Financial Results (Kessan Tanshin) for Financial Year Ended 31 March 2014 (Japanese GAAP) (Consolidated)

13 May 2014

Company name: Sosei Group Corporation Listing: TSE
Securities code: 4565 URL: http://www.sosei.com/

Representative: Shinichi Tamura, Board Director Representative Executive Officer, CEO

Contact person: Hidetoshi Torami, Executive Vice President, CFO Tel: +81-3-5210-3290

Scheduled date of general shareholders' meeting: 18 June 2014
Scheduled date of dividend payments: —
Scheduled date of filing securities report (yukashoken hokokusho): 25 June 2014
Supplementary materials for financial results: Yes
Briefing session of financial results: Yes (for institutional investors and analysts (in Japanese only))

(Rounded down to nearest million yen)

1. Consolidated Financial Results for Financial Year Ended 31 March 2014 (from 1 April 2013 to 31 March 2014)

(1) Consolidated operating results (Percent indications show percent changes from corresponding figures for the previous period.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2013	2,069	5.7	(1,185)	—	(1,065)	—	(122)	—
FY2012	1,958	127.2	(953)	—	(788)	—	(646)	—

(Note) Comprehensive income: -117 million yen (-%) for FY2013; and -664 million yen (-%) for FY2012

	Net income per share – basic	Net income per share - diluted	Net income as percentage of net assets	Ordinary income as percentage of total assets	Operating income as percentage of net sales
	Yen	Yen	%	%	%
FY2013	(10.13)	—	(1.4)	(11.8)	(57.3)
FY2012	(54.54)	—	(10.3)	(11.1)	(48.7)

(Reference) Investment income under equity method: - million yen for FY2013; and - million yen for FY2012
On 1 April 2013, the Company made a 100-for-1 stock split for its common shares. The number of common shares issued for the prior financial years was calculated assuming the stock split had taken place as at the beginning of the relevant financial year.

(2) Consolidated financial position

	Total assets	Net assets	Net assets as percentage of total assets	Net assets per share
	Million yen	Million yen	%	Yen
FY2013	11,299	11,121	96.6	794.27
FY2012	6,794	6,511	89.7	511.14

(Reference) Stockholders' equity: 10,920 million yen for FY2013; and 6,093 million yen forFY2012
On 1 April 2013, the Company made a 100-for-1 stock split for its common shares. The number of common shares issued for the prior financial years was calculated assuming the stock split had taken place as at the beginning of the relevant financial year.

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of financial year
	Million yen	Million yen	Million yen	Million yen
FY2013	131	(432)	4,723	7,214
FY2012	828	(28)	90	2,537

2. Dividends

	Annual dividends per share					Total dividends	Payout ratio (consolidated)	Dividends as percentage of net assets (consolidated)
	End Q1	End Q2	End Q3	Year end	Total			
	Yen	Yen	Yen	Yen	Yen	Million yen	%	%
FY2012	—	0.00	—	0.00	0.00	—	—	—
FY2013	—	0.00	—	0.00	0.00	—	—	—
FY2014 (E)	—	0.00	—	0.00	0.00		—	

3. Forecast for Financial Year Ending 31 March 2015 (from 1 April 2014 to 31 March 2015)

(Percent indications show percent changes from corresponding figures for the previous period.)

	Net sales		Operating income		Income before income tax		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Yen
FY2014	3,300	—	2,000	—	2,000	—	145.46

Note: Sosei voluntarily adopted IFRS, starting with the consolidated financial statement in the FY2013 securities report.

* Notes

(1) Changes in the number of significant subsidiaries during the financial year (changes of specified subsidiaries affecting the scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and restatements

1) Changes due to revised accounting standards: Yes
2) Changes due to revised accounting policies except 1): None
3) Changes in accounting estimates: None
4) Restatements: None

(3) Number of common shares issued

1) Number of shares issued at financial year end (including treasury shares)	FY2013	13,749,200	FY2012	11,921,900
2) Number of treasury shares at financial year end	FY2013	—	FY2012	—
3) Average number of shares issued during financial year	FY2013	12,050,163	FY2012	11,860,355

On 1 April 2013, the Company made a 100-for-1 stock split for its common shares. The number of common shares issued for the prior financial years was calculated assuming the stock split had taken place as at the beginning of the relevant financial year.

(Reference) Summary of Non-consolidated Financial Results

Non-consolidated Financial Results for Financial Year Ended 31 March 2014 (from 1 April 2013 to 31 March 2014)

(1) Non-consolidated operating results (Percent indications show percent changes from corresponding figures for the previous period.)

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY2013	463	444.7	(97)	—	(99)	—	(105)	—
FY2012	85	168.2	(669)	—	(945)	—	(1,131)	—

	Net income per share – basic	Net income per share - diluted
	Yen	Yen
FY2013	(8.80)	—
FY2012	(95.37)	—

On 1 April 2013, the Company made a 100-for-1 stock split for its common shares. The number of common shares issued for the prior financial years was calculated assuming the stock split had taken place as at the beginning of the relevant financial year.

