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 application for NVA237 was submitted in December 2014 by Novartis.

<For reference>
Seebri sales in Q4 2014 as announced by Novartis on 27 January 2015：

(USD million)

	Q4 2014	Q4 2013	Increase vs. PY (%)	FY 2014	FY 2013	Increase vs. PY (%)
Seebri® Breezhaler®	42	25	68	146	58	152

PY= previous year

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.*

QVA149 (indacaterol maleate/glycopyrronium bromide); brand names: Ultibro® Breezhaler® (EU), Ultibro® Inhalation Capsules (Japan); "Ultibro") is a once-daily inhaled, fixed-dose combination of the LAMA (glycopyrronium bromide) and the LABA (indacaterol maleate), indicated as a maintenance bronchodilator treatment to relieve symptoms in patients with 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 over 25 countries including Germany, Japan and Canada. The US application for QVA149 was submitted in December 2014 by Novartis.

<For reference>
Ultibro sales in Q4 2014 as announced by Novartis on 27 January 2015：

(USD million)

	Q4 2014	Q4 2013	Increase vs. PY (%)	FY 2014	FY 2013	Increase vs. PY (%)
Ultibro® Breezhaler®	51	6	nm	118	6	nm

nm= not meaningful
PY= previous year

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.

** 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) Analysis of financial position

Total assets at the end of the third quarter increased by 1,290 million yen, totaling 15,872 million yen.

Cash and cash equivalents at the end of the third quarter increased by 650 million yen and amounted to 7,865 million yen. The current asset to total asset ratio was 50.8%, and cash and cash equivalents to current assets ratio was 97.5%.

Total liabilities as of the end of this quarter amounted to 668 million yen, an increase of 440 million yen from the end of previous financial year, mainly due to recorded 300 million yen of advance payments.

Total equity for the third quarter was 15,204 million yen, an increase of 849 million yen from the end of previous financial year as a result of increased cash and cash equivalents of 650 million yen. Ratio of equity attributable to owners of the parent company to total assets decreased by 3.5 points to 94.9%.

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 below, 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.

Business combinations

Business combinations, such as merger and acquisitions, are accounted for using the acquisition method, which requires assets acquired and liabilities assumed to be measured at their fair values at the acquisition date. An excess over the fair value of an identifiable asset or liability is recognized in the consolidated statement of financial position as goodwill. In case this is below the fair value, the difference is recognized as revenue in the statement of comprehensive income. In case the accounting related to the business combination is not completed by the end of accounting period during which the business combination took place, the accounting procedure will be conducted based on the provisional value, which will be revised within a year from the acquisition date. All the expenses that have incurred in relation to the acquisition will be recorded as expenses.

Changes in accounting policies

The following accounting standards are adopted from the previous 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)

	Q3 FY2014 (31 December 2014)	FY2013 (31 March 2014)
Assets		
Non-current assets		
Property, plant and equipment	83,994	59,602
Goodwill	5,821,441	5,426,003
Intangible assets	911,527	722,286
Deferred tax assets	949,075	869,093
Other non-current assets	42,493	40,923
Total non-current assets	7,808,532	7,117,908
Current assets		
Trade and other receivables	52,500	99,767
Other current assets	146,086	149,669
Cash and cash equivalents	7,865,415	7,214,934
Total current assets	8,064,002	7,464,371
Total assets	15,872,535	14,582,280
Liabilities and Equity		
Liabilities		
Non-current liabilities		
Long-term debt	15,000	―
Deferred income	10,886	13,315
Other non-current liabilities	13,004	6,900
Total non-current liabilities	38,890	20,215
Current liabilities		
Trade and other payables	459,701	156,067
Deferred income	19,019	3,446
Income tax payables	125,681	24,774
Other current liabilities	24,791	22,777
Total current liabilities	629,193	207,066
Total liabilities	668,084	227,282
Equity		
Capital stock	19,478,112	19,453,732
Capital surplus	7,774,627	21,573,914
Retained earnings	(12,868,189)	(26,934,383)
Other components of equity	672,561	261,735
Equity attributable to owners of the parent company	15,057,112	14,354,998
Non-controlling interests	147,338	―
Total equity	15,204,450	14,354,998
Total liabilities and equity	15,872,535	14,582,280

2) Consolidated statement of comprehensive income

(thousands of yen)

	Q3 FY2014 (1 April 2014 -31 December 2014)	Q3 FY2013 (1 April 2013 -31 December 2013)
Revenue	951,317	1,838,115
Cost of sales	45,744	184,557
Gross profit	905,573	1,653,558
Research and development expenses	222,528	197,552
Selling, general and administrative expenses	668,655	579,378
Other income	2,790	60,660
Other expenses	182	—
Operating income (loss)	16,997	937,288
Finance income	366,528	30,197
Finance costs	—	—
Net income before income taxes	383,525	967,485
Income tax expenses	121,309	2,331
Net income	262,216	965,153
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translating foreign operations	410,825	212,548
Total items that may be reclassified subsequently to profit or loss	410,825	212,548
Total other comprehensive income	410,825	212,548
Comprehensive income	673,041	1,177,702
Net income for the year attributable to:		
Owners of the parent company	262,216	965,153
Non-controlling interests	—	—
Net income	262,216	965,153
Comprehensive income for the year attributable to:		
Owners of the parent company	673,041	1,177,702
Non-controlling interests	—	—
Comprehensive income	673,041	1,177,702
Net income per share (yen)		
Basic	19.06	80.76
Diluted	18.87	79.62