(2) Non-consolidated financial position

	Total assets	Net assets	Net assets as percentage of total assets	Net assets per share
	Million yen	Million yen	%	Yen
FY2013	27,276	27,224	99.1	1,965.51
FY2012	22,612	22,577	98.8	1,873.96

(Reference) Stockholders' equity: 27,024 million yen for FY2013; and 22,341 million yen for FY2012.

On 1 April 2013, the Company made a 100-for-1 stock split for its common shares. The number of common shares issued for the prior financial years was calculated assuming the stock split had taken place as at the beginning of the relevant financial year.

* Implementation status of financial audit

As at the time of disclosure of this year-end financial report (kessan tanshin), the audit procedures of the financial statements pursuant to the Financial Instruments and Exchange Law are yet to be completed.

* Explanation regarding the appropriate use of forecasts of business results and other points to be noted

1. 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 and assumptions about uncertain factors that could affect the forecasts of business results made as at the time of disclosure of this material. The actual business results may differ materially from the forecasts due to various factors in the future. For matters concerning the aforementioned forecasts, please refer to “1. Operating Results (1) Analysis of Operating Results (Forecasts for Next Financial Year).”
2. The Company currently plans to hold an Internet conference for analysts on 13 May 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

(Current term operating results)

In this financial year, significant milestones such as the launch of QVA149 (product name "Ultibro® Breezhaler® (EU) / Ultibro® Inhalation Capsules (Japan)")* by our licensing partner, Novartis International AG ("Novartis"), a marketing agreement for oropharyngeal candidiasis treatment SO-1105, and the progress of two Activus' compounds into pre-clinical development, were achieved.

The Company transferred Japan-approved marketing authorization for NorLevo® TABLETS 0.75mg to ASKA Pharamaceutical Co. Ltd for reasons such as making efficient use of in-house resources. Under the terms of the agreement, part of NorLevo® revenue will be paid to Sosei Co. Ltd. by ASKA Pharmaceutical Co. Ltd until the year 2020.

The Company booked revenue related to milestones and royalties from the aforementioned Ultibro®, royalties from Seebri®, and sales of NorLevo® TABLETS 0.75mg.

As a result, the operating results in the current consolidated financial year are as shown in the table below.

Consolidated Operating Results

(millions of yen)

	FY2012	FY2013	FY2013 Growth vs. PY
Net sales	1,958	2,069	110
Gross profit	1,633	1,818	185
Operating income (loss)	(953)	(1,185)	(231)
Ordinary income (loss)	(788)	(1,065)	(277)
Net income (loss)	(646)	(122)	524

(Sales and Gross profit)

Sales in this financial year totalled 2,069 million yen, an increase of 5.7% compared to the previous financial year. This was mainly due to royalties and milestones for Ultibro* triggered by regulatory approvals granted in the EU and Japan, royalties from Seebri® Breezhaler® (glycopyrronium), and sales of NorLevo®.

(Operating loss)

Operating loss was 1,185 million yen. The difference from the previous financial year is mainly due to increased Selling, General and Administrative expenses. A breakdown of Selling, General and Administrative Expenses can be found in the table below.

(Ordinary loss)

As a results of booking of subsidy income, Ordinary loss totalled 1,065 million yen in this financial year.

(Net loss)

Net loss was 122 million yen in this financial year. This was mainly due to Sosei R&D recognizing deferred tax income of 807 million yen.

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

Breakdown of Selling, General and Administrative Expenses

(millions of yen)

	FY2012	FY2013	FY2013 Growth vs. PY
Amortization of goodwill	1,588	1,588	-
Research and development expenses	385	536	151
Other expenses	612	878	266
Total selling, general and administrative expenses	2,586	3,003	417

(Selling, General and Administrative Expenses)

Selling, General and Administrative Expenses increased by 16.1% from the previous financial year, and totalled to 3,003 million yen. This is due to R&D costs for SO-1105 clinical trials, and other SG&A costs for new business, patent maintenance, and consulting fees for application of IFRS.

(Currency exchange gains)

The Company booked a 27 million yen currency exchange gains in the current financial year, mainly from valuation of foreign currency-denominated assets of the foreign subsidiary.

(New stock issue expenses)

The Company booked 32 million yen of new shares issue expenses in this financial year. The expenses are related to the issuance of new shares for fund raising.

(Matters related to subsidy income)

The Company booked a 73 million yen subsidy income in this financial year. This is related to drug development using the APNT nano-milling technique.

(Matters related to R&D subsidy)

We booked a 47 million yen R&D subsidy in this financial year. This is associated with the manufacturing and marketing approval of NorLevo® TABLETS 0.75mg.

The operating results by business segment are as follows.

(Domestic pharmaceutical business)

Sales in domestic pharmaceutical business segment totalled 502 million yen. Operating loss was 470 million yen. The difference from the previous financial year is due mainly to increased clinical trial costs for SO-1105.

The progress of 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 which is caused by infection due to mainly a form of 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 BioAlliance Pharma from France and is now approved for marketing in 24 European countries, the US and Korea since obtaining the first 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 of SO-1105 in Japan from BioAlliance in May 2011. The Phase III clinical trials to evaluate the efficacy and safety of this developmental product are underway. In February 2014, Sosei Co. Ltd entered into an agreement with FUJIFILM Pharma regarding exclusive distribution of this product in Japan.

■ APNT (Activus Pure Nano-particle Technology, ”APNT”): Nano-particle technology

The characteristic of the nano-particle technology (“APNT”) is its ability to pulverize poorly soluble compounds to nano-sized crystal particles ranging from 50 to 200nm levels and keep compounds virtually free from contamination, which could not be achieved with existing technology at an extremely low level. Investigation is underway into exploitation of this feature through application of the technology to injections, ophthalmic solutions and inhalations with poorly soluble compounds. Basic patent for APNT has been granted in Japan as well as abroad. With public assistance from the New Energy and Industrial Technology Development Organization (NEDO) and through the collaboration with TOA Pharmaceuticals Co., Ltd., a company that has an extensive experience and expertise in the manufacturing and sales of pharmaceutical products, and its subsidiary Nitto Medic Co., Ltd., the Company has its intention focused on delivering needed drugs to patients as quickly as possible.

In February this year, the Company announced initiation of development of two ophthalmic products (APP13002 and APP13007). With the use of APNT pulverizing the two insoluble compounds to nano-size cristal particles without utilizing solubilazer becomes possible.

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

APP13002 is an ophthalmic solution for infectious cornea inflammation, infectious conjunctivitis, etc. The company will aim to develop the product for the Japanese infectious eye diseases market, which is estimated to be worth circa 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 company plans to conduct the trials outside of Japan. Inflammatory eye diseases world-wide market is estimated to be worth circa 70 billion yen.

Besides the above two products, research and development of new treatment drugs for posterior eye disorders (posterior eye disorders such as diabetic retinopathy and age-related macular degeneration) is also in progress. The company continues to work on optimization of these solutions as well as securing the intellectual property. According to Japan Ophthalmologists Association, 1,670,000 people in Japan suffer from impaired vision, and the social costs are as high as 8.8 trillion yen. Diabetic retinopathy and age-related macular degeneration only holds 30% of main causes of visual disorders. We are hoping to improve the patient adherence and compliance by developing an eye drop that would, unlike existing technologies, effectively deliver the drug to the posterior eye segment.

■ Regenerative Medicine

RMF1 (Regenerative Medicine Fund)

In June 2013 the Company established a new subsidiary, Sosei Corporate Venture Capital (“Sosei CVC”) to manage a new regenerative medicine fund (Sosei RMF1) with the purpose of investing in companies developing regenerative medicine technologies (including but not limited to tissue engineering and cell therapy/regenerative cell therapy, and related devices/equipment).

As the general partner (“GP”) of the fund, Sosei CVC is in talks with potential investors to raise funds from Limited Partners (“LP”) with the initial target of ¥2 billion. To date, SMBC Venture Capital (part of Sumitomo Mitsui Group) has already committed to invest in the fund. Sosei Group expects to commit up to ¥200 million.

Regenerative medicine is an area with a growing number of exciting early-stage technologies. RMF1 represents a de-risked approach that will enable Sosei to continue its strategy of identifying and developing opportunities and positions it to effectively maximize resources for identification of promising RM technologies.

(Overseas pharmaceutical business)

Sales in overseas pharmaceutical business segment totalled 1,566 million yen. The difference from the previous financial year was mainly due to the exchange rate when converting milestones from foreign currency and difference in royalty income. Operating loss in the overseas segment was 614 million yen.

The progress of the main products under development for the overseas pharmaceutical business is as follows.

■ NVA237 *COPD: Launched in the EU, Japan, etc. ; Phase III in the US*
Asthma: Phase III

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 is approved in over 60 countries across Europe, Japan, Canada, Australia, Latin America, Asia, and the Middle East and has been launched in Germany, Japan and other major markets.

Under the terms of agreement with Novartis, Sosei is entitled to receive royalties on global net sales of both Seebri and Ultibro. Novartis has reported 58M USD in sales of Seebri for FY2013 (Jan-Dec 2013) and 30M USD for FY2014 Q1 (Jan- Mar 2014). Royalties on the above sales will be recorded in Sosei's FY2013, and FY2014 Q1 respectively.

US filing for Seebri is expected in Q4 2014. In addition, Phase III clinical trial program targeted toward a future expansion of indication of Seebri for uncontrolled asthma is being conducted by Novartis.

■ QVA149 *COPD*: *Approved in the EU, Japan, etc.; Phase III in the US*

QVA149 (glycopyrronium bromide/indacaterol maleate; 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 was approved as first-in-class in the EU and Japan in September 2013, and has since received approvals in over 30 countries outside the US, and has been launched in seven countries, including Germany, Japan and Canada. By combining the efficacy benefits and safety profiles of both LAMA and LABA, Ultibro is expected to set a new standard of care in COPD.

Under the terms of agreement with Novartis, Sosei is entitled to receive royalties on global net sales of both Seebri and Ultibro. Novartis has reported 6M USD in sales of Ultibro for FY2013 Q4 (Sept-Dec 2013) and 14M USD for FY2014 Q1 (Jan- Mar 2014). Royalties on the above sales will be recorded in Sosei's FY2013 and FY2014 Q1 respectively.