3) Consolidated statement of changes in equity

Q3 FY2013 (1 April 2013 -31 December 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	—	—	965,153	—	—	965,153
Foreign currency translation adjustments	—	—	—	212,548	212,548	212,548
Total comprehensive income	—	—	965,153	212,548	212,548	1,177,702
Issuance of new shares	44,412	8,752	—	—	—	53,164
Total business transactions with owners	44,412	8,752	—	—	—	53,164
Balance as of 31 Dec 2013	17,103,615	19,256,109	(27,495,407)	314,541	314,541	9,178,859

	Non-controlling interests	Total equity
Balance as of 1 April 2013	—	7,947,991
Net income	—	965,153
Foreign currency translation adjustments	—	212,548
Total comprehensive income	—	1,177,702
Issuance of new shares	—	53,164
Total business transactions with owners	—	53,164
Balance as of 31 Dec 2013	—	9,178,859

Q3 FY2014 (1 April 2014 -31 December 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	—	—	262,216	—	—	262,216
Foreign currency translation adjustments	—	—	—	410,825	410,825	410,825
Total comprehensive income	—	—	262,216	410,825	410,825	673,041
Issuance of new shares	24,380	4,691	—	—	—	29,072
Items reclassified from capital surplus to retained earnings	—	(13,803,978)	13,803,978	—	—	—
Changes related to acquisitions	—	—	—	—	—	—
Total business transactions with owners	24,380	(13,799,286)	13,803,978	—	—	29,072
Balance as of 31 Dec 2014	19,478,112	7,774,627	(12,868,189)	672,561	672,561	15,057,112

	Non-controlling interests	Total equity
Balance as of 1 April 2014	—	14,354,998
Net income	—	262,216
Foreign currency translation adjustments	—	410,825
Total comprehensive income	—	673,041
Issuance of new shares	—	29,072
Items reclassified from capital surplus to retained earnings	—	—
Changes related to acquisitions	147,338	147,338
Total business transactions with owners	147,338	176,410
Balance as of 31 Dec 2014	147,338	15,204,450

4) Consolidated statement of cash flows

(thousands of yen)

	Q3 FY2014 (1 April 2014 -31 December 2014)	Q3 FY2013 (1 April 2013 -31 December 2013)
Cash flows provided by (used in) operating activities		
Net income before income taxes	383,525	967,485
Depreciation and amortization	16,732	15,316
Foreign exchange losses (gains)	(348,491)	(59,243)
Decrease (increase) in accounts receivable – other	51,153	(56,681)
Decrease (increase) in accounts receivable – trade	47,272	(113,927)
Increase (decrease) in accounts payable – trade	(43,091)	(115,129)
Increase (decrease) in accrued expenses	(3,553)	4,243
Increase (decrease) in advance payments	300,000	―
Other	(54,179)	(33,573)
Subtotal	356,475	608,490
Interests and dividends received	6,839	2,051
Proceeds from subisdy	―	10,307
Income taxes paid	(19,387)	(5,861)
Net cash provided by (used in) operating activities	343,927	614,988
Cash flows provided by (used in) investing activities		
Purchases of property, plant and equipment	(12,471)	(9,922)
Capitalized development costs	(191,789)	(175,193)
Acquisition related costs	(202,492)	―
Other	(990)	―
Net cash provided by (used in) investing activities	(407,743)	(185,116)
Cash flows provided by (used in) financing activities		
Proceeds from issuance of common stock	29,072	53,164
Net cash provided by (used in) financing activities	29,072	53,164
Effect of exchange rate changes on cash and cash equivalents	685,224	272,569
Increase (decrease) in cash and cash equivalents	650,480	755,606
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	7,865,415	3,293,134

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. Also, a newly acquired subsidiary, Jitsubo Co., Ltd that was consolidated on 26 December 2014, is recognized as part of domestic pharmaceutical business.

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. ・Jitsubo Co., Ltd.	・SO-1105　・NorLevo® ・APP13002　・APP13007 ・JIT-2001　・JIT-1007
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.

Q3 FY2013 (1 April 2013 -31 December 2013)

(thousands of yen)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	429,703	1,408,412	1,838,115	―	1,838,115
Revenue between segments	―	―	―	―	―
Total	429,703	1,408,412	1,838,115	―	1,838,115
Operating income (or loss)	(31,201)	1,091,738	1,060,536	(123,248)	937,288
Finance income/costs (net)					30,197
Net income before income taxes					967,485

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

Q3 FY2014 (1 April 2014 -31 December 2014)

(thousands of yen)

	Reportable segments			Adjustments	Consolidated
	Domestic pharmaceuticals	Overseas pharmaceuticals	Total		
Revenue from third parties	107,743	843,574	951,317	—	951,317
Revenue between segments	—	—	—	—	—
Total	107,743	843,574	951,317	—	951,317
Operating income (or loss)	(254,698)	298,636	43,937	(26,940)	16,997
Finance income/costs (net)					366,528
Net income before income taxes					383,525

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