The US filing for QVA149 is expected in Q4 2014, and China filing later this year.

(Earnings forecast for the financial year ending 31 March 2015)

Net sales are forecasted to come mainly from royalties of NorLevo®, Seebri® and Ultibro®, and milestone payments related to US filing of Seebri® and QVA149. Therefore the results for the full year are forecasted at net sales of 3,300 million yen, an operating income of 2,000 million yen, an ordinary income of 2,000 million yen, and a net income of 2,000 million yen. The forecast has been prepared in accordance with IFRS.

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(2) Analysis of Financial Position

The financial position as of the current consolidated financial year end is as follows.

Financial Position

(millions of yen)

	FY2012	FY2013	FY2013 Growth vs. PY
Total assets	6,794	11,299	4,504
Cash flows from operating activities	828	131	(696)
Cash flows from investing activities	(28)	(432)	(403)
Cash flows from financing activities	90	4,723	4,632

(Total assets)

Total assets were 11,299 million yen in this financial year, an increase of 4,504 million yen compared to the previous financial year, due to execution of fund raising this year resulting in 3,162 million yen increase in cash and cash equivalents.

(Cash flows from operating activities)

Cash flows from operating activities totalled 131 million yen due to net loss before income taxes and minority interests 1,065 million yen, amortization of goodwill 1,588 million yen, and income from the grant.

(Cash flows from investing activities)

Cash flows from investing activities totalled 432 million yen due to using 421 million yen to acquire preferred shares of Sosei Co. Ltd. from JAFCO Super V3 Investment Limited Partnership.

(Cash flows from financing activities)

Cash flows from financing activities totalled 4,723 million yen due to proceeds from issuance of common stock.

(3) Basic Policy on Distribution of Profits and Dividends for Current and Next Financial Years

The Group is aware of the importance in returning profits to shareholders as a management issue. The development of pharmaceutical products requires a large amount of up-front investment over a long development period. Taking into consideration the characteristics of such an industry, the Company has always believed that the active development of the company's pipeline (developmental products) to raise the corporate value will lead to shareholder return. As a result, investment up to now has come to fruition and the Company has realised stable income from Seebri® and Ultibro®.

In light of this, going forward the Company will focus on balancing increasing pipeline value with distribution of profits. We will consider paying out dividends taking into account the operating costs and financial position at the time.

2. Status of the Corporate Group

The Group which consists of the Company and 4 consolidated subsidiaries is involved mainly in the research & development and sales of pharmaceutical products. In terms of business segments, the business is divided into the domestic and overseas pharmaceutical businesses with the main criterion being regional in nature.

Business Segment	Company Name	Business Description
Whole company (common)	Sosei Group Co., Ltd.	Planning of management strategy for overall group Acceptance of entrustment of businesses in administrative divisions of subsidiaries
Domestic pharmaceutical business	Sosei Co., Ltd.	R&D, sales of pharmaceutical products
	Activus Pharma Co., Ltd.	Development of pharmaceutical products using nano-particle technology
	Sosei Corporate Venture Capital Co., Ltd.	Regenerative medicine fund
Overseas pharmaceutical business	Sosei R&D Ltd.	Business promotion, overseas development through licensing

3. Management Policy

(1) Basic company management policy

The Group is involved in the biopharmaceutical business and since its establishment, it has promoted the R&D of various products and built up an attractive pipeline based on its own projects and a global network through technology transfers. Through the early provision of necessary pharmaceutical products to the world, we aim to further develop into the global pharmaceutical company, the one that transcends national and regional borders to support the health of people, and to contribute to the realization of enjoyable and happy life.

(2) Target Management Indicators

The Group promotes the R&D of pharmaceutical products and aims for sustainable growth by securing earnings through the launch/sales of developmental products or by licensing them out. By having an attractive pipeline and promoting the R&D of the various products in the pipeline, the Group is carrying out our business with the aim of quickly launching/selling many of the developmental products or licensing them out.

(3) Mid-to-long Term Management Strategy

Pharmaceutical development is a field in which competition from many companies and research institutes, both domestic and foreign, including major multi-national companies, is very intense. Moreover, although the development period is long and requires a vast investments of funds, the success rate is not high. For these reasons, a small-scale company like our Group has to adopt the following strategies with regards to human, financial and physical resources in the development of pharmaceutical products.

1) Positioning

The Group relies on the experience and the network that it has gained through technology transfers since its establishment to evaluate the state of the pharmaceutical industry in Japan from a global perspective and introduce pharmaceutical products from Europe and the US into the Japanese market. On the other hand, we also seize greater business opportunities overseas based on the seeds that we have sown both in Japan and overseas. We will also promote our business as a global bio-pharmaceutical company with a reduced risk in pharmaceutical development. In addition, while following the vision of “becoming a global bio-pharmaceutical company with Japanese origins” since our founding, we respond promptly to changes in the environment and enact a strategy that is most appropriate at that particular point in time.

2) Pipeline strategy

The characteristic of the Group’s pipeline strategy lies in the building of a balanced portfolio where the risks are controlled by combining developmental products with various levels of risks, development costs and period of time required for development.

The outline of the pipeline of the Group is as follows.

■NVA237 (Glycopyrronium)
Indication: Chronic obstructive pulmonary disease
Launched in Europe and Japan (Phase III in the US)
Licensing partner: Novartis AG (exclusive development and marketing rights licensed out)

■QVA149
Indication: Chronic obstructive pulmonary disease
Launched in Europe and Japan (Phase III in the US)
Licensing partner: Novartis AG (exclusive development and marketing rights licensed out)

■SO-1105
Indication: Oropharyngeal candidiasis
Development stage: Phase III clinical trials (Japan)
Marketing partner: FUJIFILM Pharma Co. Ltd.

■APP13002
Indication: Infectious eye diseases
Development stage: Pre-clinical

■APP13007
Indication: Inflammatory eye diseases
Development stage: Pre-clinical

3) Collaboration in R&D

We aim to incorporate the latest technology by building up a wide range of collaboration in various R&D stages while avoiding increases in fixed costs as a result. The Group's R&D set-up relies on the Group's own R&D team and the collaboration with strategic partners.

4) Securing earnings

The Group aims to secure its earnings based on the following two models by building up a wide range of tie-ups and a pipeline strategy that places its focus on controlling risks as mentioned above.

(a) Sales earnings model based on development and commercialisation of products that are already marketed overseas or are in the late-stage of development for mainly the domestic market.
Examples: NorLevo®, SO-1105

(b) Earnings model based on milestone and royalty income from the out-licensed products. By developing products up to a stage in which the possibility of their successful development and commercialisation is raised and out-licensing that product to global pharmaceutical companies.
Examples: Glycopyrronium (NVA237), QVA149

The Group takes into consideration the competitive advantage of the product concerned, the R&D set-up and financial state for each developmental product in determining whether to adopt Model (a) or (b) to secure a stable and early stream of earnings.

(4) Issues to be Addressed

1) Enhancement of product pipeline

Generally, for bio-pharmaceutical ventures like the Group that are still in the red due to investments in pharmaceutical product development, the total value of the developmental products becomes the corporate value. Therefore, strengthening the pipeline to raise the corporate value is the most important issue when it comes to the management strategy of the Group. The first measure to address this issue is to continuously introduce promising products for development. In introducing new products for development, we will work on strengthening our information gathering capability by making use of the Group's international network, negotiation capability, and planning capability, to be able to make development and marketing plans that are attractive to the licensing partners. The second policy is to increase the line-up of products that are in the later stages of development. The development of pharmaceutical products starts from basic research and covers numerous steps, including pre-clinical trials, Phase I, Phase II and Phase III clinical trials, before they are approved for marketing. Naturally, the later the development stage, the higher is the possibility of obtaining approval and launch (=increase in value of developmental product). We will continue to work hard on the development of product pipeline and their advancement to the later stages of development.

2) Reduction of business risks

The development of pharmaceutical products entails a high level of return when successful but carries a high level of uncertainty. Therefore, if a business strategy that relies only on the developmental of one particular product is pursued, and if that product fails, the possibility that the business cannot be sustained is increased. In order to reduce such risks, the Group adopts a "pipeline strategy". The word "development product" encompasses a wide range of compounds and domains, and differs largely in risks depending on the development stage. The concept of a pipeline strategy lies in diversifying risks by building a pipeline consisting of multiple products that differ in such risk characteristics. The Group will employ this technique to reduce business risks and expand earnings.

3) Implementation of fund raising exercises

By exploring/introducing promising candidates for development and then expediting their development, corporate value can be enhanced. However, the flip side is that R&D expenses will increase. While the Group has raised funds through the issue of new shares and by licensing the development rights to other pharmaceutical companies, the possibility of raising more funds for the purpose of strengthening the business foundation such as those for R&D investments may be considered in the future.

4) Strengthening of research and development system

In order to expedite the development, approval and launch of products, a R&D set-up that is high in efficiency and certainty is indispensable. For this purpose, in addition to actively recruiting outstanding talents, the Group uses cutting-edge technologies in various fields that other companies possess through collaboration with these companies.

4. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(thousands of yen)

	FY2012 (31 March 2013)	FY2013 (31 March 2014)
Assets		
Current assets		
Cash and deposits	2,537,527	5,700,334
Accounts receivable	43,572	99,767
Securities	—	1,514,600
Deffered tax asset	—	559,713
Other	33,632	149,669
Total current assets	2,614,733	8,024,085
Noncurrent assets		
Property, plant and equipment		
Buildings, net	2,452	2,021
Machinery, equipment and vehicles, net	32,309	21,697
Tools, furniture and fixtures, net	20,199	14,591
Total property, plant and equipment	54,961	38,311
Intangible assets		
Goodwill	3,837,905	2,644,871
Other	252,404	248,884
Total intangible assets	4,090,309	2,893,755
Investments and other assets		
Deffered tax asset	—	309,380
Other	34,782	34,023
Total investments and other assets	34,782	343,403
Total noncurrent assets	4,180,053	3,275,470
Total assets	6,794,786	11,299,555
Liabilities		
Current liabilities		
Accounts payable – trade	161,785	43,091
Accounts payable – other	59,869	66,240
Accrued expenses	25,168	21,499
Income taxes payable	8,987	24,774
Other	27,148	22,777
Total current liabilities	282,959	178,383
Total liabilities	282,959	178,383
Net assets		
Shareholders' equity		
Capital stock	17,059,203	19,453,732
Capital surplus	18,979,943	21,374,472
Retained earnings	(31,228,973)	(31,350,997)
Total stockholders' equity	4,810,172	9,477,207
Accumulated other comprehensive income		
Foreign currency translation adjustments	1,283,642	1,443,386
Total accumulated other comprehensive income	1,283,642	1,443,386
Stock acquisition rights	236,238	200,578
Minority interests	181,773	—
Total net assets	6,511,827	11,121,171
Total liabilities and net assets	6,794,786	11,299,555

(2) Consolidate Statements of Income and Comprehensive Income

(thousands of yen)

	FY2012 (from 1 April 2012 to 31 March 2013)	FY2013 (from 1 April 2013 to 31 March 2014)
Net sales	1,958,996	2,069,836
Cost of sales	325,749	251,401
Gross profit	1,633,247	1,818,434
Selling, general and administrative expenses	2,586,682	3,003,771
Operating loss (-)	(953,434)	(1,185,337)
Non-operating income		
Interest income	1,216	3,027
Foreign exchange gains	96,812	27,025
Gain on sales of securities	4,596	―
Subsidy income	62,625	73,903
R&D subsidy	―	47,619
Other	45	157
Total non-operating income	165,297	151,732
Non-operating expenses		
New stock issue expenses	―	32,312
Total non-operating expenses	―	32,312
Ordinary loss (-)	(788,137)	(1,065,917)
Extraordinary income		
Gain on reversal of stock acquisition rights	31,175	―
Total extraordinary income	31,175	―
Extraordinary loss		
Loss on sales and retirement of noncurrent assets	360	―
Total extraordinary loss	360	―
Net loss before income taxes and minority interests (-)	(757,323)	(1,065,917)
Income taxes-current	7,759	19,459
Income taxes adjustment	―	(807,787)
Total income taxes	7,759	(788,328)
Net loss before minority interests (-)	(765,082)	(277,589)
Loss attributable to minority interests (-)	(118,226)	(155,565)
Net loss (-)	(646,856)	(122,023)
Loss attributable to minority interests (-)	(118,226)	(155,565)
Net loss before minority interests (-))	(765,082)	(277,589)
Other comprehensive income		
Net unrealized gains(losses) on available-for-sale securities	(1,419)	―
Foreign currency translation adjustments	101,992	159,743
Total other comprehensive income	100,573	159,743
Comprehensive income	(664,509)	(117,846)
(Breakdown		
Comprehensive income attributable to owners of the parent company	(546,283)	37,719
Comprehensive income attributable to minority interests	(118,226)	(155,565)

(3) Consolidated Statements of Changes in Net Assets

FY2012 (1 April 2012 to 31 March 2013) (thousands of yen)

	Shareholders' equity			
	Common Stock	Capital Surplus	Retained Earnings	Total Shareholders' equity
Balance at beginning of financial year	16,988,055	18,908,795	(30,582,117)	5,314,732
Changes during financial year				
Issuance of new shares	71,148	71,148		142,296
Net income (loss)			(646,856)	(646,856)
Changes in items not included in shareholders' equity during financial year, net				
Total changes during financial year	71,148	71,148	(646,856)	(504,560)
Balance at end of financial year	17,059,203	18,979,943	(31,228,973)	4,810,172

	Accumulated other comprehensive income			Stock acquisition rights	Minority interests	Total net assets
	Net unrealized gains(losses) on available-for-sale securities	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at beginning of financial year	1,419	1,181,650	1,183,069	304,427	300,000	7,102,229
Changes during financial year						
Issuance of new shares						142,296
Net income (loss)						(646,856)
Changes in items not included in shareholders' equity during financial year, net	(1,419)	101,992	100,573	(68,189)	(118,226)	(85,842)
Total changes during financial year	(1,419)	101,992	100,573	(68,189)	(118,226)	(590,402)
Balance at end of financial year	—	1,283,642	1,283,642	236,238	118,773	6,511,827

FY2013 (1 April 2013 to 31 March 2014) (thousands of yen)

	Shareholders' equity			
	Common Stock	Capital Surplus	Retained Earnings	Total Shareholders' equity
Balance at beginning of financial year	17,059,203	18,979,943	(31,228,973)	4,810,172
Changes during financial year				
Issuance of new shares	2,394,529	2,394,529		4,789,058
Net income (loss)			(122,023)	(122,023)
Changes in items not included in shareholders' equity during financial year, net				
Total changes during financial year	2,394,529	2,394,529	(122,023)	4,667,034
Balance at end of financial year	19,453,732	21,374,472	(31,350,997)	9,477,207

	Accumulated other comprehensive income		Stock acquisition rights	Minority interests	Total net assets
	Foreign currency translation adjustments	Total accumulated other comprehensive income			
Balance at beginning of financial year	1,283,642	1,283,642	236,238	181,773	6,511,827
Changes during financial year					
Issuance of new shares					4,789,058
Net income (loss)					(122,023)
Changes in items not included in shareholders' equity during financial year, net	159,743	159,743	(35,659)	(118,773)	(57,689)
Total changes during financial year	159,743	159,743	(35,659)	(118,773)	4,609,344
Balance at end of financial year	1,443,386	1,443,386	200,578	—	11,121,171

(4) Consolidated Statements of Cash Flows

(thousands of yen)

	FY2012 (from 1 April 2012 to 31 March 2013)	FY2013 (from 1 April 2013 to 31 March 2014)
Cash flows from operating activities		
Net loss before income taxes and minority interests (-)	(757,323)	(1,065,917)
Depreciation	26,485	23,456
Amortization of goodwill	1,588,098	1,588,098
Share-based compensation expenses	14,618	―
Subsidy income	(62,625)	(73,903)
Decrease (increase) in advance payments	16,347	(28,813)
Decrease (increase) in advances paid	(4,641)	―
Decrease (increase) in accounts receivable-other	―	(50, 134)
Foreign exchange losses (gains)	(48,665)	(156,961)
New stock issuing expenses	―	32,312
Decrease (increase) in receivables – trade	(10,562)	(56,178)
Increase (decrease) in payables – trade	99,863	(118,694)
Increase (decrease) in accrued expenses	(111,838)	(5,514)
Other	(3,129)	(25,416)
Subtotal	746,626	62,333
Interests and dividends received	1,216	3,026
Proceeds from subsidy	85,339	73,903
Income taxes paid	(5,008)	(7,675)
Net cash provided by operating activities	828,173	131,587
Cash flows from investing activities		
Purchase of property, plant and equipment	(27,688)	(10,521)
Purchase of intangible assets	(680)	―
Purchase of preferred shares issued by subsidiaries	―	(421,272)
Other	0	(306)
Net cash provided by investing activities	(28,367)	(432,100)
Cash flows from financing activities		
Proceeds from issuance of common stock	90,664	4,723,606
Net cash provided by financing activities	90,664	4,723,606
Effect of exchange rate changes on cash and cash equivalents	149,403	254,314
Increase (decrease) in cash and cash equivalents	1,039,874	4,677,406
Cash and cash equivalents at beginning of financial year	1,497,653	2,537,527
Cash and cash equivalents at end of financial year	2,537,527	7,214,934

(5) Notes to Consolidated Financial Statements

(Notes Related to Going Concern Assumptions)

Not applicable.

(Changes to Accounting)

Not applicable.

(Segment Information)

a. Segment information

1. Overview of reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of the Directors to make decision about resource allocation and to assess their performance. The Group adopts the holding company structure, and the holding company is responsible for overall management and control of the Group.

Businesses of the Group are segmented into the domestic pharmaceuticals and overseas pharmaceuticals businesses based on legal entities as profit center. The domestic pharmaceuticals business involves importing products from overseas for sale both in Japan and overseas. The overseas pharmaceuticals businesses involve licensing in and developing pharmaceuticals for licensing out.

2. Calculation method of net sales, profits or losses, assets, liabilities and other items by reportable segment

The accounting method for the reportable segments is the same as "basis of preparation for the consolidated financial statements." The segment losses are measured based on operating loss.

3. Net sales, profits or losses, assets, liabilities and other items by reportable segment

FY2012 (from 1 April 2012 to 31 March 2013)

(thousands of yen)

	Domestic pharmaceuticals segment	Overseas pharmaceuticals segment	Total
Net sales			
Net sales to third parties	509,631	1,449,365	1,958,996
Total	509,631	1,449,365	1,958,996
Segment loss (-)	(419,662)	(155,873)	(575,536)
Segment assets	892,106	5,042,524	5,934,631
Other items			
Depreciation and amortization expenses	17,880	2,477	20,358
Amortization of goodwill	—	1,588,098	1,588,098
Increase in property, plant and equipment, and intangible assets	33,912	391	34,303

FY2013 (from 1 April 2013 to 31 March 2014)

(thousands of yen)

	Domestic pharmaceuticals segment	Overseas pharmaceuticals segment	Total
Net sales			
Net sales to third parties	502,858	1,566,977	2,069,836
Total	502,858	1,566,977	2,069,836
Segment loss (-)	(470,393)	(614,592)	(1,084,986)
Segment assets	1,214,158	4,785,783	5,999,942
Other items			
Depreciation and amortization expenses	18,700	161	18,861
Amortization of goodwill	—	1,588,098	1,588,098
Increase in property, plant and equipment, and intangible assets	2,184	—	2,184

4. Differences between sums of amounts on reportable segment information and consolidated financial statements (reconciliation)

(thousands of yen)

Profits	FY2012 (from 1 April 2012 to 31 March 2013)	FY2013 (from 1 April 2013 to 31 March 2014)
Sum of profits of reportable segments	(575,536)	(1,084,986)
Group-wide expenses (Note)	(462,978)	(561,311)
Other adjustments	85,080	460,959
Operating loss on consolidated financial statements (-)	(953,434)	(1,185,337)

(Note) Group-wide expenses are those incurred by the holding company that does not generate earnings on its own.

(thousands of yen)

Assets	FY2012 (from 1 April 2012 to 31 March 2013)	FY2013 (from 1 April 2013 to 31 March 2014)
Sum of assets of reportable segments	5,934,631	5,999,942
Group-wide assets (Note)	903,085	5,352,860
Other adjustments	(42,929)	(53,247)
Total assets on consolidated financial statements	6,794,786	11,299,555

(Note) Group-wide assets are mainly those of the holding company that does not belong to any reportable segment.

(thousands of yen)

Other items	Sum of items of reportable segments		Adjustments		Amounts on consolidated financial statements	
	FY2012	FY2013	FY2012	FY2013	FY2012	FY2013
Depreciation and amortization expenses	20,358	18,861	6,126	4,594	26,485	23,456
Increase in property, plant and equipment, and intangible assets	34,303	2,184	1,586	570	35,890	2,754

(Note) Adjustments are mostly depreciation and amortization expenses and increase in property, plant and equipment, and intangible assets of the holding company that does not belong to any reportable segment.

b. Related information

FY2012 (from 1 April 2012 to 31 March 2013)

1. Information by product and service

Net sales to third parties of a single category of products and services account for over 90% of net sales on the consolidated statements of income. Accordingly, information by product and service is not provided.

2. Information by geographic region

(1) Net sales (thousands of yen)

Japan	Oceania	Europe	Other	Total
376,227	133,403	1,447,163	2,202	1,958,996

(Note) Geographic region based on country of location of the customer.

(2) Property, plant and equipment (thousands of yen)

Japan	UK	Total
53,765	1,196	54,961

3. Information by major customer

Name of customer	Net sales (thousands of yen)	Relevant segment
Novartis Pharma AG	1,447,163	Overseas pharmaceuticals business
Aska Pharmaceutical Co., Ltd.	376,227	Domestic pharmaceuticals business
Sandoz Pty Ltd	133,403	Domestic pharmaceuticals business

FY2013 (from 1 April 2013 to 31 March 2014)

1. Information by product and service

Net sales to third parties of a single category of products and services account for over 90% of net sales on the consolidated statements of income. Accordingly, information by product and service is not provided.

2. Information by geographic region

(1) Net sales (thousands of yen)

Japan	Oceania	Europe	Other	Total
339,674	163,184	1,566,977	―	2,069,836

(Note) Geographic region based on country of location of the customer.

(2) Property, plant and equipment (thousands of yen)

Japan	UK	Total
37,399	911	38,311

3. Information by major customer

Name of customer	Net sales (Unit: thousand yen)	Relevant segment
Novartis Pharma AG	1,566,977	Overseas pharmaceuticals business
Aska Pharmaceutical Co., Ltd.	338,674	Domestic pharmaceuticals business
Sandoz Pty Ltd	163,184	Domestic pharmaceuticals business

c. Loss on impairment of noncurrent assets by reportable segment

Not applicable.

d. Amortization and balance of goodwill by reportable segment

FY2012 (from 1 April 2012 to 31 March 2013) (thousands of yen)

	Domestic pharmaceuticals business	Overseas pharmaceuticals business	Total
Amortization during financial year	―	1,588,098	1,588,098
Balance at end of financial year	―	3,837,905	3,837,905

FY2013 (from 1 April 2013 to 31 March 2014) (thousands of yen)

	Domestic pharmaceuticals business	Overseas pharmaceuticals business	Total
Amortization during financial year	―	1,588,098	1,588,098
Balance at end of financial year	395,064	2,249,806	2,644,871

e. Negative gain on goodwill by reportable segment

Not applicable.

(Per-share Information)

(yen)

	FY2012 (from 1 April 2012 to 31 March 2013)	FY2013 (from 1 April 2013 to 31 March 2014)
Net assets per share	511.14	794.27
Net loss per share	(54.54)	(10.13)

(Notes) 1. Although there exist dilutive shares, net income per share (diluted) is not provided as the Company posted net loss per share.

2. Basis for calculation of net loss per share is as follows:

	FY2012 (from 1 April 2012 to 31 March 2013)	FY2013 (from 1 April 2013 to 31 March 2014)
Net loss (-) (Unit: thousand yen)	(646,856)	(122,023)
Net loss not attributable to common shareholders (Unit: thousand yen)	—	—
Net loss attributable to common shares (Unit: thousand yen)	(646,856)	(122,023)
Average number of shares during financial year (shares)	11,860,355	12,050,163
Summary of dilutive shares that do not have dilutive effects and are not included in calculation of diluted net income per share	12 series of stock acquisition rights (No. of shares to be issued: 343,400)	12 series of stock acquisition rights (No. of shares to be issued: 288,600)

3. On 1 April 2013, the Company made a 100-for-1 stock split for its common shares. Net income per share (basic) and Net income per share (diluted) for the prior financial years was calculated assuming the stock split had taken place as at the beginning of the relevant financial year.

5. Other

Not applicable.